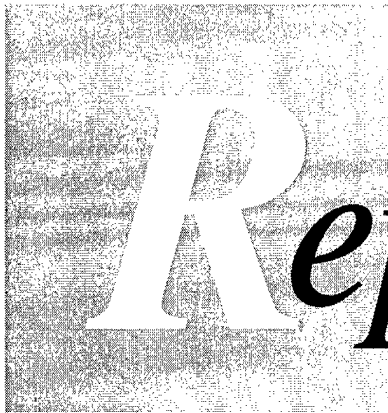




*Audit*



*Report*

DEVELOPMENT OF THE DEFENSE FINANCE AND ACCOUNTING SERVICE  
CORPORATE DATABASE AND OTHER FINANCIAL  
MANAGEMENT SYSTEMS

Report No. D-2002-014

November 7, 2001

Office of the Inspector General  
Department of Defense

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### **Acronyms**

ASD(C <sup>3</sup> I)	Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
DCD	Defense Finance and Accounting Service Corporate Database
DCII	Defense Finance and Accounting Service Corporate Information Infrastructure
DFAS	Defense Finance and Accounting Service
ERP	Enterprise Resource Planning
FMIP	Financial Management Improvement Plan
GAFS	General Accounting and Finance System
GAO	General Accounting Office
OMB	Office of Management and Budget
USD (Comptroller)	Under Secretary of Defense (Comptroller)



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November 7, 2001

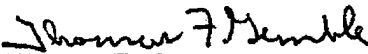
**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE**

**SUBJECT: Audit Report on the Development of the Defense Finance and Accounting  
Service Corporate Database and Other Financial Management Systems  
(Report No. D-2002-014)**

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. As a result of management comments, we revised two recommendations to reflect the committee name change. The Under Secretary of Defense (Comptroller) comments were coordinated with the Defense Finance and Accounting Service and were partially responsive. The comments did not address a specific plan of action with proposed milestones. Therefore, we request additional comments from the Under Secretary of Defense (Comptroller) on Recommendations 1., 2., and 3. If the Under Secretary of Defense (Comptroller) continues coordination for the Defense Finance and Accounting Service on Recommendation 3, then the Defense Finance and Accounting Services does not need to provide separate comments to the final report. We request that the Under Secretary of Defense (Comptroller) provide additional comments to us by January 8, 2002.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Ms. Kathryn M. Truex at (703) 604-9139 (DSN 664-9139) (ktruex@dodig.osd.mil) or Ms. Jacqueline L. Wiccarver at (703) 604-9144 (DSN 664-9144) (jwiccarver@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

  
Thomas F. Gimble  
Acting  
Deputy Assistant Inspector General  
For Auditing

## Office of the Inspector General, DoD

Report No. D-2002-014

November 7, 2001

(Project No. D2000FG-0051.001)

### Development of the Defense Finance and Accounting Service Corporate Database and Other Financial Management Systems

#### Executive Summary

**Introduction.** This audit is the second in a series of reports on the Defense Finance and Accounting Service Corporate Database (DCD). We conducted the audit in support of the Chief Financial Officers Act. This report addresses the impact of the development of DCD on other financial management systems. The immediate goal of DCD is to provide managers with standardized data and near real-time assessments of finance and accounting activities. The ultimate goal is to facilitate the processing and sharing of financial and accounting data using standard processes. Additionally, minimal changes to existing financial management and feeder systems would be made until standard systems are developed. DCD costs to date are \$31.7 million, and life-cycle costs are estimated to reach \$209.1 million through FY 2007.

**Objectives.** The overall audit objective was to review the development of DCD and its impact on entitlement, disbursing, and accounting functions. Because the Defense Finance and Accounting Service intended DCD to standardize financial data and minimize changes to existing financial management and feeder systems, we reviewed the development of DCD and other financial management systems. The review of the management control program will be covered in a future report. See Appendix A for a discussion of the scope, methodology, and prior audit coverage.

**Results.** DoD financial management systems are not integrated and cannot share data without expensive and inefficient crosswalks. Crosswalks translate information so that systems with different data formats can communicate and share information. However, DoD continues to develop DCD and other financial management systems, which will not establish an integrated financial management system. Specifically,

- The Defense Logistics Agency stated its \$1 billion supply chain management system could not work with DCD and other standard systems.
- The Army and Navy did not determine whether their \$975 million financial management systems could work with DCD and other standard systems.
- The Defense Finance and Accounting Service Denver personnel want to develop a \$16 million Air Force-specific financial management system to replace DCD.

As a result, DoD Components are spending more than \$2 billion to develop systems with no assurance that the financial portions of the systems will function as an integrated financial management system. Also, the lack of an integrated financial

management system may prolong DoD's inability to develop auditable financial statements. For details of the audit results, see the Finding section of the report.

**Summary of Recommendations.** We recommend that the Financial Management Executive Steering Committee conduct family of system reviews on critical financial management systems. We also recommend that the Financial Management Executive Steering Committee establish a plan to minimize the development of nonstandard financial management systems until an enterprise architecture is established. We recommend that the Defense Finance and Accounting Service include all accounting system options in its accounting analysis of alternatives.

**Management Comments.** The Secretary of Defense is committed to modernizing and improving the Department's financial management processes and systems and therefore has established a Financial Management Modernization Program. The Secretary of Defense signed a memorandum on July 19, 2001, establishing a Program Management Office to manage and oversee the program; directed the Military Secretaries and Directors of the Defense agencies to be accountable to the Secretary for their business operations and financial management systems; and directed the Comptroller to be responsible for the financial management reforms. Actions that have been initiated for the modernization program include:

- funding has been allocated for the modernization program in FY 2002;
- a task force has been established;
- a request for information from the private sector regarding the development of a DoD financial management enterprise architecture, and current enterprise resource planning initiatives must be approved by the Comptroller before proceeding beyond prototype.

In addition, the task force is in the process of initiating a contract to benchmark modernization efforts; establishing a Financial Management Executive Steering Committee; analyzing ongoing and planned financial management initiatives with the goal of curtailing high risk efforts that may not conform to the enterprise architecture; and developing an "as-is" inventory financial and feeder systems to accurately reflect the current systems environment. A discussion of management comments is in the Finding section and the entire text of management comments can be found in the Management Comments section of the report.

**Audit Response.** The Under Secretary of Defense (Comptroller) comments were coordinated with the Defense Finance and Accounting Service and were partially responsive. We recognize that the Under Secretary of Defense (Comptroller) has taken initiatives to modernize and improve the Department's financial management processes and systems. However, the comments did not address an action-based plan with proposed milestones on conducting family of system reviews, how the Department will minimize the development of nonstandard systems until an enterprise architecture is established, and a plan of action for including the impact of enterprise resource planning initiatives in the DoD accounting analysis of alternatives. If the Under Secretary of Defense (Comptroller) continues coordination with the Defense Finance and Accounting Service on Recommendation 3, then the Defense Finance and Accounting Services does not need to provide separate comments to the final report. We request that the Under Secretary of Defense (Comptroller) provide additional comments on this report by January 8, 2002, addressing an action-based plan with proposed milestones.

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## Background

This audit was conducted in support of financial statement audits:

- required by Public Law 101-576, the Chief Financial Officers Act of 1990, November 15, 1990; and
- amended by Public Laws 103-356 and 104-208, the Federal Financial Management Act of 1994, October 13, 1994, and the Federal Financial Management Improvement Act of 1996, September 30, 1996, respectively.

This report is the second in a series related to the Defense Finance and Accounting Service Corporate Database (DCD) and discusses the development of DCD and other financial management systems.

Congress and the General Accounting Office (GAO) have cited concerns with DoD financial management. In addition, DoD must comply with several statutory requirements, including Office of Management and Budget (OMB) Circular No. A-127, "Financial Management Systems," July 23, 1993, which requires each DoD agency to establish an integrated financial management system.

**Congressional Concerns with DoD Financial Management.** The House Appropriations Committee reported in the DoD Appropriations Bill for FY 2000 that the Committee was disappointed with the current level of DoD oversight of its information technology systems. According to the report, DoD information technology projects have tended to overrun budgets, slip schedules, evade data standardization and interoperability requirements, and shortchange user needs.

**General Accounting Office Concerns with DoD Financial Management.** In GAO Testimony 99-93, "Defense Information Management: Continuing Implementation Challenges Highlight the Need for Improvement," February 25, 1999, GAO expressed concerns about the state of DoD financial management systems. GAO stated that DoD faces a number of serious management challenges, including a lack of effective management and oversight controls, technical and data standardization, and measuring performance.

In GAO Report No. GAO-01-525, "Information Technology Architecture Needed to Guide Modernization of DoD's Financial Operations," May 17, 2001, GAO states that DoD did not have a financial management enterprise architecture.<sup>1</sup> The report further stated that DoD is spending billions of dollars on new systems that were not based on an integrated enterprise architecture. Without an overall architecture, the Department runs the risk of having processes and systems that are duplicative, not interoperable, and costly to maintain and interface.

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<sup>1</sup> An enterprise architecture can be viewed as a blueprint for building interoperable systems within an enterprise.

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**Office of Management and Budget Financial Management System**

**Guidance.** OMB Circular No. A-127 prescribes policies and standards for Federal agencies to follow in developing and operating financial management systems. Each agency must establish and maintain an integrated financial management system that complies with accounting principles, internal control standards, and applicable OMB and U.S. Treasury requirements. The Circular defines an integrated financial management system as a unified set of financial and feeder systems<sup>2</sup> that are planned for and managed together, operated in an integrated fashion, and linked together electronically to provide agency-wide financial system support.

**Implementation of DoD Financial Improvements.** The Under Secretary of Defense (USD) (Comptroller), the Defense Finance and Accounting Service (DFAS), and the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) (ASD[C<sup>3</sup>I]) share responsibility for implementing financial improvements. The USD (Comptroller) and DFAS are responsible for developing and maintaining finance and accounting systems, and the ASD(C<sup>3</sup>I) is responsible for providing oversight on the acquisition of automated information systems.

**USD (Comptroller) Responsibilities.** DoD Directive 5118.3, "Under Secretary of Defense (Comptroller) Chief Financial Officer, Department of Defense," January 6, 1997, requires the USD (Comptroller) to develop and maintain an integrated DoD accounting and financial management system.

**DFAS Responsibilities.** DoD Directive 5118.5, "Defense Finance and Accounting Service," November 26, 1990, established DFAS as a Defense agency under the USD (Comptroller). Under this Directive, DoD requires DFAS to direct consolidation, standardization, and integration of DoD finance and accounting requirements, functions, procedures, operations, and systems. The Directive requires DoD Components to comply with DFAS direction. However, the Directive also states that the Components must maintain control of their accounting and finance resources (feeder systems).

**ASD(C<sup>3</sup>I) Responsibilities.** DoD Directive 5137.1, "Assistant Secretary of Defense for Command, Control, Communications, and Intelligence," February 12, 1992, requires that the ASD(C<sup>3</sup>I) establish and implement information management policy, processes, programs, and standards to govern the development, acquisition, and operation of DoD automated information systems. DoD Directive 8320.1, "DoD Data Administration," September 26, 1991, gives the ASD(C<sup>3</sup>I) responsibility for DoD data administration. That Directive requires ASD(C<sup>3</sup>I) to ensure that data administration is implemented aggressively in ways that provide clear, concise, consistent, and easily accessible data DoD-wide. DoD Instruction 5000.2, "Operation of the Defense Acquisition System," October 23, 2000, requires DoD to conduct integrated program reviews on a family of systems basis to support cost-effectiveness and interoperability, and to assess the spending of limited resources.

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<sup>2</sup> In DoD, feeder systems are usually Component-owned information systems where most financial transactions occur. The transactions are transferred to the appropriate DoD accounting and finance systems.

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## **Objectives**

The overall audit objective was to review the development of the DCD and its impact on entitlement, disbursing, and accounting functions. Because DFAS intended DCD to standardize financial data and minimize changes to existing financial management and feeder systems, we reviewed the development of DCD and other financial management systems. The review of the management control program will be covered in a future report. See Appendix A for a discussion of the scope, methodology, and prior audit coverage.

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## DoD Efforts to Develop an Integrated Financial Management System

DoD financial management systems are not integrated<sup>3</sup> and cannot share data without expensive and inefficient crosswalks.<sup>4</sup> However, DoD continues to develop DCD and other financial management systems, which will not establish an integrated financial management system. DoD has not integrated its financial management systems because of the following.

- DoD did not have an effective Component-wide oversight and review process.
- A plan to address and implement interoperability in financial management systems was not established.
- The accounting analysis of alternatives did not address the development of redundant accounting systems.

As a result, DoD Components are spending more than \$2 billion to develop systems with no assurance that the current disparate financial management systems will function as an integrated financial management system. Also, the lack of an integrated financial management system may prolong DoD's inability to develop auditable financial statements.

### DoD Financial Management

**DoD Financial Management Improvement Goal.** The USD (Comptroller) developed the DoD Financial Management Improvement Plan (FMIP) to establish the integrated financial management system OMB requires. The FMIP provides a technical infrastructure model to accomplish this goal. The technical infrastructure model indicates that an integrated financial management system can be developed if the systems share:

- data elements,
- business rules, and
- the Standard Fiscal Code<sup>5</sup> (a single DoD line of accounting).

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<sup>3</sup> For this report the terms integrated and interoperable are synonymous.

<sup>4</sup> Crosswalks translate information so that systems with different data formats can communicate and share information.

<sup>5</sup> The USD (Comptroller) directed the development of the Standard Fiscal Code as the DoD single line of accounting, which would translate DoD transactions into the U.S. Standard General Ledger format to produce auditable financial statements.

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**DFAS Information Infrastructure.** DFAS developed the DFAS Corporate Information Infrastructure (DCII) to meet OMB Circular No. A-127 requirements. The DCII implements the technical infrastructure model and consolidates finance and accounting into a single, integrated financial management system. The DCII is an integrated collection of procedures, policies, and standards that provides centralized management, analysis, and reporting of data; information security; and data transfer and translation capabilities. DCD is the major system in the DCII. When implemented, DCD will make accounting and finance information available to many users and applications at the same time. Approximately 80 percent of the data in DCD will originate from feeder systems, and the remainder will originate from DFAS systems. The DCD will eliminate storage of multiple instances of data as well as the inefficiencies and reconciliation processes that can result when data are passed back and forth between applications.

## **Establishing Financial Management Systems**

**Developing Financial Management Systems.** DoD continues to develop DCD and other nonintegrated financial management systems that cannot share data without expensive and inefficient crosswalks. Specifically:

- DFAS is developing the DCD;
- DFAS has proposed a DCD alternative for the Air Force because of delays in DCD development and the failure of Air Force transactions to pass DCD edits; and
- Army, Navy, and the Defense Logistics Agency are purchasing enterprise resource planning (ERP)<sup>6</sup> software programs to replace feeder systems.<sup>7</sup> The ERPs have functionality similar to DCD.

**Current Status of DoD Financial Systems.** The FY 2000 FMIP states that DoD developed and implemented financial management systems before legislative requirements were established in the 1990s. As a result, current financial management systems cannot share data without the use of crosswalks. DFAS personnel stated that these crosswalks are inefficient and expensive. Further, DFAS personnel stated that the DoD failure to share data:

- denies DoD financial managers the ability to obtain and use timely and accurate financial information, and
- contributes to the DoD inability to prepare auditable financial statements.

For example, DFAS personnel stated that managers cannot make timely business decisions because it took a month to crosswalk management

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<sup>6</sup> An ERP program is commercial business software designed to integrate the business functions of an organization.

<sup>7</sup> Feeder systems contain 80 percent of DoD financial data and are crucial to the overall DoD efforts to enhance financial management and to eventually obtain favorable audit opinions on the DoD annual financial statements.

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information from various systems. DFAS plans to give managers daily updates through DCD to solve this problem. DFAS also crosswalks data from feeder systems to develop financial statements; however, when auditors try to find the source data, the audit trail is lost. The audit trail is lost because crosswalks were developed to convert data but not to identify the source of the data. DCD was to provide traceable crosswalks to solve this problem.

**DCD Use Prior to Developing Standard Finance and Feeder Systems.** DCD development began in May 1999 and is to be completed in 2007. DFAS initiated DCD development to improve financial management by providing managers with near real-time assessments of finance and accounting data. DFAS planned to accomplish this by standardizing data to enable systems to routinely share and transfer information and to produce auditable financial statements. The DCD would crosswalk input from nonstandard finance and feeder systems into a standard format while standard systems were being developed. In the interim period, DFAS personnel would centrally manage and maintain the crosswalks to minimize changes to existing finance and feeder systems.

**Revised DCD Initiative.** In February 2001, the DCD development policy changed. DFAS personnel stated they would crosswalk accounting system data, 400,000 items, into DCD but would not crosswalk feeder system data because the costs were prohibitive. DCD crosswalk costs were estimated to be \$42 million or 20 percent of the \$209.1 million DCD development cost. As a result, DCD would only receive summary data from the feeder systems through the accounting systems. Further, individual feeder system transactions will not be subject to edits to establish the reliability of the information. DCD would remain the hub of the end-to-end procurement process.<sup>8</sup>

**DFAS Denver Initiative.** DFAS intended DCD to be the single DoD corporate database where financial managers could develop reports and prepare auditable financial statements. DFAS also intended the General Accounting and Finance System (GAFS) to be reengineered as the first DCII compliant accounting system. It would integrate GAFS and DCD. However, in March 2001, DFAS Denver personnel stated the Air Force needed a financial management system independent of DCD. DFAS Denver personnel stated this was necessary because of:

- delays in DCD development, and
- the failure of Air Force transactions to pass DCD crosswalk edits.

**GAFS Rehosted.** The proposed Air Force financial management system would be named GAFS Rehosted. GAFS Rehosted would integrate the functionality of the GAFS with the Central Procurement Accounting System, along with the U.S. Standard General Ledger and some edit capability. The

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<sup>8</sup> The DoD end-to-end procurement process will be the means to pay vendors and contractors. The DCD will control the flow of information. Other systems in the end-to-end procurement process include the Wide Area Workflow, Standard Procurement System, Defense Procurement Payment System, Central Contractor Registry, and Defense Standard Disbursing System.

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estimated development cost is \$16 million. This system would create an Air Force-specific financial management system and database. The system would be capable of providing Air Force financial managers with timely and accurate information needed to conduct Air Force business and to develop auditable financial statements.

**GAFS Rehosted and DCD.** GAFS Rehosted would compete with DCD. The Director, DFAS Denver, stated that the implementation of GAFS Rehosted will eliminate the need for DCD except for the end-to-end procurement process. The system does not foster integration because it would use nonstandard data elements from existing systems.

**Feeder System Replacement Initiatives.** The Army, Navy, and Defense Logistics Agency initiated efforts to improve the capabilities of their feeder systems through the purchase of ERPs. DFAS stated ERPs can:

- improve Component financial management,
- provide information for auditable financial statements,
- replace Component feeder systems, and
- evolve into Component financial management and accounting systems.

**Cost of Feeder System Replacements.** We conducted a limited review of the ERPs which have an estimated cost of \$2 billion.

- The Army stated that the Wholesale Logistics Modernization Program is an attempt to outsource the Army logistics function. The cost of the contract will include any system the contractor deems necessary. The contract price is approximately \$560 million.
- The Navy estimates costs to implement Project Cabrillo at \$415 million. Project Cabrillo will be the financial management system for the Space and Naval Warfare Systems Command.
- The Defense Logistics Agency estimates the Business Systems Modernization program life-cycle costs at \$1 billion. The Business Systems Modernization program will be the Defense Logistics Agency integrated supply chain management system.

**Feeder System Replacements and the DCD.** Because of the ERPs, the Army, Navy, and the Defense Logistics Agency would not need DCD for financial management. However, there is no assurance that the ERPs will form a DoD integrated financial management system because the ERPs do not share common data elements. DFAS personnel stated that the ERPs needed to share common data elements so that “stovepipe”<sup>9</sup> systems were not developed.

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<sup>9</sup> Stovepipe systems are designed for the use of the developer. The system design has no requirement to share data with business partners.

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**ERP Program Budget Decision.** In January 2001, the USD (Comptroller) issued Program Budget Decision 426 requiring DoD agencies to detail how ERP programs will integrate and work with standard systems. Standard systems are end-to-end procurement systems such as DCD and the Standard Procurement System. The Defense Logistics Agency response indicated that the Business System Modernization program and standard systems were not compatible. Specifically, the Defense Logistics Agency stated that use of the DCD and other standard systems would eliminate many of the ERP benefits. The Army had not responded and the Navy response did not indicate what effect its ERPs would have on standard systems.

**Summary of DoD Financial Management Systems.** DoD is developing financial management systems at a cost of more than \$2 billion. However, these systems are not being developed in accordance with OMB Circular No. A-127 and the FMIP. The Circular defines an integrated system as a group of systems that are planned for and managed together, operated in an integrated fashion, and linked together electronically to provide agency-wide financial system support. DoD did not effectively plan and manage these systems together. As a result, the systems tend to create autonomous rather than integrated financial management systems.

## **Oversight of Financial Management Systems**

DCD and other financial management system developments will not create an integrated financial management system because:

- DoD did not have an effective Component-wide oversight and review process,
- a plan to address and implement interoperability in financial management systems was not established, and
- the accounting analysis of alternatives did not address the development of redundant accounting systems.

**Current Financial System Oversight and Review.** DoD did not have an effective Component-wide oversight and review process. DoD Instruction 5000.2 requires DoD to conduct integrated program reviews on a family of systems basis to support cost-effectiveness, interoperability, and to assess the spending of limited resources. In Inspector General, DoD, Report No. D-2001-030, "Oversight of the Defense Finance and Accounting Service Corporate Database Development," December 28, 2000, the ASD(C<sup>3</sup>I) agreed to coordinate with the USD (Comptroller) to conduct family of systems reviews that support the finance business area. However, the ASD(C<sup>3</sup>I) has not conducted reviews with the USD (Comptroller) to determine the impact the ERPs will have on interoperability. The reviews did not occur because the ASD(C<sup>3</sup>I) lacks the authority to control financial management system investments.

**USD (Comptroller) Proposed Action.** USD (Comptroller) personnel stated that the Senior Financial Management Oversight Council (the Council)

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could provide the oversight and review necessary to develop an integrated financial management system. The Council was created in January 2001 to provide oversight and guidance on systems compliance issues. According to USD (Comptroller) personnel, this Council has been renamed as the Financial Management Executive Steering Committee and will essentially assume additional responsibilities as a result of the July 19, 2001, Secretary of Defense memorandum that established the Financial Management Modernization Program. The Committee is chaired by the USD (Comptroller) and includes the Defense Under Secretaries; ASD(C<sup>3</sup>I); Service financial managers; Director, Defense Logistics Agency; and Director, DFAS. As a result of the July 19, 2001, memorandum, the USD (Comptroller) has initiated the following actions to start the modernization program:

- redirected funding in the Department's FY 2001 budget and allocated specific FY 2002 funding for the modernization program;
- instituted and staffed a Financial Management Modernization Task Force;
- published a request for information regarding the development of a DoD financial management enterprise architecture;
- directed that current ERP initiatives be approved by the USD (Comptroller) before proceeding beyond prototype, to ensure that they are consistent with the Department's modernization efforts; and
- developed a program management organizational structure.

Furthermore, the Financial Management Modernization Task Force is in the process of initiating a contract request to benchmark other enterprises that have undertaken similar modernization efforts. The Task Force is also analyzing ongoing and planned financial management systems initiatives to curtail high risk efforts that may not conform to the future enterprise architecture or an integrated financial management structure, and developing a Department-wide "as-is" inventory of financial and feeder systems to reflect the current systems environment. On August 21, 2001, the USD (Comptroller) issued a memorandum on the "Deployment of Financial Management Enterprise Resource Planning Systems." The USD (Comptroller) stated that all current ERP initiatives could continue up to prototype evaluation, but that the ERP could not be deployed without the explicit written concurrence of the USD (Comptroller). The USD (Comptroller) in conjunction with the ASD(C<sup>3</sup>I) should direct that the renamed Council assist in conducting the family of system reviews and to consider the review results in the decision process.

**Addressing Interoperability.** DoD does not have a plan to address interoperability in financial management systems. Interoperability is the ability of systems to provide and accept services from other systems and use the services to operate effectively together, as an integrated financial management system. In May 2001, GAO stated that DoD financial management systems were not interoperable because DoD did not have an enterprise architecture or the management structure in place to effectively develop and implement one. An enterprise architecture:

- 
- describes enterprise operations in both logical and technical terms,
  - provides operational and technical views for the current and target environment, and
  - provides an information technology investment plan for managing the current and target environment.

**Enterprise Architecture Program Budget Decision.** The USD (Comptroller) agreed with the GAO and issued Program Budget Decision 818 in June 2001 to address the issue. Program Budget Decision 818 provided DFAS with \$100 million in FY 2002 to:

- develop an enterprise architecture,
- define and implement standard data requirements,
- document the flow of financial data, and
- develop a financial and feeder system compliance process.

Additional funding would be assessed as part of the FY 2003 budget process. The USD (Comptroller) response is a positive step. However, the Program Budget Decision does not provide a plan to address the interoperability of current systems in development. DoD has an estimated \$2 billion in current financial management system developments that will not create interoperable systems. For example, DFAS noted the following ERP limitations.

- ERP developments are not coordinated.
- ERP developments do not share common data elements with other DoD financial management systems.
- ERP developments are not part of an overall DoD plan to develop an integrated financial management system.

Further, USD (Comptroller) personnel stated that it should take a year to develop an enterprise architecture. Therefore, the USD (Comptroller) needs to develop and implement a plan, through the renamed Council, to minimize the Component development of nonstandard systems. Until DFAS develops an enterprise architecture, DoD cannot be sure that current information technology funds are being put to the best use.

**Developing the DoD Accounting Analysis of Alternatives.** In Inspector General, DoD, Report No. D-2000-151, "Acquisition of the Defense Joint Accounting System," June 16, 2000, we recommended that DFAS prepare an analysis of alternatives to justify its investment in proposed DoD accounting systems. An analysis of alternatives:

- provides a complete and supportable presentation that identifies the advantages and disadvantages of alternative systems,

- 
- analyzes the sensitivity of alternatives to changes,
  - describes the commonality and interoperability of alternative systems,
  - defines the benefits of the systems, and
  - addresses system requirements.

Because the ERPs have accounting modules, the USD (Comptroller) should require DFAS to include the ERPs in the analysis of alternatives to prevent the development of duplicative accounting systems. DFAS stated that it would include the proposed Air Force financial management system because it would be a DFAS program. DFAS will not consider the Component ERPs because they are being developed outside of DFAS. Although DFAS does not control ERP development, the absence of ERP data makes the DFAS analysis incomplete and misleading. Therefore, the USD (Comptroller) should require DFAS to perform a complete analysis, to include the ERPs. Further, the Financial Management Executive Steering Committee should review the analysis as part of the oversight process.

**Friedman Report.** The Secretary of Defense contracted with the Institute of Defense Analyses to conduct a study and recommend a strategy for financial improvements within DoD. The study resulted in the report "Transforming Department of Defense Financial Management, a Strategy for Change," April 13, 2001, also known as the Friedman Report. The report indicated that many positive projects are underway within DoD; however, those projects are narrow in focus, have insufficient leadership, and are not part of an overall integrated DoD-wide strategy. The report recommended a structural change within the financial framework to develop standard integrated systems.

## **Effect of Present Oversight on Financial System Development**

DoD is developing the DCD and other financial management systems without a plan to establish an integrated financial management system. As a result, DoD Components are spending an estimated \$2 billion to develop disparate financial management systems. Further, DoD has no assurance that these systems will establish an integrated financial management system. The financial management system developments do not address the interoperability and data standardization concerns of Congress, GAO, and the Inspector General, DoD. Also, the lack of an integrated financial management system may prolong DoD's inability to develop auditable financial statements.

**Financial Management Improvement Plan Goals.** The FMIP stated that DoD is developing financial management systems to solve current financial problems. These developments would result in an integrated financial management system. An integrated financial management system would provide timely management information and produce auditable financial statements. The FMIP also stated that standard data would be used to produce cost-effective financial management systems. However, the ERPs are not required to use standard data. The ERPs are based on commercial data structures, which are not standard.

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Without a DoD-wide review of this process, DoD will create several independent financial management systems rather than an integrated system.

**Auditable Financial Statements.** Developing auditable financial statements is a DoD priority. The FMIP states an integrated system is necessary for the development of auditable financial statements. Because these financial management systems are not integrated, it is unlikely that auditable financial statements would be forthcoming.

## Summary

Individual Components have made efforts to solve their financial management problems. However, each Component cannot solve DoD problems independently and without a plan. As a result, current DoD financial management system developments are not coordinated and will not lead to the establishment of an integrated financial management system. The USD (Comptroller) issued Program Budget Decisions 426 and 818 to address these problems. The Financial Management Executive Steering Committee needs to take the following steps to ensure that an integrated financial management system is developed and completed to meet the intent of the Program Budget Decisions.

- Conduct the family of system reviews.
- Develop a plan to minimize the development of nonstandard financial management systems until an enterprise architecture is established.

DFAS needs to include all accounting system options, including the ERPs, in its accounting analysis of alternatives to ensure that duplicative accounting systems are not developed. Overall, the USD (Comptroller) agreed with many of the points in the draft report. The draft report did not acknowledge that the Department had recognized the need for more comprehensive oversight of its financial systems as evidenced by the Secretary of Defense memorandum of July 19, 2001, because the draft report was issued on July 2, 2001.

## Recommendations, Management Comments, and Audit Response

**Revised Recommendations.** As a result of management comments, we revised draft Recommendations 1. and 2. to recognize the change in name of the Senior Financial Management Oversight Council to the Financial Management Executive Steering Committee.

**We recommend that:**

1. **The Financial Management Executive Steering Committee conduct the family of system reviews on critical financial management systems. The reviews should ensure that the investment in financial management systems**

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**leads to the development of an integrated financial management system. The Financial Management Executive Steering Committee should consider the review results in its decision process. The Under Secretary of Defense (Comptroller) response should include a specific plan of action with proposed milestones.**

**Management Comments.** On July 19, 2001, the Secretary of Defense issued a memorandum establishing a Financial Management Modernization Program and directed the Under Secretary of Defense (Comptroller) be responsible for the overall direction of the Department's financial management reforms. As part of the modernization program, the Under Secretary of Defense (Comptroller) is in the process of establishing a Financial Management Executive Steering Committee to provide direction and support to the program. Furthermore, the Under Secretary of Defense (Comptroller) has directed that current enterprise resource planning initiatives be approved by their office before proceeding beyond prototype to ensure that these initiatives are consistent with the Department's modernization efforts to achieve an integrated financial management structure.

**Audit Response.** Comments from the Under Secretary of Defense (Comptroller) were partially responsive. The Comptroller agreed with many of the points raised by the draft report. However, the comments do not address whether the Financial Management Executive Steering Committee will conduct family of system reviews on critical financial management systems and provide a plan with milestones for conducting these reviews. Therefore, we request that the Under Secretary of Defense (Comptroller) provide additional comments that detail a specific plan of action with milestones for including family of system reviews by the Financial Management Executive Steering Committee.

**2. The Financial Management Executive Steering Committee develop and implement a plan to minimize DoD Component development of nonstandard systems until an enterprise architecture is established. The Under Secretary of Defense (Comptroller) response should include a specific plan of action with proposed milestones.**

**Management Comments.** The Under Secretary of Defense (Comptroller) has directed that current enterprise resource planning initiatives be approved before proceeding beyond prototype to ensure that these efforts are consistent with the Department's modernization efforts. The modernization program includes analyzing ongoing and planned financial management systems initiatives across the Department to curtail high risk efforts that may not conform to the enterprise architecture or an integrated financial management structure.

**Audit Response.** Comments from the Under Secretary of Defense (Comptroller) were partially responsive. Although the Comptroller has initiated a task force to identify ongoing and planned financial management system initiatives, the comments do not address whether a plan is to be developed on how the Department will minimize development of nonstandard systems until an enterprise architecture is established. Therefore, we request the Under Secretary of Defense (Comptroller) provide additional comments that detail a plan of action with proposed milestones.

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**3. The Director, Defense Finance and Accounting Service, include the impact of the enterprise resource planning programs in the DoD accounting analysis of alternatives. The Defense Finance and Accounting Service response should include a specific plan of action with dates.**

**Management Comments.** The Defense Finance and Accounting Service coordinated with the Under Secretary of Defense (Comptroller) in response to the draft report. However, the comments do not address whether current enterprise resource planning initiatives within the Department are included in the DoD accounting analysis of alternatives that the Defense Finance and Accounting Service is developing.

**Audit Response.** Comments from the Under Secretary of Defense (Comptroller) were not responsive. Therefore, we request that the Under Secretary of Defense (Comptroller) provide additional comments that detail an action-based plan with milestones for including the impact of enterprise resource planning initiatives in the DoD accounting analysis of alternatives. If the Under Secretary of Defense (Comptroller) continues coordination with the Defense Finance and Accounting service on this recommendation, then the Defense Finance and Accounting service does not need to provide separate comments to the final report.

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## Appendix A. Audit Process

### Scope

The overall audit objective was to review the development of the DCD and its impact on entitlement, disbursing, and accounting functions. This report is the second in a series related to DCD. Because the development of DCD was intended to standardize financial data and minimize changes to existing financial and financial feeder systems, we reviewed the development of DCD and other financial management systems.

**Work Performed.** We reviewed the responsibilities of DoD data administrators and the development of the DCD. In addition, we reviewed the DFAS Standard Fiscal Code and standard business rules. We also reviewed the FMIP and ERP initiatives within DoD.

The methodology of the review included analyses of documentation for data standardization and interoperability, standard business rules, and the Standard Fiscal Code. We reviewed documents dated September 1991 through October 2001. As part of the review, we identified \$209.1 million in potential DCD life-cycle cost through FY 2007. We also interviewed personnel at ASD(C<sup>3</sup>I), DFAS, the Defense Information Systems Agency, and Functional/Component Data Administrators throughout DoD at the Army, Navy, Air Force, and U.S. Transportation Command.

**General Accounting Office High-Risk Area.** The GAO has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management and Defense Infrastructure high-risk areas.

### Methodology

**Use of Computer-Processed Data.** We did not use computer-processed data in this audit.

**Audit Type, Dates, and Standards.** We performed this program audit from August 2000 through June 2001 in accordance with generally accepted Government auditing standards except that we were unable to obtain an opinion on our system of quality control. The most recent external quality control review was withdrawn on March 15, 2001, and we will undergo a new review.

**Contacts During the Audit.** We visited or contacted individuals and organizations within the DoD. Further details are available upon request.

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## **Prior Coverage**

### **General Accounting Office**

GAO Report No. GAO-01-525, "Information Technology Architecture Needed to Guide Modernization of DoD's Financial Operations," May 17, 2001

### **Inspector General, DoD**

Inspector General, DoD, Report No. D-2001-030, "Oversight of Defense Finance and Accounting Service Corporate Database Development," December 28, 2000

Inspector General, DoD, Report No. D-2000-151, "Acquisition of the Defense Joint Accounting System," June 16, 2000

The GAO and the Inspector General, DoD, have conducted multiple reviews related to data standardization and standard business rules issues. The GAO reports can be accessed on the Internet at <http://www.gao.gov>. The Inspector General, DoD reports can be accessed on the Internet at <http://www.dodig.osd.mil/audit/reports>.

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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Defense Organization**

Director, Defense Finance and Accounting Service

### **Non-Defense Federal Organization**

Office of Management and Budget  
Office of Information and Regulatory Affairs

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services

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**Congressional Committees and Subcommittees, Chairman and  
Ranking Minority Member (cont'd)**

House Committee on Government Reform

House Subcommittee on Government Efficiency, Financial Management, and  
Intergovernmental Relations, Committee on Government Reform

House Subcommittee on National Security, Veterans Affairs, and International  
Relations, Committee on Government Reform

House Subcommittee on Technology and Procurement Policy, Committee on  
Government Reform

# Office of the Under Secretary of Defense (Comptroller) Comments



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

SEP 26 2001

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE

SUBJECT: Draft Audit Report on the Development of the Defense Finance and Accounting  
Service Corporate Database and Other Financial Management Systems (Project No.  
D2000FG-0051.001)

This is the Office of the Under Secretary of Defense (Comptroller) response to the Office of the Inspector General, Department of Defense draft report, "The Development of the Defense Finance and Accounting Service Corporate Database and Other Financial Management Systems." This office agrees with many of the points raised by the draft report. The Secretary understands the need for an effective Department-wide oversight and review process for financial management systems efforts and has instituted a comprehensive financial management modernization program. The audit report should, but does not, acknowledge that the Department recognized the need for more effective oversight and review efforts and has initiated appropriate changes, as well as the other actions addressed below.

1. The Secretary signed a memorandum (July 19, 2001) establishing the Financial Management Modernization Program and directed that:

- a Program Management Office (PMO) be established and report to the Comptroller to manage and oversee the program,
- the Secretaries of the Military Departments and the Directors of the Defense Agencies be accountable to the Secretary for the results of their business operations and financial management systems, and
- the Under Secretary of Defense (Comptroller) be responsible for the overall direction of the Department's financial management reforms.

2. The Office of the Under Secretary of Defense (Comptroller) has launched the modernization program and:

- redirected funding in the Department's fiscal year (FY) 2001 budget and allocated specific FY 2002 funding for the modernization program,
- instituted and staffed a Financial Management Modernization Task Force to "jump start" the program,
- published a request for information to solicit involvement from the private sector regarding the development of a DoD financial management enterprise architecture,
- directed that current enterprise resources planning initiatives be approved by the Under Secretary of Defense (Comptroller) before proceeding beyond prototype to ensure that they are consistent with the Department's modernization efforts, and
- developed a program management organizational structure and prepared position descriptions and initiated recruiting actions.

3. The task force is proceeding with several significant activities, including:

- initiating a request to award a contract to benchmark the experiences--both positive and negative--of private sector and government enterprises that have undertaken similar modernization efforts,
- establishing a Financial Management Executive Steering Committee, chaired by the Under Secretary of Defense (Comptroller) and comprised of the leaders of the major DoD Components and Office of the Secretary of Defense organizations, to provide top leadership direction and support to the modernization program,
- analyzing ongoing and planned financial management systems initiatives across the Department including enterprise resource planning efforts with the goal of curtailing high risk efforts that do not, or likely will not, conform to our enterprise architecture or lead to the implementation of an integrated financial management structure, and
- developing a Department-wide "as is" inventory of financial and feeder systems to accurately reflect the current systems environment.

The approach and structure that the Department has established in accordance with the Secretary of Defense's and the Under Secretary of Defense (Comptroller)'s directions are consistent with the recommendations in your draft report. The Department remains committed to modernizing and improving the Department's financial management processes and systems.

My point of contact for this matter is Mr. Dennis Idol. He may be reached by e-mail at: [idold@osd.pentagon.mil](mailto:idold@osd.pentagon.mil) or by telephone at (703) 692-5004.



Nelson Toy  
Deputy Chief Financial Officer

## **Audit Team Members**

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## INTERNET DOCUMENT INFORMATION FORM

**A . Report Title: Development of the Defense Finance and Accounting Service Corporate Database and Other Financial Management Systems**

**B. DATE Report Downloaded From the Internet: 11/14/01**

**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)  
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