

Why GAO Did This Study

The Department of Defense (DOD) invests billions of dollars annually to modernize its business systems, which have been on GAO's high-risk list since 1995. DOD is in the process of implementing nine enterprise resource planning (ERP) efforts which perform business-related tasks such as general ledger accounting and supply chain management. These efforts are essential to transforming DOD's business operations. GAO was asked to (1) provide the status of the ERPs as of December 31, 2009; (2) determine whether selected ERPs followed schedule and cost best practices; and (3) determine if DOD has defined the performance measures to assess whether the ERPs will meet their intended business capabilities. To accomplish these objectives, GAO reviewed data on the status of each ERP from the program management officers and interviewed the DOD and military departments' chief management officers.

What GAO Recommends

In addition to reiterating its existing recommendations, GAO is making eight recommendations to the Secretary of Defense aimed at improving schedule and cost practices and the development of performance measures to evaluate whether the ERPs' intended goals are being accomplished. DOD concurred with our recommendations and plans to take action to implement them.

[View GAO-11-53 or key components.](#)

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DOD BUSINESS TRANSFORMATION

Improved Management Oversight of Business System Modernization Efforts Needed

What GAO Found

Based upon the data provided by DOD, six of the nine ERPs have experienced schedule delays ranging from 2 to 12 years and five have incurred cost increases ranging from \$530 million to \$2.4 billion. DOD has stated that the ERPs will replace over 500 legacy systems that cost hundreds of millions of dollars to operate annually. However, delays in implementing the ERPs require DOD to fund the legacy systems longer than anticipated, thereby reducing the funds available for other DOD priorities. In 2007, 2008, and 2009, GAO made 19 recommendations to improve the management of DOD's ERP efforts. While DOD agreed with the recommendations, 14 have not yet been fully implemented.

GAO analyzed four of the nine ERPs to determine whether scheduling and cost estimating best practices were being followed. Regarding scheduling practices, GAO found that none of the programs had developed a fully integrated master schedule as an effective tool to help in the management of the programs. A reliable schedule is crucial to estimating the overall schedule and cost of a program. Without a reliable schedule, DOD is unable to predict, with any degree of confidence, if the estimated completion dates are realistic. Regarding the cost estimates, GAO found that although the four ERPs' cost estimates generally met the criteria for three of the four best practices—well-documented, accurate, and comprehensive—three ERPs did not fully meet the credibility criteria because potential limitations were not discussed. More specifically, the three ERPs lacked a sensitivity analysis or a risk and uncertainty analysis as stipulated in GAO, Office of Management and Budget, and DOD guidance, thus diminishing the credibility of the estimates.

While the ERPs are critical to transforming DOD's business operations, DOD lacks a comprehensive set of performance measures to assess these systems and their contribution to transforming business operations. Management needs to define what constitutes a successful implementation in terms that can be used to assess whether the system is (1) being used as expected and (2) providing the intended benefits. Accordingly, the actual measures used to accomplish these objectives will differ depending on the system. For example, measures for a logistical system may focus on reducing inventory levels, while those for a financial system may focus on reducing prompt payment penalties. Without performance measures to evaluate how well the ERPs are accomplishing their intended goals, DOD decision makers do not have all the information they need to determine whether DOD investments are accomplishing their desired goals, and program managers do not have the information they need to ensure that their individual program is helping DOD to achieve business transformation and thereby improve upon its primary mission of supporting the warfighter.