

April 2005

DOD BUSINESS
SYSTEMS
MODERNIZATION

Billions Being
Invested without
Adequate Oversight



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-05-381](#), a report to congressional requesters

DOD BUSINESS SYSTEMS MODERNIZATION

Billions Being Invested without Adequate Oversight

Why GAO Did This Study

Despite its significant investment in business systems, the Department of Defense (DOD) continues to have long-standing financial and business management problems that preclude the department from producing reliable and timely information for making decisions and for accurately reporting on its billions of dollars of assets. GAO was asked to (1) identify DOD's fiscal year 2005 estimated funding for its business systems and (2) determine whether DOD has effective control and accountability over its business systems modernization investments.

What GAO Recommends

GAO makes four recommendations to DOD: (1) review the reclassified systems to determine how these should be properly reported, (2) review the reported business systems inventory so systems are defined in accordance with the definition specified in the fiscal year 2005 defense authorization act, (3) develop and implement a comprehensive plan that addresses GAO's previous recommendations related to the business enterprise architecture and the control and accountability over business systems investments, and (4) submit the plan to the congressional defense committees.

DOD concurred with the recommendations and described efforts to address them.

www.gao.gov/cgi-bin/getrpt?GAO-05-381.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz at (202) 512-9095 or Keith A. Rhodes at (202) 512-6412.

What GAO Found

DOD's business and financial management weaknesses have resulted in billions of dollars wasted annually in a time of increasing fiscal constraint. These weaknesses continue despite DOD requesting over \$13 billion in fiscal year 2005—about \$6 billion less than in fiscal year 2004—to operate, maintain, and modernize its existing duplicative business systems. The difference is more a reclassification of systems rather than an actual spending reduction. Some of the reclassifications appeared reasonable and others were questionable due to inconsistent information. At the same time, DOD reported an increase in the number of business systems to 4,150 as of February 2005—an increase of about 1,900 systems since April 2003. The duplicative and stovepiped nature of DOD's systems environment is illustrated by the numerous systems in the same business area. For example, DOD reported that it has over 2,000 logistics systems—an increase of approximately 255 percent since April 2003.

DOD still does not have an effective departmentwide management structure for controlling business systems investments. Furthermore, DOD is not in compliance with the National Defense Authorization Act for Fiscal Year 2003, which requires the DOD Comptroller to determine that system improvements with obligations exceeding \$1 million meet the criteria specified in the act. Based on limited information provided by DOD, system improvements totaling about \$243 million of obligations over \$1 million were not reviewed by the DOD Comptroller in fiscal year 2004. Cumulatively, based upon DOD's reported data, system improvements totaling about \$651 million of obligations over \$1 million were not reviewed by the DOD Comptroller before obligations were made since passage of the 2003 act.

DOD Business Systems with Obligations in Excess of \$1 Million for Modernizations Not Submitted to the DOD Comptroller (Dollars in Millions)

Component	Fiscal year 2003	Fiscal year 2004	Total
Army	\$78	\$40	\$118
Navy	62	93	\$155
Air Force	53	79	\$132
Defense Logistics Agency	168	10	\$178
TRICARE	6	17	\$23
U.S. Transportation Command	1	1	\$2
Defense Finance and Accounting Service	40	3	\$43
Total	\$408	\$243	\$651

Source: GAO analysis of DOD reported information.

The 2005 defense authorization act directed that DOD put in place a management structure to improve the control and accountability over business systems investments by placing more responsibility with the domains. At the same time, each military service has its own investment review process. Absent an integrated management structure that clearly defines the relationship of the domains and the military services, DOD will be at risk that the parochialism contributing to the current problems will continue.

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Abbreviations

BEA	business enterprise architecture
BMMP	Business Management Modernization Program
CFO	Chief Financial Officer
CIO	Chief Information Officer
CMO	chief management official
DCD/DCW	DFAS Corporate Database/DFAS Corporate Warehouse
DFAS	Defense Finance and Accounting Service
DIMHRS	Defense Integrated Military Human Resources System
DITPR	DOD Information Technology Portfolio Data Repository
DLA	Defense Logistics Agency
DMLSS	Defense Medical Logistics Standard Support
DOD	Department of Defense
ERP	Enterprise Resource Planning
FFMIA	Federal Financial Management Improvement Act
IG	Inspector General
IT	information technology
ITMA	Information Technology Management Application
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget
OPM	Office of Personnel Management
TRANSCOM	U.S. Transportation Command

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United States Government Accountability Office
Washington, D.C. 20548

April 29, 2005

Congressional Requesters

The Department of Defense (DOD) continues to confront pervasive decades-old financial management and business system problems. These problems continue despite the department spending billions of dollars annually to operate, maintain, and modernize its business systems.¹ Additionally, our reports² continue to show that the department's stovepiped and duplicative systems contribute to fraud, waste, and abuse. Of the 25 areas on GAO's governmentwide "high-risk" list, 8 are DOD program areas, and the department shares responsibility for 6 other high-risk areas that are governmentwide in scope.³ These problems also preclude the department from producing reliable, timely, and useful information to make sound decisions and to accurately report on its trillions of dollars of assets and liabilities.

This report is a continuation of our reviews to provide Congress information on DOD's continuing significant investments in its business systems and its control and accountability over these investments. More specifically, as agreed with your offices, our objectives were to (1) identify the amount of funding DOD requested for fiscal year 2005 to operate, maintain, and modernize its business systems and (2) determine whether DOD has effective control and accountability over its business systems modernizations investments.

¹ Business systems include those that are used to support civilian and military personnel, finance, logistics, procurement, and transportation.

² See, for example, GAO, *Defense Inventory: Opportunities Exist to Improve Spare Parts Support Aboard Deployed Navy Ships*, [GAO-03-887](#) (Washington, D.C.: Aug. 29, 2003); *Military Pay: Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems*, [GAO-04-89](#) (Washington, D.C.: Nov. 13, 2003); and *DOD Travel Cards: Control Weaknesses Resulted in Millions of Dollars of Improper Payments*, [GAO-04-576](#) (Washington, D.C.: June 9, 2004).

³ GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: Jan. 2005). The eight specific DOD high-risk areas are (1) approach to business transformation, (2) business systems modernization, (3) contract management, (4) financial management, (5) personnel security clearance program, (6) supply chain management, (7) support infrastructure management, and (8) weapon systems acquisition. The six governmentwide high-risk areas are (1) disability programs, (2) interagency contracting, (3) information systems and critical infrastructure, (4) information sharing for homeland security, (5) human capital, and (6) real property.

To determine how much DOD plans to spend on the operation, maintenance, and modernization of its business systems in fiscal year 2005, we analyzed DOD's information technology (IT) budget request and met with officials in the office of the DOD Chief Information Officer (CIO) and military service representatives to obtain an overview of how the IT budget request was developed. To determine the effectiveness of the department's efforts to control and account for its business systems investments, we met with officials in DOD's office of the Business Management Modernization Program (BMMP)⁴ and the business domains⁵ and reviewed available documentation. Further, we asked the military services and defense agencies for a list of fiscal year 2004 reported obligations⁶ exceeding \$1 million for business systems modernizations, which we used in determining if the obligations were reviewed by the DOD Comptroller to

⁴ BMMP is the department's business transformation initiative encompassing defense policies, processes, people, and systems that guide, perform, or support all aspects of business management, including development and implementation of the business enterprise architecture.

⁵ The six domains and the respective domain leaders for fiscal year 2004 were (1) acquisition—Under Secretary of Defense (Acquisition, Technology and Logistics); (2) financial management—Under Secretary of Defense (Comptroller/Chief Financial Officer); (3) human resources management—Under Secretary of Defense (Personnel and Readiness); (4) installations and environment—Under Secretary of Defense (Acquisition, Technology and Logistics); (5) logistics—Under Secretary of Defense (Acquisition, Technology and Logistics); and (6) enterprise information environment—Assistant Secretary of Defense (Networks and Information Integration)/Chief Information Officer. In September 2004, the accounting and finance domain and the strategic planning and budgeting domain were combined into one domain and renamed the financial management domain.

⁶ We did not independently determine if the list of obligations for system modernization reported to us was complete and accurate.

ascertain whether financial systems improvements met the criteria specified in the fiscal year 2003 defense authorization act.⁷

Our work was performed from August 2004 through February 2005 in accordance with U.S. generally accepted government auditing standards. Details on our scope and methodology are included in appendix I. We requested comments on a draft of this report from the Secretary of Defense or his designee. Written comments from the Under Secretary of Defense for Acquisition, Technology and Logistics are reprinted in appendix II.

Results in Brief

DOD has made limited progress in putting in place the management structure and controls that will help eliminate its continual spending of billions of dollars on systems that do not address corporate solutions to long-standing financial and business-related problems. Over the past several years, we have made numerous recommendations aimed at improving the department's control and accountability over its business systems investments. DOD has made some efforts to address our recommendations, but has not yet implemented key corrective actions to fully address them.

For fiscal year 2005, DOD requested over \$13 billion to operate, maintain, and modernize its existing business systems environment. On its face, this is about \$6 billion less than the \$19 billion requested in fiscal year 2004. But we found the difference reflects more a reclassification of systems than a reduction in spending on business systems. Also, the number of business systems reported by DOD continued to increase—from 2,274 systems in

⁷ Subsection 1004(d) of the Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, 116 Stat. 2458, 2630 (Dec. 2, 2002), provides that any amount in excess of \$1 million may be obligated for financial system improvements before approval of DOD's enterprise architecture and a supporting transition plan only if the DOD Comptroller makes a determination that the improvement is necessary for (1) critical national security capability or critical safety and security requirements or (2) prevention of significant adverse effect on a project that is needed to achieve an essential capability. The act further provides that after the architecture is approved, the DOD Comptroller must determine before making obligations that exceed \$1 million for system improvements that such improvements are consistent with the enterprise architecture and the transition plan. The provision was repealed on October 28, 2004, by the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332, 118 Stat. 1811, 1851 (Oct. 28, 2004) (*codified, in part, at* 10 U.S.C. §§ 185, 2222), which enacted a new similar \$1 million limitation on obligations for business systems modernizations. The act notes that failure to comply with the new provision after September 30, 2005, will result in a violation of 31 U.S.C. § 1341(a)(1)(A), the Anti-Deficiency Act.

April 2003 to 4,150 systems in February 2005. The duplicative and stovepiped nature of DOD's systems environment is illustrated by the numerous systems it has in the same business areas. For example, DOD reported in its BMMP systems inventory that it has over 2,000 logistics systems—which is an increase of approximately 255 percent in the reported number since April 2003. These systems are not integrated and thus have multiple points of data entry, which can result in data integrity problems. Some business domains advised us that not all of the reported systems are included in the IT budget request. This has been a continuing problem as we have previously reported concerns with the accuracy and reliability of DOD's IT budget submission.⁸

Regarding the reclassified spending in DOD's fiscal year 2005 budget request, we found that DOD reclassified 56 systems, totaling about \$6 billion, from business systems in its fiscal year 2004 budget to national security systems⁹ in its fiscal year 2005 budget request. Some of the reclassifications appeared reasonable, while for others it is unclear how the system should be classified. For example, in the case of the Transportation Coordinators' Automated Information for Movements System II, the program management office stated that the DOD CIO reclassified the system as a national security system, even though it had been classified as a business system since at least fiscal year 1999. In addition, the Navy's Enterprise Resource Planning (ERP)¹⁰—first reported as a new program in the fiscal year 2005 IT budget request—was incorrectly classified as a national security system even though its forerunners, four ERP pilot projects, have been classified as business systems since their inception. Navy ERP program officials agreed with us that the program was misclassified and stated that it would be changed to a business system in the fiscal year 2006 budget request. Incorrect reclassification of business systems obscures visibility over spending for these systems and can preclude scrutiny by Congress and the DOD business domains, including the fiscal year 2004 DOD Comptroller

⁸ GAO, *Information Technology: Improvements Needed in the Reliability of Defense Budget Submissions*, GAO-04-115 (Washington, D.C.: Dec. 19, 2003).

⁹ These systems are intelligence systems, cryptologic activities related to national security, military command and control systems, and equipment that is an integral part of a weapon or weapons system or is critical to the direct fulfillment of military or intelligence missions.

¹⁰ ERP products consist of multiple, integrated functional modules that do different tasks, such as track payroll, keep a standard general ledger, manage supply chains, and organize customer data.

statutory review, and hinders the department's ability to develop a comprehensive list of its business systems.

Given that DOD does not yet know how many business systems it has or whether all business system funding is reflected in the IT budget, it is not surprising that DOD continues to struggle to establish an effective DOD-wide management oversight structure and processes to control its ongoing and planned investments. In analyzing the list of business systems modernizations with reported obligations exceeding \$1 million provided to us by DOD, we found that the department is not in compliance with the fiscal year 2003 defense authorization act provision requiring the DOD Comptroller to review financial system improvements. Based upon information reported to us by the military services and DOD components, obligations totaling about \$243 million were made by the military services and defense agencies for system modernizations in fiscal year 2004 that under DOD's definition of modernization and DOD's representation of functionality, constitute financial system improvements that were not referred to the DOD Comptroller for the required review. In addition, given the reliability problems with DOD information, there is no certainty that the information reported to us is complete or accurate.

To improve the control and accountability over business systems investments, we have previously proposed that Congress appropriate funding for DOD's business systems to business domain leaders rather than the military services and defense agencies. While provisions in the fiscal year 2005 defense authorization act have given the domains responsibility to oversee the department's business systems investments, the domains have not been given the resource control necessary to carry out these responsibilities. Currently, DOD components control budget authority from multiple appropriations and continue to make their own parochial investment decisions with little or no control by the domains. The domains acknowledged that they had virtually no input into the fiscal year 2006 IT budget request.

We are making four recommendations to the Secretary of Defense aimed at improving the department's control and accountability of business systems investments. In its written comments on a draft of this report, DOD agreed with our recommendations and briefly outlined its actions for addressing them. We have reprinted DOD's written comments in appendix II.

Background

Because DOD is one of the largest and most complex organizations in the world, overhauling its business operations represents a huge management challenge. In fiscal year 2004, DOD reported that its operations involved \$1.2 trillion in assets, \$1.7 trillion in liabilities, over 3.3 million military and civilian personnel, and over \$605 billion in net cost of operations. For fiscal year 2005, the department received appropriations of about \$417 billion. Execution of DOD's operations spans a wide range of defense organizations, including the military services and their respective major commands and functional activities, numerous large defense agencies and field activities, and various combatant and joint operational commands that are responsible for military operations for specific geographic regions or theaters of operation. To support DOD's operations, the department performs an assortment of interrelated and interdependent business processes, including logistics management, procurement, health care management, and financial management.

Transformation of DOD's business systems and operations is critical to the department providing Congress and DOD management with accurate and timely information for use in the decision-making process. This effort is an essential part of the Secretary of Defense's broad initiative to "transform the way the department works and what it works on." Secretary Rumsfeld has estimated that successful improvements to DOD's business operations could save the department 5 percent of its budget a year, which equates to over \$20 billion a year in savings.

Pervasive Financial and Business Management Problems Affect DOD's Efficiency and Effectiveness

For several years, we have reported that DOD faces a range of financial management and related business process challenges that are complex, long-standing, pervasive, and deeply rooted in virtually all business operations throughout the department. As the Comptroller General testified in November 2004,¹¹ DOD's financial management deficiencies, taken together, continue to represent the single largest obstacle to achieving an unqualified opinion on the U.S. government's consolidated financial statements. To date, none of the military services has passed the test of an independent financial audit because of pervasive weaknesses in

¹¹ GAO, *Department of Defense: Further Actions Are Needed to Effectively Address DOD Business Management Problems and Overcome Key Business Transformation Challenges*, GAO-05-140T (Washington, D.C.: Nov. 18, 2004).

internal controls and processes and fundamentally flawed business systems.

In identifying improved financial performance as one of its five governmentwide initiatives, the President's Management Agenda recognized that obtaining a clean (unqualified) financial audit opinion is a basic prescription for any well-managed organization. At the same time, it recognized that without sound internal controls and accurate and timely financial and performance information, it is not possible to accomplish the President's agenda and secure the best performance and highest measure of accountability for the American people. The Joint Financial Management Improvement Program (JFMIP)¹² Principals have defined certain measures, in addition to receiving an unqualified financial statement audit opinion, for achieving financial management success. These additional measures include (1) being able to routinely provide timely, accurate, and useful financial and performance information; (2) having no material internal control weaknesses or material noncompliance with laws and regulations; and (3) meeting the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).¹³ DOD does not meet any of these conditions. In September 2004, the DOD Comptroller identified 11 major deficiencies that would affect the department's ability to prepare accurate and reliable financial statements for fiscal year 2004. Subsequently, the DOD Inspector General issued a disclaimer of opinion on DOD's fiscal year 2004 financial statements, citing material weaknesses in internal controls and noncompliance with FFMIA requirements. Pervasive weaknesses in DOD's financial management and related business processes and systems have (1) resulted in a lack of reliable information needed to make sound

¹² JFMIP was a joint and cooperative undertaking of the Department of the Treasury, GAO, the Office of Management and Budget (OMB), and the Office of Personnel Management (OPM), working in cooperation with each other and other federal agencies to improve financial management practices in the federal government. Leadership and program guidance were provided by the four Principals of JFMIP—the Comptroller General of the United States, the Secretary of the Treasury, and the Directors of OMB and OPM. Although JFMIP ceased to exist as a stand-alone organization as of December 1, 2004, the JFMIP Principals will continue to meet at their discretion.

¹³ FFMIA, Pub. L. No. 104-208, div. A, § 101(f), title VIII, 110 Stat. 3009, 3009-389 (Sept. 30, 1996), requires the 24 major departments and agencies covered by the Chief Financial Officers Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990) (31 U.S.C. § 901(b), as amended), to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Standard General Ledger* at the transaction level.

decisions and report on the status of DOD activities, including accountability of assets, through financial and other reports to Congress and DOD decision makers; (2) hindered its operational efficiency; (3) adversely affected mission performance; and (4) left the department vulnerable to fraud, waste, and abuse, as the following examples illustrate.

- Mobilized Army National Guard soldiers have experienced significant problems getting accurate, timely, and consistent reimbursement for out-of-pocket travel expenses. These weaknesses were more glaring in light of the sustained increase in mobilizations for Army National Guard soldiers over the last 3 years. Our case study units experienced a broad range of travel reimbursement problems, including disputed amounts for meals that remained unpaid at the end of our review and vouchers that were submitted five or more times before being paid. One of the primary causes for these problems is rooted in the paper-intensive process used by DOD to reimburse Army National Guard soldiers for their travel expenses.¹⁴
- Manual processes and nonintegrated pay and personnel systems affect the Army's ability to generate timely active duty medical extension orders and ensure that soldiers are paid correctly. The current stovepiped, nonintegrated systems are labor-intensive and require extensive error-prone manual entry and reentry. The inadequate control resulted in some soldiers being removed from active duty status in the automated systems that control pay and access to benefits, including medical care. In addition, because these soldiers no longer had valid active duty orders, they did not have access to the commissary and post exchange—which allows soldiers and their families to purchase groceries and other goods at a discount. In one case we reviewed, during a 12-month period, while attempting to obtain care for injuries sustained from a helicopter crash in Afghanistan, one Special Forces soldier fell out of active duty status four times. During the times he was not recorded in the system as being on active duty, he was not paid and he and his family experienced delays in receiving medical

¹⁴ GAO, *Army National Guard: Inefficient, Error-Prone Process Results in Travel Reimbursement Problems for Mobilized Soldiers*, [GAO-05-79](#) (Washington, D.C.: Jan. 31, 2005).

treatment. In all, he missed payments for 10 pay periods—totaling \$11,924.¹⁵

- The processes and automated systems relied on to provide active duty payments to mobilized Army Reserve soldiers are so error-prone, cumbersome, and complex that neither DOD nor, more importantly, the Army Reserve soldiers themselves could be reasonably assured of timely and accurate payments. Specifically, at eight Army Reserve units that we reviewed, 332 of 348 soldiers (95 percent) experienced at least one problem with the active duty pay and allowances they were entitled to receive. Many of the soldiers experienced multiple pay problems associated with their active duty mobilizations. Some of the pay problems soldiers experienced often lingered unresolved for considerable lengths of time, some for over a year. Of the \$375,000 in active duty pay and allowance problems identified in our case studies, the majority were overpayments. We referred one individual for criminal investigation because he did not mobilize with his unit, but he erroneously received over \$36,000 in active duty pay and did not report this overpayment. We also identified 294 soldiers who were underpaid a total of about \$51,000 in active duty pay and allowances.¹⁶

Efforts to Modernize DOD Business Systems

Transformation of DOD's business systems and operations is critical to the department having the ability to provide Congress and DOD management with accurate and timely information for use in the decision-making process. One of the key elements we have reported¹⁷ as necessary to successfully execute the transformation is establishing and implementing a business enterprise architecture (BEA). In this regard, the department has undertaken a daunting challenge to modernize its existing business systems environment through the development, maintenance, and implementation of the BEA, or modernization blueprint. As previously noted, the department has designated six domain owners to be responsible for implementing the BEA. The importance of developing, maintaining, and

¹⁵ GAO, *Military Pay: Gaps in Pay and Benefits Create Financial Hardships for Injured Army National Guard and Reserve Soldiers*, [GAO-05-125](#) (Washington, D.C.: Feb. 17, 2005).

¹⁶ GAO, *Military Pay: Army Reserve Soldiers Mobilized to Active Duty Experienced Significant Pay Problems*, [GAO-04-911](#) (Washington, D.C.: Aug. 20, 2004).

¹⁷ GAO, *Department of Defense: Status of Financial Management Weaknesses and Progress Toward Reform*, [GAO-03-931T](#) (Washington, D.C.: June 25, 2003).

implementing an enterprise architecture is a basic tenet of both organizational transformation and IT management. Managed properly, an enterprise architecture can clarify and help optimize the interdependencies and relationships among an organization's business operations and the underlying IT infrastructure and applications that support these operations. Employed in concert with other important management controls, such as portfolio-based capital planning and investment control practices, architectures can greatly increase the chances that organizations' operational and IT environments will be configured to optimize mission performance. Our experience with federal agencies has shown that investing in IT without defining these investments in the context of an architecture often results in systems that are duplicative, not well integrated, and unnecessarily costly to maintain and interface.¹⁸

A key element of an enterprise architecture is the development and implementation of a transition plan. According to relevant guidance and best practices, the transition plan should provide a road map for moving from the "As Is" to the "To Be" environment. An important step in the development of a well-defined transition plan is an analysis that compares the "As Is" and "To Be" architectures to identify differences. Options are explored and decisions are made regarding which legacy systems to retain, modify, or retire, and which new systems either to introduce on a temporary basis or to pursue as strategic solutions. Accordingly, transition plans identify legacy, migration, and new systems, and sequence them to show, for example, the phasing out and termination of systems and capabilities and the timing of the introduction of new systems and capabilities. Furthermore, they do so in light of resource constraints, such as budget, people, acquisition/development process maturity, and associated time frames.

To improve DOD's control and accountability over business systems investments, Congress included provisions in the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005.¹⁹ The act directs that a management structure be put in place that (1) makes domains

¹⁸ GAO, *DOD Business Systems Modernization: Important Progress Made to Develop Business Enterprise Architecture, but Much Work Remains*, [GAO-03-1018](#) (Washington, D.C.: Sept. 19, 2003).

¹⁹ Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332, 118 Stat. 1811, 1851 (Oct. 28, 2004) (*codified, in part, at* 10 U.S.C. §§ 186, 2222).

responsible for the control and accountability over business systems investments, (2) requires domains to establish a hierarchy of investment review boards from across the department, and (3) directs the boards to use a standard set of investment review and decision-making criteria to ensure compliance and consistency with the BEA. The act also directs the establishment of a departmental review board called the Defense Business Systems Management Committee that is to be chaired by the Deputy Secretary of Defense.

DOD Lacks Accurate Information on the Costs and Number of Business Systems

Until DOD has complete, reliable information on the costs and number of business systems operating within the department, its ability to effectively control the money it spends on these systems will be limited. DOD's fiscal year 2005 budget request for its business systems was \$13.3 billion, which on its face is about \$6 billion, or 29 percent, less than its fiscal year 2004 budget request. We found that this decrease can be attributed to DOD's reclassification of some business systems to national security systems, not to a reduction in spending on its systems. While some of the reclassifications appeared reasonable, our analysis showed that others were questionable or inconsistencies exist, which hinders DOD's ability to develop a definitive business systems inventory. DOD CIO officials acknowledged that there were inconsistencies in the classifications of systems as either business systems or national security systems and stated that they were working to improve the classification criteria.

DOD CIO officials also stated that they are working toward a single system repository for the department that will include information to be used in developing the budget. At the same time the amount of requested business system funding declined, the reported number of business systems increased by about 1,900—from 2,274 in April 2003 to 4,150 in February 2005. Given the ever-changing numbers—for both funding and systems—the department continues to lack reasonable assurance that all business systems are included within the reported inventory and that all business system funding is accurately detailed in the budget.

**Fiscal Year 2005 Budget
Request for DOD's Business
Systems Environment Is
\$13.3 Billion**

For fiscal year 2005, DOD requested approximately \$28.7 billion²⁰ in IT funding to support a wide range of military operations as well as DOD business systems operations. Of the \$28.7 billion, our analysis showed that about \$13.3 billion was for business applications and related infrastructure. Of the \$13.3 billion, our analysis of the budget request disclosed that about \$8.4 billion was for infrastructure and related costs. Business applications include activities that support the business functions of the department, such as personnel, health, travel, acquisition, finance and accounting, and logistics. The remaining \$15.4 billion was classified as being for national security systems. Of that amount, our analysis ascertained that about \$7.5 billion was for infrastructure and related costs.

Of the \$13.3 billion, \$10.7 billion was for the operation and maintenance of the existing systems and \$2.6 billion was for the modernization of existing systems, the development of new systems,²¹ or both. The Office of Management and Budget requires that funds requested for IT projects be classified as either steady state (referred to by DOD as "current services") or as development/modernization. Current services funds are to be for operating and maintaining systems at current levels (i.e., without major enhancements), while development/modernization funds are to be for developing new IT systems or making major enhancements to existing systems. Table 1 shows the distribution, by DOD component, of the reported \$13.3 billion between current services and modernization funding.

²⁰ DOD categorizes its funding request as follows: business systems—\$5 billion; national security systems—\$7.8 billion; shared infrastructure and information assurance activities—\$14.8 billion; and related technical activities—\$1.1 billion.

²¹ According to the department's definition in its *Financial Management Regulation*, development/modernization/enhancement include (1) new applications and infrastructure capabilities that are planned and under development; (2) any change or modification to existing applications and infrastructure capabilities which is intended to result in improved capabilities or performance of the activity, including (a) all modifications to existing operational software (other than corrective software maintenance) and (b) expansion of capabilities to new users; (3) changes mandated by Congress or the Office of the Secretary of Defense; and (4) personnel costs for project management.

Table 1: Distribution of DOD's \$13.3 Billion IT Budget Request for Fiscal Year 2005 for Business Systems and Related Infrastructure

Dollars in millions

Component	Current services	Development/modernization	Total
Navy	\$3,278	\$206	\$3,484
Air Force	2,630	726	\$3,356
Army	1,780	607	\$2,387
TRICARE Management Agency (TRICARE)	803	255	\$1,058
Defense Logistics Agency (DLA)	602	179	\$781
Defense Finance and Accounting Service (DFAS)	407	59	\$466
Defense Information Systems Agency	157	34	\$191
Other DOD components	1,074	566	\$1,640
Total	\$10,731	\$2,632	\$13,363

Source: GAO analysis of DOD information.

Note: Based on information DOD reported in its fiscal year 2005 IT budget request.

As an example of how a component applies funding for current services and modernization, the budget request for the Standard Procurement System, which is one of the department's standard systems, will use a combination of current services and modernization funding. The fiscal year 2005 budget request for the Standard Procurement System identified about \$56 million in total—\$30 million for current services and \$26 million for development and modernization.

Reclassification Limits Oversight of Business Systems

Incorrect system classification hinders the department's efforts to improve its control and accountability over its business systems investments. For instance, the incorrect reclassification of business systems to national security systems precludes scrutiny by the business domains, including the process utilized to obtain the DOD Comptroller's determination that authorizes the components to obligate amounts over \$1 million for the improvement of financial management systems. Our comparison of the fiscal years 2004 and 2005 budget requests disclosed that DOD reclassified 56 systems in the fiscal year 2005 budget request from business systems to national security systems. The net effect of the reclassifications was a decrease of approximately \$6 billion in the fiscal year 2005 budget request for business systems and related infrastructure. The reported amount

declined from about \$19 billion in fiscal year 2004 to over \$13 billion in fiscal year 2005.

In some cases, we found that the reclassification appeared reasonable. For example, in the fiscal year 2005 budget request, the Defense Message System was classified as a national security system. In our May 2004 report,²² we noted the inconsistent classification of this system among the military services. The Navy classified the Defense Message System as a business system but the Army and Air Force classified it as a national security system. Similarly, the reclassification of the Defense Information System Network initiative as a national security system appeared reasonable. For example, the Defense Information System Network is used to provide a secure telecommunication network—voice, data, and video—to the President, the Secretary of Defense, the Joint Chiefs of Staff, and military personnel in the field. These two systems account for over \$2.6 billion of the \$6 billion.

However, our analysis of the 56 systems that were reclassified as national security systems also identified instances for which the reclassification was questionable. For example, Base Level Communication Infrastructure—initiative number 254—for several DOD entities was shown as a national security system in the fiscal year 2005 budget request. Our review of the fiscal year 2005 budget found that within the Air Force there were numerous other initiatives entitled Base Level Communication Infrastructure that were classified as business systems, not national security systems. The nomenclature describing these different initiatives was the same. Therefore, it was difficult to ascertain why certain initiatives were classified as national security systems while others, with the same name, were classified as business systems. The following are examples of the inconsistencies in the department's classification of systems.

- The Joint Total Asset Visibility System had been classified as a business system since at least fiscal year 1999 and was identified as a business system in the department's original list of 2,274 business systems in April 2003 and is still being reported as a business system in the department's systems inventory. We found nothing in our review of the fiscal year 2005 budget request that warranted a change in classification.

²² GAO, *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability*, [GAO-04-615](#) (Washington, D.C.: May 27, 2004).

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- The Transportation Coordinators' Automated Information for Movements System II was identified as a business system in the department's original inventory of business systems in April 2003 and has been shown as a business system in the budget request since 1999. Furthermore, BMMP currently reports it as one of the department's business systems. Yet it was reclassified as a national security system in the fiscal year 2005 budget request even though its functionality had not changed. According to the program management office, the DOD CIO classified the system as a national security system, but the program management office was informed by the DOD Comptroller that the system needed to be submitted to the DOD Comptroller for review in accordance with section 1004(d) of the fiscal year 2003 defense authorization act. However, the section of the act relating to the DOD Comptroller review does not apply to national security systems. In our May 2004 report,²³ we noted that the Army reported that it obligated almost \$22 million for modernization of the system in fiscal year 2003 without its having been subject to review by the DOD Comptroller for consistency with DOD's BEA.
 - The Army's Global Combat Support System was reclassified as a national security system in the fiscal year 2005 budget, even though it is still being reported as a business system in the department's current inventory. Furthermore, BMMP officials stated that reclassification was incorrect and the system was submitted to the DOD Comptroller for review in accordance with section 1004(d) of the fiscal year 2003 defense authorization act. The DOD Comptroller approved investment in the system in August 2003 and January 2004.

In addition, this is the first year in which the Navy ERP was listed in the budget and incorrectly classified as a national security system. Its forerunners, four pilot ERP projects, have been classified as business systems since their inception. DOD officials were not able to provide a valid explanation why the program was classified as a national security program. For the fiscal year 2006 budget request, the Navy has requested that the DOD CIO reclassify the program from a national security system to a business system.

The misclassification of systems in DOD's budget hinders the department's ability to develop a comprehensive list of its business systems, thereby

²³ GAO-04-615.

affecting its ability to develop a well-defined “As Is” component of its BEA and a viable transition plan. In addition, improper classification diminishes Congress’s ability to effectively monitor and oversee the billions of dollars spent annually to maintain, operate, and modernize the department’s business systems environment.

DOD Is Working to Develop a Single Systems Inventory

DOD CIO officials acknowledged that there were inconsistencies within the department in the classification of a system as either a business system or a national security system, which hinder its ability to develop a single comprehensive business systems inventory. DOD CIO officials also stated that with the implementation of the DOD Information Technology Portfolio Data Repository (DITPR)—the new systems inventory repository—they are working to improve the criteria governing the classification of systems, and these criteria are being incorporated into the new systems inventory repository.

As discussed in our May 2004 report,²⁴ DOD has several databases that contain information on its systems—business and national security—and these databases have not been reconciled and therefore inconsistencies exist. We recommended that the department establish a single database for its inventory of business systems. Subsequently, on July 13, 2004, the DOD CIO directed establishment of the DITPR. According to BMMP officials, the department is working toward one database that will contain information for use in developing the annual budget request and will be considered the single system repository for the department. Additionally, all existing databases will be eliminated. Furthermore, the DITPR will automatically classify each system based on selected information entered for each. For example, all intelligence, science and technology, and logistics-warfighting systems are to be classified as national security systems.

In addition, to help identify and properly categorize its business systems, we recommended in May 2004²⁵ that DOD develop a standard definition for business systems. In July 2004, DOD established a definition of a system, but not specifically of a business system. DOD broadly defined a system as a set of information resources organized for the collection, storage,

²⁴ GAO-04-615.

²⁵ GAO-04-615.

processing, maintenance, use, sharing, dissemination, disposition, display, or transmission of information. DOD's definition also clarifies what should not be reported as a system. For example, it excludes such things as commercial office automation packages, information assurance initiatives, and architecture initiatives. Additionally, DOD's definition is aimed at identifying all systems that would obligate \$1 million or more for modernization in any year of the department's 5-year defense plan.

While DOD did not develop a specific definition of a business system, the fiscal year 2005 defense authorization act²⁶ subsequently provided a definition. The act defines a defense business system as an information system, other than a national security system, operated by, for, or on behalf of the department that is used to support business activities, such as acquisition, financial management, logistics, strategic planning and budgeting, installations and environment, and human resources management. The act states that such systems are to include financial systems, mixed systems,²⁷ financial data feeder systems, and IT and information assurance infrastructure. It is incumbent upon the department to ensure that the definition specified in the act is used consistently throughout the department and becomes the basis for entering information into the DITPR. As previously discussed, the accurate and complete identification of DOD's business systems is crucial for developing a credible "As Is" component and transition plan for the BEA and ensuring that obligations for modernizations are reviewed and approved as required by the act. Furthermore, such information is needed in order to provide complete and accurate data to Congress for use in monitoring the department's business systems investments.

DOD Reports Significant Increase in the Number of Existing Business Systems

The department's reported number of business systems continues to fluctuate, and DOD does not yet have reasonable assurance that the currently reported number of business systems is complete. As of February 2005, DOD reported that its business systems inventory consisted of 4,150 systems, which is an increase of approximately 1,900 reported business systems since April 2003. Table 2 presents a comparison of the

²⁶ Pub. L. No. 108-375, § 332, 118 Stat. 1811, 1854 (Oct. 28, 2004) (*codified at* 10 U.S.C. § 2222(j)(2)).

²⁷ A mixed system is an information system that supports both financial and nonfinancial functions of the federal government or components.

April 2003 and February 2005 reported business systems inventories by domain.

Table 2: Comparison of DOD Business Systems Inventories by Domain

Domain	April 2003	February 2005	Difference
Acquisition	143	179	36
Financial management	752	600	(152)
Human resources	665	713	48
Installations and environment	128	473	345
Logistics	565	2,005	1,440
Enterprise information environment	21	40	19
No domain ^a	0	140	140
Total	2,274	4,150	1,876

Source: GAO analysis.

Note: Based on analysis of BMMP's reported inventory of business systems as of April 2003 and February 2005.

^aA specific domain was not assigned to these systems.

The largest increase is due to the logistics domain increasing its reported inventory of business systems from 565 in April 2003 to the current 2,005. We reported²⁸ in May 2004 that the logistics domain had validated about 1,900 business systems but had not yet entered most of them into the BMMP systems inventory. Logistics domain officials informed us that they completed that process and this increase was the result. According to the logistics domain officials, in making this determination, they considered an initiative as a business system if it (1) is used by at least 50 people, (2) costs at least \$50,000 annually to operate, and (3) runs on a network. The criteria used by the logistics domain are stricter than those developed by the DOD CIO. As previously noted, the department needs to ensure that the same criteria are used by all the domains in defining business systems in order to ensure that it develops a complete and accurate inventory of its business systems.

As shown in table 2, the reported inventory of business systems for most of the other domains increased, except for the financial management domain,

²⁸ GAO-04-615.

whose inventory declined. Domain officials attributed the increases to additional data calls and working closely with the components to identify systems. The financial management domain attributed the declines to eliminating nonsystems and duplicate entries in the inventory. For example, its analysis showed that previously spreadsheets, reports, or both were incorrectly reported as being systems. For the current inventory, some of the domains indicated that they used the definition of a system that was issued by DOD's CIO in the July 2004 DITPR data call.

Table 3 shows the distribution of the 4,150 business systems among the components and domains.

Table 3: Reported DOD Business Systems by Domain and Component

Domain	Air Force	Army	Navy	DFAS	Other defense agencies	Multiple owner	Not determined	Total
Acquisition	20	16	122	2	15	2	2	179
Financial management	41	88	233	93	59	15	71	600
Human resources	84	332	151	30	65	26	25	713
Installations and environment	36	63	259	1	12	6	96	473
Logistics	166	193	1,512	4	76	39	15	2,005
Enterprise information environment	4	17	10	0	8	0	1	40
No domain	18	18	66	13	18	2	5	140
Total	369	727	2,353	143	253	90	215	4,150

Source: GAO analysis.

Note: Based on analysis of BMMP reported business system inventory as of February 2005.

The table shows the stovepiped, duplicative nature of DOD's business systems. For example, there are 713 human resources systems across all components whose reported funding for fiscal year 2005 includes approximately \$223 million for modernization and over \$656 million for operation and maintenance. According to DOD officials, the Defense Integrated Military Human Resources System (DIMHRS)²⁹ is intended to totally or partially replace 113 of these systems. We were informed that the

²⁹ DIMHRS is a major IT program that is to provide integrated personnel and pay system for all components of the military services.

remaining 600 human resources systems are to be reviewed in the context of the BEA as it is developed.

Furthermore, a human resources domain official acknowledged that for two of the systems that are to be replaced by DIMHRS—the Army’s Electronic Military Personnel System and the Air Force Military Personnel Data System—continuing to spend money to modernize these systems was questionable. We also reported in June 2004³⁰ that the fiscal year 2005 IT budget request did not provide sufficient information to identify or justify the specific current services and modernizations for 97 of the 113 systems. Because, as noted in table 1, the funding is distributed to and controlled by the military services and DOD components, the domains have minimal influence over system funding. As a result, DOD continues to fund the modernization of systems that it intends to totally or partially replace. As discussed later, the new requirements and authorities included in the fiscal year 2005 defense authorization act are aimed at ensuring that the domains have a vital decision-making role in the control and accountability of the investments being made in the department’s business systems.

While DOD has reported that its inventory of business systems has increased by about 1,900, the department continues to struggle with developing a comprehensive inventory. As detailed in table 3, there are 215 business systems with no component identified—although they have been assigned to a domain—and 140 business systems with no domain assigned. BMMP officials stated that they are reviewing each system and working with the domains to ascertain where each system should be placed. Without the component being identified, it would be difficult if not impossible to identify the DOD entity that is responsible for investment reviews of the systems. Furthermore, it is essential that a domain be identified for each system in order for the department to meet the requirements set forth in the fiscal year 2005 defense authorization act.

In discussing the increase in the number of systems identified in DOD, some of the domains stated that many of the systems are not included in the IT budget request. They said that some of these systems were likely developed at the local level and financed by the operation and maintenance funds received at that location and therefore were not captured and

³⁰ GAO, *Budget Justification Issue Paper on Fiscal Year 2005 IT Budget Request for Systems That Are to Be Replaced by DOD’s Planned Defense Integrated Military Human Resources System (Personnel/Pay)* (Washington, D.C.: June 25, 2004).

reported as part of the department's annual IT budget request. Financing business systems in this manner rather than within the IT budget results in Congress and DOD management not being aware of the total amount being spent to operate, maintain, and modernize the department's business systems. As a result, Congress and DOD management do not receive complete and accurate data for use in monitoring the department's business systems investments.

In addition, according to Army officials, as part of its efforts to develop the Army's enterprise architecture, the Army has identified about 3,000 systems, and it believes some of these systems should be categorized as business systems. At this time, the Army is uncertain how many should be classified as business systems. As shown in table 3, the BMMP inventory of Army business systems totaled 727 systems as of February 2005. Army officials did not specify the anticipated time frame for completing their analysis of these systems.

Limited Progress Made in DOD's Efforts to Control Its Business Systems Investments

Given that DOD does not know how many business systems it has or how much is spent on them, it is not surprising that the department continues to lack effective management oversight and control over business systems investments. Since February 2003, the domains have been given the responsibility to oversee the department's business systems investments, yet the billions of dollars spent each year continue to be spread among the military services and defense agencies, enabling the numerous DOD components to continue to develop stovepiped, parochial solutions to the department's long-standing financial management and business operation challenges. Furthermore, the department has testified³¹ that it does not know whether it was in compliance with the fiscal year 2003 defense authorization act, which provides that obligations in excess of \$1 million for systems improvements may not be made unless the DOD Comptroller determines that the improvements are consistent with the criteria specified in the act.³² In this regard, based upon data reported to us by the military services and DOD components, obligations totaling about \$243 million

³¹ *Hearing on Department of Defense Business Transformation Before the Subcommittee on Terrorism, Unconventional Threats and Capabilities, House Armed Services Committee, 108th Cong. (Mar. 31, 2004)* (statement by Deputy Chief Financial Officer, Department of Defense, JoAnn Boutelle).

³² Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, § 1004(d), 116 Stat. 2458, 2629 (Dec. 2, 2002).

were made for systems modernizations in fiscal year 2004 that were not referred to the DOD Comptroller for the required review.

Further, while the fiscal year 2005 national defense authorization act directs that the domains are to have increasing oversight of the department's business systems investments, each of the military services has established its own management oversight structures. Thus, DOD does not yet have a comprehensive strategy in place that delineates the specific roles and responsibilities of the domains and military services. Absent an integrated strategy, the domains' and military services' efforts may be duplicative, resulting in the wasteful use of resources and hindering the overall transformation of the department's business systems and related operations.

Management Oversight Structure and Guidance Not Finalized

DOD has not yet finalized guidance that clearly defines the roles and responsibilities of domains or assigns explicit authority for fulfilling these roles and responsibilities. It also has not established common investment criteria for system reviews or conducted a comprehensive review of its ongoing business systems investments. Over the past several years, we have made numerous recommendations³³ aimed at improving the department's control and accountability over its business systems investments. Many of the actions that DOD planned to take remained incomplete as of February 2005.

DOD officials acknowledged that the following actions have not been completed:

- The March 2004 IT portfolio management policy memorandum signed by the Deputy Secretary of Defense provides the basic structure of the roles and responsibilities of the domains. In order for the guidance to be institutionalized within the department, DOD planned to issue a formal DOD directive to specify the roles and responsibilities of the domains and how they are to be involved in the overall business systems investment management process. As of February 2005, the DOD guidance had not been finalized, and DOD CIO officials did not have a time frame for its issuance.

³³ GAO, *DOD Business Systems Modernization: Improvements to Enterprise Architecture Development and Implementation Efforts Needed*, [GAO-03-458](#) (Washington, D.C.: Feb. 28, 2003); [GAO-03-1018](#); and [GAO-04-615](#).

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- The domains are still working on developing standard and consistent criteria for performing system reviews. The BMMP program director recently acknowledged that the differing criteria are being used in the system review process. Although the domains have used draft guidance listing 27 critical questions³⁴ since July 2004, this DOD guidance has not been finalized, and a time frame for approval has not been provided.
 - The domains have not completed a comprehensive system review of their ongoing IT investments. As discussed previously, the reported business systems inventory has increased from 2,274 systems in April 2003 to over 4,000 systems in February 2005. A target date for completing these reviews has not been determined. We have previously reported that best practices recommend that an organization review ongoing investments periodically to ensure that they are consistent with its architectural development efforts.

In a July 16, 2004, memorandum, the DOD Comptroller reiterated the importance of having all business systems modernizations with obligations exceeding \$1 million approved. The memorandum expanded the congressional requirements for DOD Comptroller certification to all business systems and required business domains to submit a fiscal year 2005 system certification schedule to BMMP officials. Later, in November 2004, the DOD Comptroller testified³⁵ that the department had started to take actions that would position it to meet the new, similar review requirements of the fiscal year 2005 act. The DOD Comptroller's testimony noted that the department had already identified 132 business systems that represent 78 percent of fiscal year 2005 modernization funding. These systems are scheduled to be reviewed during the current fiscal year. However, as noted earlier, DOD has not yet established specific criteria for investment reviews. Such criteria would include elements to implement

³⁴ These questions must be completed by the system owner for each business system submitted to the DOD Comptroller for review. The questions include, but are not limited to, the following for each system: name; purpose; scope; program overview; system owner/program manager; milestone decision authority; domain(s); system capabilities; program schedules and dependencies; system interfaces; economic justification; cost; and whether system is compliant/consistent with the Clinger-Cohen Act of 1996 (Pub. L. No. 104-106, div. E, 110 Stat. 679 (Feb. 10, 1996)), FFMIA, and the BEA.

³⁵ *Status of Financial Management Reform Within the Department of Defense and the Individual Services: Hearing Before the Subcommittee on Readiness and Management Support, Senate Armed Services Committee, 108th Cong. (Nov. 18, 2004) (statement by Under Secretary of Defense (Comptroller) Tina Westby Jonas).*

the definition of what constitutes a business system modernization that would be subject to the provisions in the fiscal year 2005 defense authorization act. While the act provides a general definition for a business system modernization,³⁶ it is critical for DOD to issue specific implementation guidance and criteria to explicitly define business systems modernizations to ensure that the DOD components and the domains use clear, consistent guidance in performing the system reviews.

DOD Lacks Reasonable Assurance That It Is in Compliance with Statutory Investment Management Controls

We found that DOD is not in compliance with the fiscal year 2003 defense authorization act, which requires that all financial system improvements with obligations exceeding \$1 million be reviewed by the DOD Comptroller. Based upon the reported obligational data provided to us by the military services and the defense agencies for fiscal year 2004, we identified 30 modernizations with obligations totaling about \$243 million that were not submitted for the required review. As previously noted, DOD defines a modernization as an enhancement to existing systems or the development of new systems. For purposes of this report, we treat modernizations as defined by DOD the same as “system improvements” as that term is similarly defined in the fiscal year 2003 defense authorization act. Additionally, the 2003 act defines financial systems to include “budgetary, accounting, finance, enterprise resource planning or mixed information system.” We reviewed DOD’s representation of the functions performed by these systems made in the department’s fiscal years 2004 and 2005 budget requests.

DOD has acknowledged that it does not have a mechanism to identify systems that should be reviewed in accordance with the statutory requirements. Because DOD lacks a systematic means to identify the systems that were subject to the requirements of the fiscal year 2003 defense authorization act, there is no certainty that the information provided to us accurately identified all systems improvements with obligations greater than \$1 million during the fiscal year.

BMMP officials stated that the domains were responsible for working with the components to make sure that business systems with obligations for

³⁶ The act defines a defense business system modernization as (1) the acquisition or development of a new defense business system or (2) any significant modification or enhancement of an existing defense business system (other than those necessary to maintain current services).

modernizations greater than \$1 million were submitted for review as required. There was also general agreement among the domains and BMMP officials that systems owners were responsible for initiating the \$1 million review process. In essence, compliance was achieved via the “honor system,” which relied on systems owners coming forward and requesting approval. However, the approach did not work. During fiscal year 2004, the number of systems reviewed was small when compared to the potential number of systems that appeared to meet the obligation threshold identified in the fiscal year 2004 budget request. We analyzed the DOD IT budget request for fiscal year 2004 and identified over 200 systems in the budget that could involve modernizations with obligations of funds that exceed the \$1 million threshold. However, BMMP officials confirmed that only 46 systems were reviewed, of which 38 were approved as of September 30, 2004. The remaining 8 systems were either withdrawn by the component/domain or were returned to the component/domain because the system package submitted for review lacked some of the required supporting documentation, such as the review by the Office of Program Analysis and Evaluation, if necessary.

Moreover, although the modernizations of 38 business systems were reviewed and approved by the DOD Comptroller as required, this does not necessarily mean these were prudent resource investments or integrated solutions to DOD’s long-standing problems. Although the criteria for the DOD Comptroller review included compliance with the BEA, we have previously reported³⁷ that the BEA did not include many of the elements of a well-defined architecture. For example, DOD does not have a comprehensive system inventory of its “As Is” environment and has not developed a transition plan to identify those systems that would not be part of the architecture. Further, the real value of a BEA is that it provides the necessary context for guiding and constraining systems investments in a way that promotes interoperability and minimizes overlap and duplication. Without it, expensive rework is likely to be needed to achieve these outcomes.

In an attempt to substantiate that financial system improvements with over \$1 million in obligations were reviewed by the DOD Comptroller, as provided for in the fiscal year 2003 act, we requested that DOD activities

³⁷ GAO-03-1018 and GAO, *DOD Business Systems Modernization: Limited Progress in Development of Business Enterprise Architecture and Oversight of Information Technology Investments*, [GAO-04-731R](#) (Washington, D.C.: May 17, 2004).

provide us with a list of obligations (by system) greater than \$1 million for modernizations for fiscal year 2004. We compared the reported obligational data to the system approval data reported to us by BMMP officials. Based upon this comparison and as shown in table 4, 30 business systems with obligations totaling about \$243 million in fiscal year 2004 for modernizations were not reviewed by the DOD Comptroller.

Table 4: Identification of Business Systems Modernizations by DOD Component That Did Not Have DOD Comptroller Review as Required by the Fiscal Year 2003 National Defense Authorization Act

Dollars in millions

Component	Number of systems not reviewed	Fiscal year 2004 obligations
Army	2	\$40.5
Navy	10	92.8
Air Force	11	79.1
DLA	3	9.8
U.S. Transportation Command (TRANSCOM)	1	1.1
DFAS	1	2.6
TRICARE	2	16.6
Total	30	\$242.5

Source: GAO analysis of DOD reported information.

Examples of DOD business systems modernizations with obligations in excess of \$1 million included in table 4 that were not submitted to the DOD Comptroller include the following.

- The Navy obligated about \$57 million for the Navy Tactical Command Support System in fiscal year 2004. We previously reported³⁸ that for fiscal year 2003, the Navy obligated about \$22 million for this system without submitting it to the DOD Comptroller for review.
- DFAS obligated about \$3 million in fiscal year 2004 for the DFAS Corporate Database/DFAS Corporate Warehouse (DCD/DCW). In fiscal year 2003, DFAS obligated approximately \$19 million for DCD/DCW

³⁸ GAO-04-615.

without submitting it to the DOD Comptroller for review. Additionally, we reported in May 2004³⁹ that DFAS had yet to complete an economic analysis justifying that continued investment in DCD/DCW would result in tangible improvements in the department's operations. The department has acknowledged that DCD/DCW will not result in tangible savings to DOD. Continued investment is being based upon intangible savings of man-hours reductions by DFAS.

- The Air Force obligated about \$25 million for the Integrated Maintenance Data System in fiscal year 2004. We previously reported⁴⁰ that for fiscal year 2003, the Air Force obligated over \$9 million for this system without it being submitted to the DOD Comptroller for review.
- The Army obligated over \$34 million for its Logistics Modernization Program in fiscal year 2004. In fiscal year 2003, the Army obligated over \$52 million without the prerequisite review being performed by the DOD Comptroller.
- DLA obligated about \$5 million for the Defense Medical Logistics Standard Support program in fiscal year 2004. We previously reported⁴¹ that DLA obligated about \$5 million in fiscal year 2003 for this program.

The 2003 act placed limitations on the legal authority of individual program and government contracting officials to obligate funds in support of the financial systems improvements for which they are responsible, but DOD did not proactively manage investments to avoid violations of the limitations and did not review investments in any meaningful way to enforce these statutory limitations.

Appendix III provides a list of obligations exceeding \$1 million for business systems modernizations for fiscal year 2004 that were reviewed and approved by the DOD Comptroller as required by the 2003 act. Appendix IV provides a list of the individual systems not submitted to the DOD Comptroller and the related amount of the reported obligations for fiscal year 2004, as required by the 2003 act. It should be noted that since passage of the fiscal year 2003 defense authorization act in December 2002 through

³⁹ GAO-04-731R.

⁴⁰ [GAO-04-615](#).

⁴¹ GAO-04-731R.

the end of fiscal year 2004, based upon information reported to us, the military services and defense components obligated about \$651 million for business systems modernizations without the required review by the DOD Comptroller. While this amount is significant, it is not complete or accurate because it does not include any fiscal year 2005 obligations that occurred prior to the enactment of the fiscal year 2005 defense authorization act on October 28, 2004.

Additionally, our analysis also identified another 50 business systems with obligations totaling over \$258 million that were not submitted for review as directed by the DOD Comptroller's July 16, 2004, memorandum. The memorandum expanded the criteria set forth in the 2003 act to include the modernization of all nonfinancial business systems that support the operations of the business domains. Appendix V provides a list of the business systems not submitted for review in accordance with the July 2004 guidance and the related amount of obligation for each system.

In an attempt to achieve compliance with the requirement of the 2003 act and the DOD Comptroller's July 2004 memorandum, as of January 2005, the DOD Comptroller identified 48 business systems that had both fiscal year 2004 and 2005 budgets each greater than \$1 million in modernization funding, but had not been reviewed and approved by the DOD Comptroller. For the 48 business systems, the DOD Comptroller withheld⁴² a funding amount equal to 50 percent of the systems' fiscal year 2005 modernization funding, which amounts to over \$192 million. We discussed the withheld amounts with BMMP officials, who told us they anticipated that virtually all of the systems would come off of the "withhold" list by the end of the fiscal year. According to BMMP officials, a system will be removed from the withhold list as soon as the system owner, in conjunction with the domains, has a business system certification package approved by the DOD Comptroller, thereby showing compliance with the DOD Comptroller's July 2004 memorandum.

⁴² Withheld funds are those funds appropriated to programs that DOD temporarily holds back for some period during the funds' periods of availability before releasing them to programs. Prior to being released for execution, funds may be withheld by the Office of the Secretary of Defense for a variety of reasons without obtaining congressional approval. While funds are withheld, the funds are still designated for the program but not yet released to that program. Withheld funds are eventually either released to the designated programs or reprogrammed for other uses.

DOD's process of withholding funding is focused on meeting documentation requirements related to compliance with the BEA, rather than on the control of business systems investments. The "withhold" process ultimately will have very little impact on DOD's control and accountability over its business systems investment. The department continues to perpetuate the proliferation of duplicative, nonintegrated, and stovepiped business systems by spending billions of dollars annually on the modernization of systems for which DOD lacks reasonable assurance that the investment will add value to DOD's operations. To gain more control and accountability over such business systems funding, we have previously recommended⁴³ that the funding be vested with the "owners" of the various functional areas or domains. We believe it is critical that funds for DOD business systems be appropriated to the domain owners in order to prevent the continued parochial approach to systems investment that exists today. While the department has stated that the domains would be involved in the fiscal year 2006 budget review process, as previously noted, we found this not to be the case. Unless the domains control the funding, it will be difficult for them to meet the requirements of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005,⁴⁴ including control and accountability over business systems investments.

Congress Acts to Improve DOD's Control and Accountability over Business Systems Investments

The statutory requirements enacted as part of the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005 are aimed at improving the department's business systems management practices. The act directs DOD to put in place a definite management structure that is responsible for the control and accountability over business systems investments by establishing a hierarchy of investment review boards from across the department and directs that the boards use a standard set of investment review and decision-making criteria to ensure compliance and consistency with the BEA.

⁴³ GAO-04-615.

⁴⁴ Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 332, 118 Stat. 1811, 1851-56 (Oct. 28, 2004) (*codified, in part, at 10 U.S.C. §§ 186, 2222*).

More specifically, the act does the following:

- Directs DOD to establish specific management oversight and accountability with the “owners” of the various functional areas or domains. The legislation defined the scope of the various business areas (e.g., acquisition, logistics, and finance and accounting) and directed the establishment of functional approval authority and responsibility for management of the portfolio of business systems with the relevant under secretary of defense for the departmental domains and the Assistant Secretary of Defense for Networks and Information Integration and the CIO for the department.
- Stipulates that no later than March 15, 2005, the responsible approval authorities, or domains, establish a hierarchy of investment review boards with DOD-wide representation, including the military services and defense agencies. The boards are responsible for reviewing and approving investments to develop, operate, maintain, and modernize business systems for their respective business areas, including ensuring that investments are consistent with DOD’s BEA.⁴⁵
- Directs the Secretary of Defense to establish the Defense Business Systems Management Committee with representation including the Deputy Secretary of Defense, the designated approval authorities, and secretaries of the military services and heads of the defense agencies. The Deputy Secretary of Defense is the chairman of the committee with one of the designated approval authorities serving as the vice-chairman.
- Directs that effective October 1, 2005, funds may not be obligated for a defense business systems modernization that will have a total cost in excess of \$1 million unless the conditions specified in the act are met.⁴⁶

⁴⁵ The act requires the use of procedures for ensuring consistency with the guidance issued by the Secretary of Defense and the Defense Business Systems Management Committee and incorporation of common decision criteria, including standards, requirements, and priorities that result in the integration of defense business systems.

⁴⁶ A key condition identified in the act includes certification by designated approval authorities that the defense business system modernization is (1) in compliance with the enterprise architecture; (2) necessary to achieve critical national security capability or address a critical requirement in an area such as safety or security; or (3) necessary to prevent a significant adverse effect on a project that is needed to achieve an essential capability, taking into consideration the alternative solutions for preventing such an adverse effect. Furthermore, the act’s definition of a business system modernization is broader than specified in the fiscal year 2003 defense authorization act.

The Defense Business Systems Management Committee must agree with the designated approval authorities⁴⁷ certification before funds can be obligated. More important, the obligation of funds without the requisite approval by the Defense Business Systems Management Committee is deemed a violation of the Anti-Deficiency Act.⁴⁸

- Requires that no later than March 15 of each year from 2005 through 2009, the Secretary of Defense shall submit a report to Congress that describes how DOD plans to comply with the requirements of the act.
- Stipulates that all budget requests, starting with the budget request for fiscal year 2006, include supporting information that (1) identifies each defense business system for which funding is proposed in that budget; (2) identifies all current services and modernization funds, by appropriation, for each business system; (3) identifies the designated approval authority for each business system; and (4) describes the required certification for each business system.

While the success of BMMP and improved control and accountability of business systems investments are critical aspects of the department's transformation efforts, equally important is the department's ability to develop and implement business systems that provide the promised capabilities on time and within budget. As we have previously reported, the department has not demonstrated the ability to achieve these goals.⁴⁹ Given that the domains have been designated as being responsible for reviewing and approving business systems investments, each of the domains' investment review boards needs to provide effective management

⁴⁷ Approval authorities, including the Under Secretary of Defense for Acquisition, Technology and Logistics; the Under Secretary of Defense (Comptroller); the Under Secretary of Defense for Personnel and Readiness; the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer of the Department of Defense; and the Deputy Secretary of Defense or an Under Secretary of Defense, as designated by the Secretary of Defense, are responsible for the review, approval, and oversight of business systems and must establish investment review processes for systems under their cognizance.

⁴⁸ 31 U.S.C. § 1341(a)(1)(A); *see* 10 U.S.C § 2222(b).

⁴⁹ *See, for example, GAO, DOD Systems Modernization: Continued Investment in the Standard Procurement System Has Not Been Justified*, [GAO-01-682](#) (Washington, D.C.: July 31, 2001); *DOD Business Systems Modernization: Continued Investment in Key Accounting Systems Needs to Be Justified*, [GAO-03-465](#) (Washington, D.C.: Mar. 28, 2003); and [GAO-04-615](#).

oversight of each system project's performance and progress toward predefined cost and schedule expectations as well as each project's anticipated benefits and risk exposure. Further, each investment review board should also employ early warning systems that enable it to take corrective action at the first sign of cost, schedule, or performance slippages. Effective project oversight requires having regular reviews of the project's performance against stated expectations and ensuring that corrective actions for each underperforming project are documented, agreed to, implemented, and tracked until the desired outcome is achieved. We have previously recommended⁵⁰ that until DOD assesses its current systems, investment should be limited to

- deployment of systems that have already been fully tested and involve no additional development or acquisition cost;
- stay-in-business maintenance needed to keep existing systems operational;
- management controls needed to effectively invest in modernized systems; and
- new systems or existing system changes that are congressionally directed or are relatively small, cost-effective, and low risk and can be delivered in a relatively short time frame.

DOD also has not acted upon this recommendation and continues to invest billions of dollars without effective oversight and control. With the fiscal year 2005 act placing more responsibility on the domains, the implementation of the above four limitations would be one means of obtaining improved control over business systems investments.

We have previously reported⁵¹ that best practices recommend that to achieve successful transformation, an organization must change its culture so that it is more results-oriented, customer-focused, and collaborative in nature. To transform its culture, an effective performance management system can be a strategic tool to drive internal changes and achieve desired

⁵⁰ GAO, *Information Technology: Architecture Needed to Guide Modernization of DOD's Financial Operations*, [GAO-01-525](#) (Washington, D.C.: May 17, 2001).

⁵¹ GAO, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, [GAO-03-488](#) (Washington, D.C.: Mar. 14, 2003).

results by using specific key practices to create a clear link between individual performance and organizational success. An effective performance management system pertaining to DOD's business systems would help the department determine the effectiveness of the domains and components in carrying out their responsibilities for the control and accountability of business systems investments.

Although the requirements of the fiscal year 2005 defense authorization act establish a management structure, each of the military services has established its own business systems investment review process. At this point, it is uncertain how they will be integrated with the roles and responsibilities that are to be exercised by the domains. Given the size and complexity of the business systems and related operations transformation endeavor, it is critical that the military services and domains are fully integrated into one cohesive business system investment management strategy. However, it is not clear what specific role the military services will play. If the military services' efforts are simply viewed as one more level of review, that would be counterproductive to the overall transformation goals and objectives. Absent guidance that clearly articulates the relationship and the related roles and responsibilities of the domains and military services, each will continue to have stovepiped approaches to business systems investment management that result in more duplicative efforts. As a result, the department will continue to lack an overall comprehensive corporate process for ensuring that the billions of dollars spent on business systems are being spent efficiently and economically.

Conclusion

DOD's difficulty in simply identifying all of its business systems and the money spent on them illustrates the enormity and complexity of transforming the department's business operations. Since April 2003, the reported inventory has increased by about 1,900 systems. Also, the department is not aware of which DOD component controls all the systems nor have all the systems been assigned to a domain. Given these circumstances, the department has made limited progress in achieving effective management control and accountability over the billions of dollars invested annually in its business systems. The department continues to lack reasonable assurance that the billions of dollars spent annually on its business systems represent an efficient use of resources. Because DOD lacks a well-defined BEA and transition plan, billions of dollars continue to be at risk of being spent on systems that are duplicative,

are not interoperable, cost more to maintain than necessary, and do not optimize mission performance and accountability.

While the fiscal year 2005 defense authorization act provides a management structure to improve the control and accountability over the department's business systems investments, the appropriate policies and procedures still must be developed, implemented, and institutionalized to allow the department to make informed systems investment decisions. An integrated, comprehensive strategy will be critical to help ensure the domains and military services do not proceed independently of one another. By doing less, DOD will continue to waste billions of dollars by perpetuating today's legacy business systems environment.

Recommendations for Executive Action

To improve the department's control and accountability of business systems investments, we are making the following four recommendations. We recommend that the Secretary of Defense direct that the

- DOD CIO, in consultation with the domains, review the 56 systems reclassified from business systems to national security systems to determine how these should be properly reported in the fiscal year 2007 IT budget request;
- Defense Business Systems Management Committee work with the domain investment review boards to review the reported BMMP business systems inventory so systems are defined in accordance with the definition specified in the fiscal year 2005 defense authorization act;
- Defense Business Systems Management Committee develop a comprehensive plan that addresses implementation of our previous recommendations related to the BEA and the control and accountability over business systems investments (at a minimum, the plan should assign responsibility and estimated time frames for completion); and
- comprehensive plan we recommend above be incorporated into the department's second annual report due March 15, 2006, to the defense congressional committees, as required by the fiscal year 2005 defense authorization act, to help facilitate congressional oversight.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from the Under Secretary of Defense for Acquisition, Technology and Logistics, which are reprinted in appendix II. DOD concurred with our recommendations and identified actions it planned to take to improve the department's control and accountability of business systems investments. For example, the Under Secretary of Defense for Acquisition, Technology and Logistics, stated that the department will conduct a review of the 56 systems reclassified from business to national security systems to determine the proper classification of these systems in the IT budget requests. In addition, the Under Secretary of Defense for Acquisition, Technology and Logistics, noted that on March 17, 2005, the department designated the DITPR as the database for all DOD business systems and that the DITPR has the capability to identify all reported BMMP business systems in accordance with the definition specified in the fiscal year 2005 defense authorization act. The Under Secretary of Defense for Acquisition, Technology and Logistics, also stated that the department is developing a plan and timeline to address our previous recommendations and that this plan will be included in the department's report due March 15, 2006, to the defense congressional committees.

In addition to the actions taken in response to our recommendations, DOD implemented several other key steps after we provided a draft of the report to the department for comment. Specifically, the department acted to address certain provisions and requirements of the fiscal year 2005 defense authorization act. On March 19, 2005, the Deputy Secretary of Defense delegated the authority for the review, approval, and oversight of the planning, design, acquisition, development, operation, maintenance, and modernization of defense business systems to the designated approval authority for each business area.⁵² Additionally on March 24, 2005, the Deputy Secretary of Defense directed the transfer of program management, oversight, and support responsibilities regarding DOD business transformation efforts from the Office of the Under Secretary of Defense, Comptroller, to the Office of the Under Secretary of Defense for

⁵² Approval authorities include the Under Secretary of Defense for Acquisition, Technology and Logistics; the Under Secretary of Defense (Comptroller); the Under Secretary of Defense for Personnel and Readiness; and the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer of the Department of Defense. These approval authorities are responsible for the review, approval, and oversight of business systems and must establish investment review processes for systems under their cognizance.

Acquisition, Technology and Logistics. According to the directive, this transfer of functions and responsibilities will allow the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics to establish the level of activity necessary to support and coordinate activities of the newly established Defense Business Systems Management Committee. As required by the act, the Defense Business Systems Management Committee, with representation including the Deputy Secretary of Defense, the designated approval authorities, and secretaries of the military services and heads of the defense agencies, is the highest ranking governance body responsible for overseeing DOD business systems modernization efforts.

While these actions are important in establishing the administrative framework for implementing management reform, we continue to believe that a new executive position is needed to provide the strong and sustained leadership to guide these efforts. We have testified on the need for a chief management official (CMO) on numerous occasions,⁵³ including our most recent testimony on April 13, 2005.⁵⁴ The CMO would serve as the Deputy Secretary of Defense for Management and oversee the department's business transformation efforts. The day-to-day demands placed on the Secretary of Defense, the Deputy Secretary, and others make it difficult for these leaders to maintain the oversight, focus, and momentum needed to resolve the weaknesses in DOD's overall business operations. This is particularly evident given the demands that the Iraq and Afghanistan postwar reconstruction activities and the continuing war on terrorism have placed on current leaders. Furthermore, the breadth and complexity of the problems and the hierarchical nature of the department preclude the under secretaries from asserting the necessary authority to resolve these long-standing issues while continuing to fulfill their other responsibilities. A CMO could provide the sustained and focused leadership that these other top officials are unable to provide. On April 14, 2005, a bill was introduced in the Senate that requires the establishment of a CMO that would be

⁵³ GAO, *Department of Defense: Long-standing Problems Continue to Impede Financial and Business Management Transformation*, [GAO-04-907T](#) (Washington, D.C.: July 7, 2004); *Department of Defense: Financial and Business Management Transformation Hindered by Long-standing Problems*, [GAO-04-941T](#), (Washington, D.C.: July 8, 2004); and *Department of Defense: Further Actions Are Needed to Effectively Address Business Management Problems and Overcome Key Business Transformation Challenges*, [GAO-05-140T](#) (Washington, D.C.: Nov. 18, 2004).

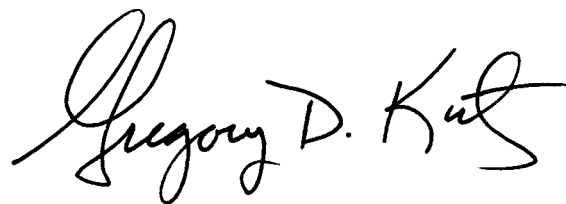
⁵⁴ GAO, *DOD's High-Risk Areas: Successful Business Transformation Requires Sound Strategic Planning and Sustained Leadership*, [GAO-05-520T](#) (Washington, D.C.: Apr. 13, 2005).

appointed by the President and confirmed by the Senate, for a set term of 7 years.⁵⁵

As agreed with your offices, unless you announce the contents of this report earlier, we will not distribute it until 30 days after its issuance date. At that time, we will send copies to the Chairmen and Ranking Minority Members, Senate Committee on Armed Services; Senate Committee on Homeland Security and Governmental Affairs; Subcommittee on Defense, Senate Committee on Appropriations; House Committee on Armed Services; Subcommittee on Defense, House Committee on Appropriations; and Ranking Minority Member, House Committee on Government Reform. We will also send copies to the Under Secretary of Defense (Comptroller); the Under Secretary of Defense (Acquisition, Technology and Logistics); the Under Secretary of Defense (Personnel and Readiness); the Assistant Secretary of Defense (Networks and Information Integration); and the Director, Office of Management and Budget. Copies of this report will be made available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>. If you or your staff have any questions on matters discussed in this report, please

⁵⁵ S. 780, 109th Cong. (2005).

contact Gregory D. Kutz at (202) 512-9095 or kutzg@gao.gov or Keith A. Rhodes at (202) 512-6412 or rhodesk@gao.gov. GAO contacts and key contributors to this report are listed in appendix VI.



Gregory D. Kutz
Director
Financial Management and Assurance



Keith A. Rhodes
Chief Technologist
Applied Research and Methodology Center for Engineering and Technology

List of Requesters

The Honorable Tom Davis
Chairman
Committee on Government Reform
House of Representatives

The Honorable Christopher Shays
Chairman
Subcommittee on National Security, Emerging Threats
and International Relations
Committee on Government Reform
House of Representatives

The Honorable Todd R. Platts
Chairman
Subcommittee on Government Management, Finance,
and Accountability
Committee on Government Reform
House of Representatives

The Honorable Adam H. Putnam
House of Representatives

Scope and Methodology

We reviewed the Department of Defense's (DOD) approximately \$28.7 billion fiscal year 2005 information technology (IT) budget request to determine what portion of the budget relates to DOD business systems. We reviewed the budget to determine, of the approximately \$13.3 billion related to the department's business systems, the amount allocated for operation, maintenance, and development/modernization. We also met with the domains to obtain an understanding of the process followed in determining the specific number of business systems applicable to each respective domain.

In addition, we compared the fiscal year 2004 and 2005 IT budget requests to determine the systems that were reclassified from business systems to national security systems. We analyzed the 56 system reclassifications by using information in the budget requests, the Business Management Modernization Program (BMMP) systems inventory, and the list of business systems modernizations with obligations approved by the DOD Comptroller to determine if they were reasonable and consistent. For certain systems that had inconsistent information, we inquired of system program and BMMP officials about the appropriateness of the reclassifications.

To determine the effectiveness of DOD's control and accountability over its business systems investments, we met with DOD officials to obtain an update on the status of our prior recommendations. We also met with appropriate officials in the DOD Comptroller and DOD Chief Information Officer (CIO) offices to discuss the status of various draft policies and guidance that are aimed at improving the department's control and accountability over business systems investments. We also reviewed and analyzed the DOD budget request for fiscal year 2004 to identify the business systems investments that could be subject to the requirements of the Bob Stump National Defense Authorization Act for Fiscal Year 2003,¹ which requires the DOD Comptroller to review all financial system improvements with obligations exceeding \$1 million and determine whether each improvement is in accordance with criteria specified in the act. To assess DOD's compliance with the act, we obtained and reviewed obligational data on modernizations in excess of \$1 million for business systems for fiscal year 2004. We compared the obligational data provided by the military services and defense agencies with information obtained

¹ Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, § 1004, 116 Stat. 2458, 2630 (Dec. 2, 2002).

from BMMP officials to determine if the modernizations were reviewed by the DOD Comptroller as stipulated in the fiscal year 2003 act. We did not review the accuracy and reliability of the obligational data reported by DOD. Given the department's previously reported problems related to financial management, we have no assurance that the data provided were complete, but the obligational data reported by DOD are the only data available that can be used for determining the specific amount of modernization funding spent on each business system.

To augment our document reviews and analyses, we interviewed officials from various DOD organizations, including the Office of the Under Secretary of Defense (Comptroller); the DOD CIO; and the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics). We conducted our work from August 2004 through February 2005 in accordance with U.S. generally accepted government auditing standards.

We requested comments on a draft of this report from the Secretary of Defense or his designee. We received written comments on a draft of the report from the Under Secretary of Defense for Acquisition, Technology and Logistics, which are reprinted in appendix II.

Comments from the Department of Defense



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

APR 15 2005

Mr. Gregory D. Kutz
Director, Financial Management and Assurance
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Kutz:

Enclosed is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report, GAO-05-381, "DoD Business Systems Modernization: Billions Being Invested Without Adequate Oversight," dated March 16, 2005. This report is based upon the GAO review of the state of business system governance in November of 2004. The Department concurs with all four of the GAO's executive recommendations and has initiated specific actions to address each one. Our comments on the recommendations are enclosed.

The Business Transformation effort of the Department of Defense, and the activities of the Business Management Modernization Program (BMMP) have been restructured to accelerate the transformation effort, establish effective oversight of department-wide system modernization investments, and ensure continued senior leadership engagement in the transformation effort. The focus of the BMMP is to drive greater innovation and higher levels of efficiency throughout the Business Mission Area of the Department. This will be achieved by implementing DoD enterprise-level capabilities to accelerate broader, Department-wide improvements in business processes while continuously improving our financial management discipline and financial transparency.

To ensure program discipline is applied to achieving these objectives, I am designating the BMMP an ACAT ID Special Interest Acquisition Program. In February, the Department established a Defense Business Systems Management Committee, chaired by the Deputy Secretary of Defense to oversee and approve all investments in business systems modernization. The Deputy designated me as the Vice Chair in the enclosed memorandum. In March, the Deputy Secretary of Defense gave me responsibility for the Department's business transformation efforts (see enclosure). The Comptroller and I have jointly designated two senior leaders with industry experience in business transformation to directly manage the transformation program. The 2005

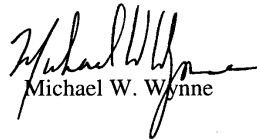


Appendix II
Comments from the Department of Defense

Annual Report to the Congressional Defense Committees, "*Status of the Department of Defense's Business Management Modernization Program*," dated March 15, 2005, provides further details regarding the status and realignment of our transformation effort.

I look forward to continued engagement and discussion with the GAO as we continue our effort to transform the business operations of the Department.

Sincerely,


Michael W. Wynne

Enclosures:
As stated

**GAO Draft Report – Dated March 16, 2005
GAO CODE 192141/GAO-05-381**

“DoD Business Systems Modernization: Billions Being Invested Without Adequate Oversight”

DEPARTMENT OF DEFENSE COMMENTS TO THE RECOMMENDATIONS:

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct that the DOD Chief Information Officer, in consultation with the domains, review the 56 systems reclassified from business systems to national security systems, to determine how these should be properly reported in the Fiscal Year 2007 Information Technology budget request. (p. 44/GAO Draft Report)

DOD RESPONSE: Concur. The DoD Chief Information Officer will conduct a review of the 56 systems that were reclassified from Business Systems to National Security Systems to determine if they were correctly reported and to address how to properly reflect these systems in future year Information Technology budget request.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct that the Defense Business Systems Management Committee work with the domain investment review boards to review the reported Business Management Modernization Program (BMMP) business systems inventory so systems are defined in accordance with the definition specified in the Fiscal Year 2005 National Defense Authorization Act. (p. 44/GAO Draft Report)

DOD RESPONSE: Concur. On March 17, 2005, the DoD Deputy Chief Information Officer (DCIO) designated the DoD Information Technology Portfolio Registry (DITPR) as the interim solution Enterprise Shared Space for IT Portfolio Management data for all DoD business IT systems and, further, directed that the DoD Information Technology Registry be consolidated with DITPR by October 31, 2005. DITPR has the capability to identify all reported BMMP business systems in accordance with the definition specified in the FY 2005 Defense Authorization Act. Additionally, DITPR will also have the capability to store all other reported IT and National Security Systems.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense direct that the Defense Business Systems Management Committee to develop a comprehensive plan that addresses implementation of our previous recommendations related to the BEA and the control and accountability over business system investments. At a minimum, the plan should assign responsibility and estimated timeframes for completion.

DOD RESPONSE: Concur. Transformation leadership is developing a plan and timeline for closing out all of GAO’s open recommendations. BMMP staff has met with GAO staff to confirm steps needed to bring each recommendation to closure.

RECOMMENDATION 4: The GAO recommended that the Secretary of Defense direct that the comprehensive plan we recommend above be incorporated into the Department's second annual report due March 15, 2006 to the defense congressional committees, as required by the fiscal year 2005 defense authorization act, to help facilitate congressional oversight.

DOD RESPONSE: Concur. We will include plans to address GAO's recommendations in our next report to Congress.



THE DEPUTY SECRETARY OF DEFENSE

WASHINGTON, D. C. 20301

MAR 24 2005

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTOR, PROGRAM ANALYSIS AND EVALUATION
DIRECTOR, NET ASSESSMENT
DIRECTOR, FORCE TRANSFORMATION
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Implementation Guidance on the Realignment of the Department of Defense
(DoD) Business Transformation Program Management Office

Effective today, I am directing the transfer of program management, oversight and support responsibilities regarding DoD business transformation efforts from the Office of the Under Secretary of Defense Comptroller (OUSD(C)) to the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics (OUSD(AT&L)). This transfer is necessary to support the newly established Defense Business Systems Management Committee (DBSMC). The Under Secretary of Defense for Acquisition, Technology and Logistics (USD(AT&L)) serves as the Vice Chair of the DBSMC. Transferring these functions and responsibilities will allow the USD(AT&L) to establish the level of activity necessary to support and coordinate DBSMC activities. This transfer also addresses the provisions and requirements set forth in Public Law 108-375, Section 332 of the National Defense Authorization Act for Fiscal Year 2005.

Consistent with this direction, I authorize the realignment of two civilian manpower authorizations and two Senior Executive Service resources from OUSD(C) to the OUSD(AT&L) for this essential business transformation program. All funds programmed and budgeted for the Business Modernization and Systems Integration (BMSI) Office will remain in the Office of the Secretary of Defense account, but shall be reclassified as AT&L. In addition, the BMSI is renamed the Transformation Support Office.

OSD 05396-05

Appendix II
Comments from the Department of Defense

The Under Secretary of Defense (Comptroller) and Director of Administration and Management, in coordination with the USD(AT&L) shall expedite the actions necessary to implement this direction.



DOD Business Systems Modernizations with Obligations in Excess of \$1 Million Approved by the DOD Comptroller in Fiscal Year 2004

Name of system	Approval date
Defense Travel System	October 2003
Standard Procurement System	October 2003
DFAS Operational Data Store	October 2003 and September 2004
Composite Health Care System II	November 2003
General Accounting and Finance System Reengineered	November 2003 and January 2004
Air Force Reserve Travel System	December 2003
DFAS Automated Time, Attendance and Production System	December 2003
DFAS Defense Joint Military Pay System—Active Component	December 2003
DFAS Defense Joint Military Pay System—Reserve Component	December 2003
DFAS Defense Military Pay Office	December 2003
DFAS Defense Retiree and Annuitant Pay System	December 2003
DFAS Marine Corps Total Force System	December 2003
MyPay	December 2003
Forward Compatible Payroll System	January 2004
Defense Civilian Pay System	January 2004
Milpay Systems Transition Program	January 2004
Defense Departmental Reporting System	January 2004
Global Combat Support System – Army	January 2004
Navy Enterprise Resource Planning	February 2004 and July 2004
Intra-Governmental Transaction System	March 2004
Fuels Automated System	April 2004
Advanced Planning and Scheduling	April 2004
On Line Vehicle Interactive Maintenance System	April 2004
Navy Cash	April 2004
Defense Personal Property System	May 2004
Navy Standard Integrated Personnel System	June 2004
Commissary Advanced Resale Transaction System	June 2004
Ebiz	July 2004
Business Systems Modernization	July 2004
Global Combat Service Support – Marine Corps	July 2004
Deployable Disbursing System	July 2004
Common Food Management System	August 2004
Air Force Reserve Order Writing System	September 2004
DFAS Defense Cash Accountability System	September 2004
DFARS Transformation Integrated System	September 2004

**Appendix III
DOD Business Systems Modernizations with
Obligations in Excess of \$1 Million Approved
by the DOD Comptroller in Fiscal Year 2004**

(Continued From Previous Page)

Name of system	Approval date
Air Force Job Order Cost Accounting System II	September 2004
DISA Wide Area Work Flow	September 2004
Air Force Financial Information Resource System	September 2004

Source: GAO analysis of DOD reported information.

Modernizations with Obligations in Excess of \$1 Million Not Submitted for the Required DOD Comptroller Review

Dollars in millions			
Component	Name of system	Amount	
Army	Logistics Modernization Program	\$34.4	
	Defense Civilian Personnel Data System-Sustainment	6.1	
	Subtotal Army	\$40.5	
Navy	Navy Tactical Command Support System	\$56.5	
	Automated Teller Machines-At-Sea	13.7	
	Electronic Data Interchange	7.3	
	Conventional Ammunition Integrated Information System	3.9	
	Shipyard Management Information Systems-Financials	3.6	
	SPAWAR Financial Management – ERP	2.7	
	Material Financial Control System	1.5	
	NAVSEA Regional Fleet Maintenance ERP Pilot	1.4	
	Regional Maintenance Automated Information System	1.1	
	Material Management Systems	1.1	
	Subtotal Navy	\$92.8	
	Air Force	Integrated Maintenance Data System	\$24.9
		Stock Control System	5.2
Integrated Logistics System – Supply		8.7	
Depot Maintenance Accounting and Production System		6.8	
Financial Inventory Accounting & Billing System		3.2	
Regionalization of Civilian Personnel Support		7.3	
Job Order Production Master System		4.6	
Fuels Automated Management System Sustainment - Air Force		8.4	
Purchase Request Process System		2.7	
Inventory Tracking System		4.7	
Automated Budget Analysis/Centralized User System		2.6	
Subtotal Air Force		\$79.1	
DFAS		DFAS Corporate Database/DFAS Corporate Warehouse	\$2.6
	Subtotal DFAS	\$2.6	
DLA	Defense Medical Logistics Standard Support	\$4.9	
	Subsistence Total Order and Receipt Electronic System	1.4	
	Distribution Standard System	3.5	
	Subtotal DLA	\$9.8	

**Appendix IV
 Modernizations with Obligations in Excess of
 \$1 Million Not Submitted for the Required
 DOD Comptroller Review**

(Continued From Previous Page)

Dollars in millions

Component	Name of system	Amount
TRANSCOM	Transportation Financial Management System	\$1.1
	Subtotal TRANSCOM	\$1.1
TRICARE	Defense Medical Logistics Standard System	\$9.6
	Patient Accounting System	7.0
	Subtotal TRICARE	\$16.6
Total		\$242.5

Source: GAO analysis of DOD reported information.

Modernizations with Obligations in Excess of \$1 Million Not Reviewed by DOD Comptroller per July 2004 Memorandum

Dollars in millions

Component	Name of system	Amount
Army	Personnel Electronic Records Management System	\$5.3
	Personnel Transformation	3.7
	US MEPCOM Integrated Resource System	4.7
	Electronic Military Personnel System	8.7
	Installation Support Modules	1.1
	US Army Accessions Command Integrated Automation Architecture	15.5
	Enterprise Human Resources System	1.6
	Subtotal Army	\$40.6
Navy	Target Location Design and Hand-Off System	\$33.2
	Electronic Military Personnel Record System	8.2
	One Touch Support	4.1
	Joint Engineer Data Management Information Control System	12.1
	MSC Afloat Personnel Management Center	2.2
	Automation Identification Technology	15.5
	NAVAIR Logistics Data Analysis	5.9
	Predictive Response Center	3.3
	Condition-Based Maintenance System	10.7
	Human Resources Development Portfolio	2.0
	Configuration Management Information System	3.2
	Mounted Cooperative Target ID System	1.8
	Total Fleet Support System	1.6
	Surface Warfare Management Information Systems	1.3
	InforM-21	1.2
Subtotal Navy	\$106.3	
Air Force	Reliability and Maintainability Information System	\$4.8
	Air Force Military Personnel Data System	4.2
	Education and Training Technology Applications Program	1.7
	Cadet Administrative Management Information System	1.2
	Air Force Recruiter Information Support System	2.6
	Joint Personnel Adjudication System	4.1
	Programming Depot Maintenance Scheduling System	3.1
	Maintenance Repair and Overhaul	2.6

Appendix V
Modernizations with Obligations in Excess of
\$1 Million Not Reviewed by DOD Comptroller
per July 2004 Memorandum

(Continued From Previous Page)

Dollars in millions

Component	Name of system	Amount
	MA MRO Business System Modernization	6.6
	Center of Parts Activity	1.2
	Air Force Knowledge Services	7.4
	Enhanced Technical Information Management System	7.2
	Enterprise Knowledge Management/Knowledge Kinetics	1.3
	AFRL Business Support Consolidated Information	24.1
	Cadet Education	1.4
	Exchangeables Production System	1.3
	Subtotal Air Force	\$74.8
TRANSCOM	Joint Flow and Analysis System for Transportation	\$1.6
	Core Automated Maintenance System	2.8
	Global Air Transportation Execution System	6.3
	Integrated Booking System	2.2
	Intelligent Road/Rail Information Server	2.3
	Worldwide Port System	3.2
	Subtotal TRANSCOM	\$18.4
TRICARE	Centralized Credentials and Quality Assurance System	\$3.8
	Defense Blood Standard System	1.6
	Defense Medical Human Resource System Internet	3.4
	Enterprise Wide Scheduling and Registration	3.1
	TRICARE Online	1.6
	Subtotal TRICARE	\$13.5
AFIS	Network Support – Armed Forces Information Services	\$4.9
	Subtotal AFIS	\$4.9
Total		\$258.5

Source: GAO analysis of DOD reported information.

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