DOD BUSINESS SYSTEMS MODERNIZATION

Continued Investment in Key Accounting Systems Needs to be Justified

Why GAO Did This Study

The Department of Defense's (DOD) long-standing financial management and business systems modernization problems result in a lack of information needed to make sound decisions, hinder the efficiency of operations, and leave the department vulnerable to fraud, waste, and abuse. Such problems led us in 1995 to put financial management and business systems modernization at DOD on our list of high-risk areas in the federal government, a designation that continues today. GAO was asked to (1) provide information on the number and cost of DOD's current business systems and (2) determine if DOD is effectively managing and overseeing selected accounting system investments.

What GAO Recommends

This report recommends that the Secretary of Defense limit future investments by the Defense Finance and Accounting Service (DFAS) in three ongoing system projects we reviewed until each has been adequately justified. The report also recommends that all other DFAS information technology projects be evaluated to ensure they are being implemented at acceptable costs and within reasonable time frames.

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

www.gao.gov/cgi-bin/getrpt?GAO-03-465.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Gregory Kutz, (202) 512-9095 (kutzg@gao.gov) or Randolph Hite (202) 512-3439 (hiter@gao.gov).

What GAO Found

DOD estimated that it had 1,731 business systems for its day-to-day operations as of October 2002. As GAO previously reported, these systems have evolved over time into the overly complex, error prone, duplicative, stovepiped environment that exists today. To support the operation, maintenance, and modernization of its business systems, the department requested approximately $18 billion for fiscal year 2003. Funding is only part of the solution to improving DOD's current system environment. A key ingredient to success is effectively managing and overseeing these investments.

DOD has invested approximately $316 million in four key Defense Finance and Accounting Service (DFAS) projects. However, DOD has not demonstrated that this substantial investment will markedly improve DOD financial management information needed for decision-making and financial reporting purposes. In fact, the DOD Comptroller terminated one project in December 2002, after an investment of over $126 million, citing poor program performance and increasing costs. Continued investment in the other three projects has not been justified because requisite analyses of the costs, benefits, and risks of each one do not reflect cost increases and/or schedule delays.

Cost Increases and Schedule Delays for the DFAS Projects Reviewed

Dollars in millions

DFAS system project	Cost increase	Schedule slippage
Corporate Database/Warehouse	$41	4 years
Defense Procurement Payment	$274	4 years
Defense Departmental Reporting	$118	5 years
Defense Standard Disbursing	N/A[a]	4 years

Source: GAO based upon information provided by DFAS

[a] Defense Standard Disbursing System began in 1997; however, a cost estimate was not developed until September 2000 and this estimate has not been updated.

DOD oversight of the four DFAS projects has not been effective. Collectively, DFAS, the DOD Comptroller, and the DOD Chief Information Officer share investment management responsibility for these four projects. However, these DOD oversight entities have not questioned the impact of the cost increases and schedule delays and allowed the projects to proceed absent the requisite analytical justification.