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United States
Department of Defense



Previously Identified Deficiencies
Not Corrected in the
General Fund Enterprise Business System Program

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Acronyms and Abbreviations

ASA (AL&T)	Assistant Secretary of the Army (Acquisition, Logistics, and Technology)
ASA (FM&C)	Assistant Secretary of the Army (Financial Management and Comptroller)
ATEC	U.S. Army Test and Evaluation Command
BPA	Blanket Purchase Agreement
CARD	Cost Analysis Requirements Description
DCAA	Defense Contract Audit Agency
DFAS	Defense Finance and Accounting Service
EA	Economic Analysis
ERP	Enterprise Resource Planning
ESI	Enterprise Software Initiative
GFEBs	General Fund Enterprise Business System
IT	Information Technology
OMB	Office of Management and Budget
OSD (OT&E)	Office of the Secretary of Defense (Operational Test and Evaluation)
USD (AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics
PEO EIS	Program Executive Office Enterprise Information Systems
PMO	Program Management Office
RDT&E	Research, Development, Test, and Evaluation
USD (C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

June 15, 2011

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION,
TECHNOLOGY, AND LOGISTICS)
UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
DEPUTY CHIEF MANAGEMENT OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Previously Identified Deficiencies Not Corrected in the General Fund
Enterprise Business System Program (Report No. D-2011-072)

We are providing this report for review and comment. The Army is developing a financial management system to improve the preparation and accuracy of General Fund financial statements. Known as the General Fund Enterprise Business System (GFEBS), this system has an estimated life-cycle cost of \$2.4 billion. Although DoD and the Army have implemented 9 of the 16 recommendations made in our prior GFEBS report, actions are needed to implement the 7 remaining recommendations on program planning, acquisition, and justification deficiencies. 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. We request that the Under Secretary of Defense for Acquisition, Technology, and Logistics provide comments on Recommendations 1, 2, and 3. Also, we request the Under Secretary of Defense (Comptroller)/Chief Financial Officer provide additional comments on Recommendation 1. We should receive your comments by July 15, 2011.

If possible, send a .pdf file containing your comments to audfmr@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868.

Patricia A. Marsh
Patricia A. Marsh, CPA
Assistant Inspector General
Financial Management and Reporting



Results in Brief: Previously Identified Deficiencies Not Corrected in the General Fund Enterprise Business System Program

What We Did

We assessed whether DoD and Army management actions were sufficient to correct the program planning, acquisition, and justification deficiencies identified in DoD Inspector General Report No. D2008-041, "Management of the General Fund Enterprise Business System," January 14, 2008. The General Fund Enterprise Business System (GFEBS) is a financial management system the Army is developing to obtain an unqualified audit opinion on its General Fund financial statements and improve accuracy of financial information.

What We Found

Management actions were insufficient for correcting GFEBS program planning, acquisition, and justification deficiencies previously identified. The Army estimates it will spend \$2.4 billion over the GFEBS life cycle; however, it still has not identified all of the requirements and costs associated with the project. In addition, the DoD and Army did not implement 7 of the 16 recommendations we made in our prior report. Four recommendations remained open because Army oversight was not sufficient to ensure the Army prepared a detailed data conversion plan or an adequate economic justification for the GFEBS program. Three recommendations remained open because the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD [AT&L]) and Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD [C]/CFO) did not take action to implement the recommended improvements to the acquisition process for system integration services. As a result of the open recommendations, the GFEBS

program remained at high risk of incurring additional schedule delays, exceeding planned costs, and not meeting program objectives.

What We Recommend

The USD (C)/CFO and the Deputy Chief Management Officer should review the Army's Enterprise Resource Planning strategy, including any investment in the further deployment of GFEBS. The Deputy Chief Management Officer should also not approve the deployment of GFEBS to additional users until the Army completes our recommendations and corrects the deficiencies identified by the U.S. Army Test and Evaluation Command.

The Army should ensure a detailed data conversion plan for the GFEBS program is prepared. In addition, the Army should implement procedures to ensure that economic justification information is complete and supported. The GFEBS Program Manager should develop complete and supported information for Army's use in preparing budget and cost estimates and for managing the GFEBS program.

Management Comments and Our Response

Management comments were responsive for five of eight recommendations. The USD (C)/CFO comments were not responsive for Recommendation 1. We request that the USD (C)/CFO provide comments on the final report. In addition, the USD (AT&L) did not comment on the draft of this report. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Acquisition, Technology, and Logistics)	1, 2, 3	
Under Secretary of Defense (Comptroller)/Chief Financial Officer	1	4
Deputy Chief Management Officer		4, 5
Assistant Secretary of the Army (Acquisition, Logistics, and Technology)		7
Assistant Secretary of the Army (Financial Management and Comptroller)		6
General Fund Enterprise Business System Program Manager		8

Please provide comments by July 15, 2011.

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Introduction

Objective

Our objective was to determine whether management took action to correct the deficiencies addressed in the DoD Inspector General Report No. D2008-041, “Management of the General Fund Enterprise Business System,” January 14, 2008. Specifically, we followed up on management actions to correct the program planning, acquisition, and justification deficiencies addressed in the report. See Appendix A for a discussion of the scope and methodology and for prior coverage related to the objective.

Background

Federal Financial Reporting Requirements

The Chief Financial Officers Act of 1990 requires that auditable financial statements be prepared annually. It also guides the improvement in financial management and internal controls to help assure that the Government has reliable financial information and to deter fraud, waste, and abuse of Government resources. The Federal Financial Management Improvement Act of 1996 requires agencies to implement and maintain financial management systems that are in substantial compliance with:

- Federal financial management system requirements,
- Federal accounting standards, and
- U.S. Government Standard General Ledger at the transaction level.

The FY 2010 National Defense Authorization Act requires DoD to develop a plan to ensure that the DoD financial statements “are validated as ready for audit by not later than September 30, 2017.”

Acquisition Guidance

DoD Directive 5000.01, “The Defense Acquisition System,” May 12, 2003 (certified current as of November 20, 2007), provides management principles and mandatory procedures for managing DoD acquisition programs. The Defense Acquisition System is a management process designed to provide effective, affordable, and timely systems to users. DoD Instruction 5000.02, “Operation of the Defense Acquisition System,” December 8, 2008, provides “a simplified and flexible management framework for translating capability needs and technology opportunities, based on approved capability needs, into stable, affordable, and well-managed acquisition programs.” Although optional, the Defense Acquisition Guidebook complements these policies by providing the acquisition workforce with best practices. The Federal Acquisition Regulation provides rules and guidance on acquisition contracts by Federal agencies.

Army Financial Reporting

The FY 2009 Army General Fund Financial Statements reported assets of \$338.8 billion, liabilities of \$70.1 billion, and budgetary resources of \$320.5 billion. The Defense Finance and Accounting Service (DFAS) Indianapolis began preparing Army financial statements in 1991 by compiling financial information from Army and DFAS sources. Auditors have issued disclaimers of opinion on the Army General Fund financial statements each year, including FY 2009, because the lack of an integrated, transaction driven, financial management system prevents the Army from preparing auditable financial statements. Therefore, the Army needs to implement a modern financial capability to streamline the Army's current portfolio of overlapping and redundant finance and accounting systems.

General Fund Enterprise Business System

The General Fund Enterprise Business System (GFEBS) is a financial management system the Army is developing so that it can obtain unqualified audit opinion on its General Fund financial statements and improve accuracy of financial information. The Army developed the GFEBS program to meet an Office of the Secretary of Defense goal for the Military Services to comply with the Chief Financial Officers Act and the Federal Financial Management Improvement Act of 1996.

The Army's primary program objectives for developing GFEBS are to:

- improve financial performance,
- standardize business processes,
- ensure that capability exists to meet the future financial management needs, and
- provide Army decision makers with relevant, reliable, and timely financial information.

The GFEBS program included contracts for system integration, awarded on June 28, 2005, and for program management support services, awarded on April 25, 2005. The system integration contract, whose period of performance consists of one base year with nine option years, is estimated to cost \$636.7 million. The first program management support services contract, which had a five-year period of performance, was valued at \$60.5 million. As of August 2010, the Army disbursed \$448.8 million for these contracts. The Army awarded a second program management support services contract in June 2010, which is currently valued at \$11.2 million. The life-cycle cost estimate for GFEBS, which includes anticipated costs for the initial system investment, system operation and support, and existing systems phase-out, is \$2.4 billion. The Army awarded the system integration contract as part of the DoD Enterprise Software Initiative (ESI). The ESI, an effort to standardize the acquisition process for commercial off-the-shelf¹ software and associated system integration services, established blanket

¹ "Commercial off-the-shelf" refers to a previously developed item used for governmental or nongovernmental purposes by the public, nongovernmental entities, or a Federal agency, state, or local government.

purchase agreements (BPAs) with five vendors for system integration services. A BPA is a simplified method of filling anticipated repetitive needs for commercial supplies or services by establishing “charge accounts” with qualified vendors.

DoD Inspector General Report No. D-2008-041

DoD Inspector General Report No. D-2008-041, “Management of the General Fund Enterprise Business System,” January 14, 2008, reported that the Army did not have adequate internal controls for management of GFEBS. The report contained 16 recommendations to address three major deficiencies in the planning and development of GFEBS.

- The Army did not effectively plan the acquisition of the GFEBS system integration services. The Army’s planning did not adequately define program requirements for potential bidders. Specifically, the Army did not sufficiently describe the resource requirements for system interfaces or adequately develop data conversion processes.
- The Army inappropriately used a BPA to contract for services to design, develop, integrate, and implement GFEBS. The Army used this improper contracting method because the Office of the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer required the use of the BPA for new Enterprise Resource Planning (ERP) implementations.
- In addition, the Army prepared an unrealistic economic analysis to justify the GFEBS program. Specifically, the Army used unsupported and incomplete life-cycle cost estimates to determine the \$1.4 billion in cost savings, and the Army used an inappropriate methodology to determine the estimated \$3.9 billion in benefits for implementing GFEBS.

See Appendix B for a list of the recommendations and their current status.

Internal Controls Over the GFEBS Economic Justification

DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified an internal control weakness in management’s processes for economically justifying the GFEBS program. Army oversight was not sufficient to ensure the GFEBS economic justification was complete and supported. Implementing the recommendations contained in this report should correct the internal control weakness we identified, and will improve management’s ability to defend priorities and resource allocations for complex ERP system implementations. We will provide a copy of the report to the senior official responsible for internal controls.

Finding. The DoD and Army Did Not Adequately Implement All Prior Recommendations

Management actions were insufficient for correcting GFEBS program planning, acquisition, and justification deficiencies previously identified. The Army estimates it will spend \$2.4 billion over the GFEBS life cycle; however, it still has not identified all of the requirements and costs associated with the project. The DoD and Army did not implement 7 of the 16 recommendations we made in our prior report. Specifically:

- Army did not implement four recommendations related to GFEBS requirements and economic justification and
- DoD did not implement three recommendations related to the acquisition of system integration services.

The four requirements and economic justification recommendations remained open because Assistant Secretary of the Army (Financial Management and Comptroller) (ASA [FM&C]) and Assistant Secretary of the Army (Acquisition, Logistics, and Technology) (ASA [AL&T]) oversight was not sufficient to ensure the Army prepared a detailed data conversion plan or an adequate economic justification for the GFEBS program. The three acquisition recommendations remained open because the Under Secretary of Defense for Acquisition, Technology, and Logistics and Under Secretary of Defense (Comptroller)/Chief Financial Officer did not take action to implement the recommended improvements to the acquisition process. As a result of the open recommendations, the GFEBS program remained at high risk of incurring additional schedule delays, exceeding planned costs, and the Army risks implementing a system that does not meet program objectives.

Prior Report Recommendations on Requirements and Economic Justification Deficiencies Not Implemented

The Army did not implement four of the recommendations from the prior audit report. Although the Army took action to correct the requirements and cost estimate deficiencies identified in the previous report, improvements were still needed in the following areas:

- the ASA (FM&C) did not provide a detailed data conversion plan (See Appendix B, item 4),
- the ASA (AL&T) did not develop and implement procedures to ensure that information provided to decision makers concerning the economic justification of system acquisitions is complete and supported in accordance with the Defense Acquisition Guidebook (See Appendix B, item 12),

- ASA (AL&T) did not ensure that the GFEBS Program Management Office (PMO) developed a complete and supported Cost Analysis Requirements Description (CARD) (See Appendix B, item 13), and
- ASA (AL&T) did not ensure that the GFEBS PMO developed a complete and supported Economic Analysis (EA) (See Appendix B, item 14).

This occurred because oversight was not sufficient to ensure that the Army prepared a detailed data conversion plan or an adequate economic justification for the GFEBS program.

Lack of Detailed Data Conversion Plan

ASA (FM&C) did not provide a detailed data conversion plan. In response to the previous report, the ASA (FM&C) agreed to prepare a detailed data conversion plan

Inadequate planning for data conversion processes may lead to long-term repercussions, including failure to meet program objectives...

within 30 days of completing a blueprint of GFEBS. Data conversion is the modification of existing data to enable it to operate with similar capabilities in a different environment. It is a significant part of the financial system implementation in terms of workload, complexity, risk, and cost and is one of the most frequently underestimated tasks.

Inadequate planning for data conversion processes may lead to long-term repercussions, including failure to meet program objectives, such as producing auditable financial statements as required by the Chief Financial Officers Act of 1990.

In response to our requests for the plan, ASA (FM&C) personnel stated that the GFEBS PMO should be able to provide the requested information. The GFEBS PMO provided a data conversion guide that discussed the GFEBS program's strategy for converting Master Data² from Army systems. However, the guide did not address data conversion for at least 49 non-Army systems that process Army data. For example, the guide did not discuss the Computerized Accounts Payable System, a DFAS system that automates vendor pay processes and interfaces with DoD standard procurement, disbursing and accounting systems. By not addressing the non-Army systems, the conversion guide did not provide the detail needed to address all data to be converted. In addition, the guide did not mention how the GFEBS PMO plans to handle historical transactional data, other than it will not convert it. This strategy did not address appropriations with an indefinite or multi-year period of availability. For example, the typical obligation life for:

- Research, Development, Test, and Evaluation (RDT&E) appropriations is 2 years;

² Master data is data that does not change regularly over a period of time and will be used in its same form continuously and is required to support transaction processing. Examples of master data include customer and vendor records.

- procurement appropriations is 3 years;
- military construction appropriations is 5 years; and
- no-year appropriations have an indefinite time period.

Since multi-year appropriations are open for obligation adjustment for five years after expiration, accounting data can remain in legacy systems for several years after the Army implements GFEBS. No-year appropriations never close and must be migrated because they may never “brownout.”³ Without converting historical transactional data for these types of appropriations, the Army could potentially be using GFEBS and the legacy systems, concurrently, for many years after GFEBS implementation. For example, legacy systems provide non-standard information to the Defense Departmental Reporting System-Budgetary for the production of Army management reports and financial statements. This legacy system information is not in general ledger format. Even if the Army fully deploys GFEBS and it is operational, the legacy information will impair the Army’s ability to have auditable financial statements. The Army should have a detailed plan for the data conversion processes required for GFEBS implementation and address data migration from “brownout” systems.

ASA (AL&T) Did Not Develop and Implement Economic Justification Procedures

ASA (AL&T) did not develop and implement procedures to ensure that information concerning the economic justification of system acquisitions was complete and supported in accordance with the Defense Acquisition Guidebook. ASA (AL&T) agreed to develop and implement procedures in response to our prior report. However, when we requested documentation of the procedures, ASA (AL&T) personnel stated that additional procedures were unnecessary because all Army organizations are required to comply with the following Army guidance:

- Department of the Army, “Cost Analysis Manual,” May 2002;
- Department of the Army, “Economic Analysis Manual,” February 2001; and
- Army Regulation 11-18, “The Cost and Economic Analysis Program,” January 31, 1995.

ASA (AL&T) stated that since the guidance already existed, the problem was not the lack of policy, but rather the need for better implementation by the GFEBS PMO, which is part of ASA (AL&T) and must follow Army guidance. The Defense Acquisition Guidebook provides the acquisition workforce with best practices that each program should tailor to its needs. We made the original recommendation so that ASA (AL&T)

³ Brownout refers to the practice of allowing historical transactional data to remain in the existing legacy system where initially recorded.

would ensure that the Army used these best practices when documenting the economic justification of system acquisitions. Specifically, the Defense Acquisition Guidebook states that the CARD should stand alone as a readable document, make liberal use of references to the source documents, and make source documents readily available or provide them as an appendix to the CARD. It also states that acquisition personnel should formally document a complete cost estimate, which serves as an audit trail of source data, methods, and results. Program Executive Office Enterprise Information Systems⁴ (PEO EIS) personnel stated that ASA (AL&T) personnel participated in the preparation of the EA and CARD. However, ASA (AL&T) participation in the formulation of the EA and CARD did not satisfy the recommendation that ASA (AL&T) provide procedures to ensure information provided to decision makers concerning the economic justification of system acquisitions was complete and supported in accordance with the Defense Acquisition Guidebook.

Incomplete and Unsupported Cost Analysis Requirements Description

The GFEBS PMO did not develop a complete and supported CARD. In response to the prior audit, ASA (AL&T) agreed to update the CARD and ensure it included all source documents and all system requirements (interfaces, upgrades, and operations and support). Although the PMO updated the CARD in September 2009 for the GFEBS Full Deployment Decision Review,⁵ it was incomplete and unsupported because the PMO did not fully identify requirements for the systems impacted by GFEBS. According to Deputy Chief Management Office personnel, as of February 2011, the Milestone Decision Authority had not granted Full Deployment Decision approval to the GFEBS program. Deputy Chief Management Officer personnel stated that the delay occurred because the Milestone Decision Authority requested additional time to assess the results of the Initial Operational Test and Evaluation of GFEBS.

The number of planned GFEBS system replacements and interfaces fluctuated from 128 in May 2006 to 165 in January 2008 and down to 141 in September 2009. The number of systems that GFEBS will replace or interface with decreased by 24 systems from the January 2008 CARD to the September 2009 CARD. The table provides more detail on the system decrease.

⁴ Program Executive Office Enterprise Information Systems develops, acquires, and deploys tactical and management information technology systems and products.

⁵The Full Deployment Decision Review is performed by the Milestone Decision Authority to determine whether or not a system can deploy for operational use.

Table. Analysis of Systems Impacted by GFEBS

Systems	January 2008	September 2009	Difference
Replaced by GFEBS	78	85	7
Interfaced with GFEBS	87	56	-31
Total	165	141	-24

PEO EIS personnel stated that the number of systems that GFEBS will replace or interface with would continue to change as the Army designs, implements, and tests GFEBS. DoD 5000.4-M, "Cost Analysis Guidance and Procedures," December 1992, requires a section to summarize changes from the previous CARD. This discussion should address changes in system design and program schedule, as well as in program direction. The September 2009 CARD did not describe the difference of 24 systems in sufficient detail to understand the reasons for the change. In addition, the September 2009 CARD did not comply with the DoD 5000.4-M requirement to provide all the interfaces, upgrades, and operations and support requirements for all systems impacted by GFEBS. For example, the CARD did not include the number of users for each system, transaction volume of the systems, sites where the systems were used, or labor requirements for system maintenance. The CARD also did not describe resources necessary for data migration. Although the GFEBS PMO eventually provided a description of the change in the number of systems,⁶ this information was not included in the September 2009 CARD. The CARD is a key document that supports the EA; the Army needs detailed requirements in the CARD to prepare an accurate life-cycle cost estimate for the EA.

Incomplete and Unsupported Economic Analysis

The GFEBS PMO updated the EA in November 2009 for the GFEBS Full Deployment Decision Review. However, the updated EA was incomplete and unsupported because it did not include the costs related to data migration or for interfacing systems with GFEBS.

The GFEBS PMO did not develop a complete and supported EA. In response to the prior audit, ASA (AL&T) agreed to update the EA and ensure it included all source documents, relevant costs, and system requirements. The GFEBS PMO updated the EA in November 2009 for the GFEBS Full Deployment Decision Review. However, the updated EA was incomplete and unsupported because it did not include the costs related to data migration or for interfacing systems with GFEBS. According to Deputy Chief Management Office personnel, as of February 2011, the Milestone

Decision Authority had not granted Full Deployment Decision approval to the GFEBS program. Deputy Chief Management Officer personnel stated that the delay occurred because the Milestone Decision Authority requested additional time to assess the results

⁶ We did not perform a detailed analysis of the description to determine if it was adequate.

of the Initial Operational Test and Evaluation of GFEBS. The purpose of the EA is to provide decision makers insight into economic factors affecting the program objectives. Without supported information in the EA, the Army does not have reliable information to support the effective allocation and management of resources, and to justify budget estimates.

Data migration and brownout costs were not transparent and properly allocated to GFEBS implementation in the EA. When we inquired about data migration and brownout costs, PEO EIS personnel claimed that brownout costs were included in the costs of operating Status Quo⁷ systems. Brownout costs should not be included in Status Quo costs because they do not occur until data is migrated into a new system. The EA also did not specifically identify costs for migrating data to GFEBS. Data migration and brownout costs should be a separate line item cost under the GFEBS implementation. We could not identify these costs as they were not broken out, and PEO EIS personnel could not provide us the information when requested. For data migration, the EA did not include a plan to consider appropriations with long budget lives. As a result, data migration costs were unknown, brownout costs were incorrectly categorized as Status Quo costs, and the true cost for GFEBS implementation is potentially understated.

The Army did not provide sufficient detail in the EA on system interfacing costs for the 55 systems⁸ that require a GFEBS interface. DoD Instruction 7041.3, “Economic Analysis for Decisionmaking,” November 7, 1995, requires that the preparer document the results of the EA, including all calculations and sources of data—down to the most basic inputs—to provide an auditable and stand-alone document. GFEBS PMO personnel claimed that business processes, which may encompass more than one legacy system, drive ERPs. As a result, the Army grouped costs and other major key system characteristics by business process instead of by legacy system. However, the November 2009 EA did not provide interface costs by business process or by system. The GFEBS PMO eventually provided information on interface costs for the systems.⁹ The Army did not prepare an adequate economic justification for its decision to invest more than \$708.4 million (current projected contract cost) in the GFEBS program.

Inadequate Army Oversight

ASA (FM&C) and ASA (AL&T) oversight were not sufficient to ensure the Army prepared a detailed data conversion plan, a complete and supported CARD, and a complete and supported EA for the GFEBS program. Without supported cost estimates, the Army did not have reliable information needed to defend priorities and resource

⁷ “Status Quo” is the term used in the Army’s EA to refer to the current method of performing general fund accounting functions using existing systems.

⁸ Although the CARD identified 56 systems, when the EA was finalized the requirements had changed to 55 systems.

⁹ We did not determine whether the provided costs were reasonable or complete.

allocations. The lack of reliable information posed a significant risk that the Army will not be able to demonstrate adequately whether the program is cost-effective until it has expended a significant portion of the \$2.4 billion life cycle cost estimate on system design, development, integration, and implementation. In our prior report, we determined

The lack of reliable information posed a significant risk that the Army will not be able to demonstrate adequately whether the program is cost-effective until it has expended a significant portion of the \$2.4 billion life cycle cost estimate on system design, development, integration, and implementation.

that the GFEBS program needed management oversight from the highest levels and made recommendations for the Army to provide this oversight. In addition, our prior report included detailed information on what the Army needed to do to correct the identified planning and economic justification deficiencies.

ASA (FM&C) is responsible for providing timely, accurate, and reliable financial information to enable leaders and managers to incorporate cost considerations into their decision-making. Since the Army is implementing GFEBS to obtain a clean audit opinion and improve the accuracy of financial information, ASA (FM&C) is a major stakeholder

in this program. ASA (FM&C) should have ensured that a detailed data conversion plan for GFEBS was prepared, as it agreed to in the prior report.

ASA (AL&T) is responsible for executing the acquisition function and the acquisition management system of the Army. ASA (AL&T) should have implemented procedures to ensure that information concerning the economic justification of system acquisitions was complete and supported in accordance with the Defense Acquisition Guidebook, as it agreed to in the prior report. Because ASA (AL&T) did not implement these procedures, the Army made GFEBS program decisions based on incomplete and unsupported economic justification documents.

GFEBS Schedule Delays and Potential Cost Overruns

GFEBS has already incurred schedule delays and an increase in the total program cost. The Army delayed the dates for GFEBS initial operational capability¹⁰ and full

GFEBS has already incurred schedule delays and an increase in the total program cost.

operational capability.¹¹ The Army delayed the proposed August 2007 date for initial operational capability by 3 years and 1 month to September 2010 and the proposed December 2009 date for full operational capability by 2 years to December 2011. PEO EIS personnel stated that

¹⁰ A system reaches initial operational capability when a unit scheduled to receive the system has received it and has the ability to employ and maintain it.

¹¹ The FY 2010 National Defense Authorization Act replaced the term initial operational capability with full deployment decision and the term full operational capability with full deployment.

they only delayed the initial operational capability date by 1 year and 10 months and the full operational capability date by 5 months since the program's Milestone B¹² in November 2008. In addition, the GFEBS total program cost increased \$53.2 million from the August 2004 EA to the November 2009 EA update.

PEO EIS personnel stated that the Milestone Decision Authority delayed the GFEBS Full Deployment Decision to assess the results of the U.S. Army Test and Evaluation Command (ATEC) Initial Operational Test and Evaluation conducted July through August 2009. ATEC, which is responsible for all Army developmental and operational testing, concluded that GFEBS was operationally effective with limitations, not operationally suitable, and not survivable.¹³ ATEC personnel determined that GFEBS users were unable to obtain reliable and timely information and had difficulty reliably executing critical business processes.

Office of the Secretary of Defense (Operational Test and Evaluation) (OSD [OT&E]) personnel stated that the GFEBS PMO took action to correct many of the deficiencies ATEC personnel identified and completed a plan to address remaining deficiencies. The GFEBS PMO plan states that there are four key areas the program is working on to improve effectiveness: unmatched disbursements, business intelligence,¹⁴ training, and help desk improvements. In December 2009, based on the GFEBS PMO plan, OSD (OT&E) personnel recommended that the Army continue fielding the next phase of GFEBS as planned. OSD (OT&E) personnel stated that the results of this fielding should be assessed prior to continuing with the next phase of deployment. ATEC personnel completed limited user testing in August 2010. Based on this testing, they concluded that GFEBS is effective, suitable, and survivable with limitations; however, ATEC personnel concluded that GFEBS still had issues remaining. For example, ATEC personnel found that GFEBS was still having problems with business management data and report generation. Deputy Chief Management Officer personnel stated that the Army is currently authorized to field GFEBS to 20,000 users, and full deployment of the system will not be approved until the Army corrects the identified problems. According to Deputy Chief Management Officer personnel, the Army has deployed GFEBS to about 15,500 of the 79,000 potential users.

In addition, the Army risks implementing a system that does not meet program objectives. Between June 2005, when the original contract was awarded, and the September 2009 CARD update, the number of testing requirements grew from 314 to 634, an increase of 102 percent. Improperly defined or incomplete requirements can

¹² Milestone B occurs when the program is approved to enter the Engineering and Manufacturing Development phase. Entry into the Engineering and Manufacturing Development phase represents formal program initiation.

¹³ Operational effectiveness is the overall ability of a system to accomplish its mission. Operational suitability is the degree to which a system can be satisfactorily placed in use. Survivability is the ability of a system to avoid or withstand manmade hostile environments without impairing its ability to accomplish its mission.

¹⁴ A study was conducted to look at the overall reporting approach as well as uncover additional capabilities that would increase user productivity.

cause system failures, such as systems not meeting their costs, schedules, or performance goals. Well-defined requirements provide the foundation for system evaluation and testing. Inadequately defined requirements prevent an organization from implementing a disciplined testing process to determine whether a system meets program objectives and performance goals. Without well-defined requirements, an organization is taking a significant risk that its testing efforts will not detect significant defects until after the organization places the system into production.

Prior Report Recommendations on Acquisition Deficiencies Not Implemented

DoD did not implement three of the recommendations related to the acquisition of system integration services and the inappropriate use of the BPA. Specifically:

- Under Secretary of Defense for Acquisition, Technology, and Logistics (USD [AT&L]) did not establish policy concerning RDT&E funding that was consistent with sections 403 and 437, title 41, United States Code (See Appendix B, item 6).¹⁵
- USD (AT&L) did not provide evidence that it screened new programs proposing use of the ESI BPA (See Appendix B, item 7).
- USD (AT&L) did not provide evidence of written commercial determinations to justify that items or services procured using General Services Administration blanket purchase agreements met the Federal Acquisition Regulation 2.101 definition of a commercial item for acquisitions valued over \$1 million (See Appendix B, item 8).

We made these recommendations to ensure that DoD used the appropriate contract method for acquiring system integration services. USD (AT&L) and the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD [C]/CFO) did not provide evidence of actions taken in response to the prior report. Consequently, these recommendations remain open.

DoD Could Not Ensure That They Used the Appropriate Contract Method

USD (AT&L) did not establish policy concerning RDT&E funding that was consistent with sections 403 and 437, title 41, United States Code. In its comments to our final report, USD (AT&L) stated that USD (C)/CFO, not USD (AT&L), was responsible for ensuring that the use of RDT&E funding was consistent with financial management statutory and regulatory requirements. However, USD (AT&L) stated if the

¹⁵ 41 U.S.C. 403 defines a commercial item as a non-developmental item. 41 U.S.C. 437 allows contracts or task orders that do not exceed \$25 million to be treated as a contract for the procurement of commercial items, if specific guidelines are met.

USD (C)/CFO determined that DoD needed policy, it would assist to ensure the policy was consistent with statutory and regulatory requirements. USD (C)/CFO personnel have not provided evidence that they established the policy or agreed that it is their responsibility. USD (AT&L) and USD (C)/CFO should coordinate to develop evidence that RDT&E funding policy is consistent with sections 403 and 437, title 41, United States Code.

USD (AT&L) did not provide evidence that it screened new programs proposing use of a BPA. In its comments to our final report, USD (AT&L) disagreed with our recommendation to discontinue use of blanket purchase agreements, such as the Enterprise Software Initiative, as the contract vehicle for systems integration contracts or task orders exceeding \$25 million that require RDT&E funding. Rather than discontinue the use of the ESI BPA, USD (AT&L) proposed the careful screening of programs contemplating the use of the ESI BPA. USD (AT&L) personnel stated that this screening would ensure that programs have sufficiently defined requirements, used the appropriate type of funding, and used a contract that reflects the approved approach. However, USD (AT&L) personnel have not provided evidence that they established or used their proposed screening process.

USD (AT&L) did not provide the written commercial determinations to justify that items or services procured using General Services Administration blanket purchase agreements met the Federal Acquisition Regulation 2.101 definition of a commercial item for acquisitions valued over \$1 million. In comments to our draft report, USD (AT&L) personnel stated that an existing policy required contracting officers to provide written commercial determinations. We requested that USD (AT&L) provide a description on how it would implement the requirements in the existing policy for BPAs in their

However since USD (AT&L) and USD (C)/CFO did not implement these recommendations, DoD cannot ensure that they used the appropriate contract method for acquiring new system integration services.

comments to the final report. Although USD (AT&L) personnel responded to the final report, they still did not explain how the existing policy requirements will be implemented for BPAs; in addition, they did not provide an explanation during this audit.

The use of appropriate contracting would help protect the Government against overpricing. However since USD (AT&L) and USD (C)/CFO

did not implement these recommendations, DoD cannot ensure that they used the appropriate contract method for acquiring new system integration services. USD (AT&L) and USD (C)/CFO should implement the recommendations from the prior report.

Prior Report Closed Recommendations

Management completed action for nine recommendations from the prior audit report. Specifically:

- the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer included GFEBS on the Federal Information Technology (IT) Dashboard (See Appendix B, item 1);
- ASA (FM&C) ensured that system owners provided information concerning system functionality necessary to integrate GFEBS (See Appendix B, item 2);
- ASA (FM&C) identified subject matter experts for all potential system interfaces and committed personnel for the duration of the project (See Appendix B, item 3);
- ASA (FM&C) evaluated and adjusted timeframes for the GFEBS program (See Appendix B, item 5);
- USD (C)/CFO did not provide obligation authority for new large and complex system integrations under the Enterprise Software Initiative BPA (See Appendix B, item 9);
- the Director, PEO EIS, contacted the Defense Contract Audit Agency (DCAA) about auditing non-fixed priced contract line items (See Appendix B, item 10);
- USD (AT&L), USD (C)/CFO, and ASA (AL&T) made the decision to proceed with the GFEBS program based on an updated EA (See Appendix B, 11);
- ASA (AL&T) retained documentation of the USD (AT&L) review of the GFEBS program (See Appendix B, item 15); and
- the Director, DFAS, developed procedures to ensure that the economic justification of system acquisitions was complete and supported (See Appendix B, item 16).

Conclusion

As a result of the open recommendations, the GFEBS program remains at high risk of incurring additional schedule delays and exceeding planned costs, and the Army risks implementing a system that does not meet program objectives. Complete and accurate program requirements are critical because GFEBS will interface with or replace at least 141 systems. With more than 79,000 users managing a \$140 billion annual budget at nearly 200 locations worldwide, GFEBS would be one of the world's largest government ERP systems.

Federal IT projects too often cost more than they should, take longer than necessary to deploy, and deliver solutions that do not meet our business needs. Financial systems

modernization projects in particular have consistently underperformed in terms of costs, schedule, and performance. Large-scale modernization efforts undertaken by Federal agencies are leading to complex project management requirements that are difficult to manage. By the time the projects are finished, they are technologically obsolete or no longer meet agency needs. To address these problems, OMB issued memorandum M-10-26, "Immediate Review of Financial Systems IT Projects," on June 28, 2010. The memorandum launched an IT project management reform effort. As part of this effort, OMB is requiring that all CFO Act agencies immediately halt the issuance of new task orders or new procurements for all financial system projects pending review and approval from OMB. The memorandum provides guiding principles for the acquisition and project management of financial systems. OMB plans to use these principles as its criteria when reviewing current financial modernization projects. The guiding principles are:

- split projects into smaller, simpler segments with clear deliverables;
- focus on most critical business needs first; and
- provide ongoing, transparent project oversight.

Beginning in FY 2011, funding for financial system investments subject to the OMB guidance will be apportioned consistent with the segmented approach. Throughout the fiscal year, OMB will assess whether or not an investment should receive funding for the next segment. An agency's failure to complete a segment as planned may be a basis for canceling the remaining investment. Additionally, inconsistent, incomplete, or inaccurate data or documentation may be justification for redirecting funding. USD (C)/CFO personnel stated that DoD is already following a segmented approach for funding IT investments as part of the combined investment review board process.

On August 18, 2010, the Army met with the DoD Investment Review Board. The Investment Review Board directed the Army to develop an ERP strategy for addressing how the Army will integrate the functions currently performed by GFEBS and the other Army ERPs. The Investment Review Board gave the Army until December 15, 2010, to present a way forward. Army personnel stated that they presented their ERP strategy to the Investment Review Board on January 14, 2011. The need for the Army to develop an ERP strategy places GFEBS at high risk of not achieving the DoD goal of implementing cost effective solutions. Therefore, the USD (C)/CFO and the Deputy Chief Management Officer should review the Army's ERP strategy, including any further deployment of GFEBS.

GFEBS has already incurred schedule delays, and inadequately defined system requirements increase the risk for additional schedule delays and exceeding planned costs. In addition, the ATEC review determined that GFEBS users were unable to obtain reliable and timely information and had difficulty reliably executing critical business processes. The Army should ensure that ATEC has assessed the results of the most recent fielding efforts and determined whether the remaining issues resulting from the Initial Operational Test and Evaluation of GFEBS have been remedied prior to moving

into the next phase. In addition, until the Army has implemented the requirements and economic justification recommendations from our prior report, it should not deploy GFEBS to additional users.

Management Comments on the Finding

The ASA (FM&C) stated that the Army believes the risks identified in this report are manageable and do not materially impact the GFEBS program's cost and schedule. She stated that the GFEBS CARD and EA were prepared in accordance with guidance. In addition, she indicated that the GFEBS program requirements have remained stable and actually decreased from 1,755 to 1,490. The ASA (FM&C) stated that the CARD included all development and maintenance requirements and other information needed to develop an independent cost estimate. She indicated that increased testing requirements had no impact on program requirements, and created negligible risk to program cost and schedule. In addition, she stated that program cost is within all threshold limits and is within two percent of the acquisition program baseline established in 2008. She also stated that the November 2009 Economic Analysis was fully reviewed and approved by required Army and Office of the Secretary of Defense entities. She indicated that the Army Cost Position established a total program cost of \$1.4 billion, of which \$651.7 million was investment and the remainder was for operations and support. The ASA (FM&C) stated that stable requirements have enabled current execution to remain well below threshold levels.

Our Response

In response to the prior audit, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) agreed to update the Cost Analysis Requirements Description to ensure that all information used in the document was supported; to identify the interface, upgrade, and operations and support requirements for all systems with financial management relevance to GFEBS; and to update the Economic Analysis and ensure it included all source documents, relevant costs, and system requirements. The Army did not prepare the GFEBS Cost Analysis Requirements Description in accordance with the Defense Acquisition Guidebook. Specifically, the GFEBS Program Management Office did not fully identify requirements for the systems impacted by GFEBS. The September 2009 Cost Analysis Requirements Description did not describe the difference of 24 systems in sufficient detail to understand the reasons for the change. In addition, the September 2009 Cost Analysis Requirements Description did not comply with the requirement to provide all the interfaces, upgrades, and operations and support requirements for all systems impacted by GFEBS. In addition, the updated Economic Analysis did not include the costs related to data migration or for interfacing systems with GFEBS. Specifically, data migration and brownout costs were not transparent and properly allocated to GFEBS implementation in the Economic Analysis and the Army did not provide sufficient detail on system interfacing costs for the 55 systems that require a GFEBS interface. As discussed above, GFEBS has already incurred schedule delays. Inadequately defined system requirements increase the risk for additional schedule delays and exceeding planned costs. Without reliable and supported cost and benefit estimates, the Army does not have the information needed to defend priorities and resource allocations for GFEBS. The lack of reliable information poses a significant risk that the

Army will not be able to demonstrate adequately the cost-effectiveness of the program until it has expended a significant portion of the \$2.4 billion life cycle cost estimate on system design, development, integration, and implementation.

Recommendations, Management Comments, and Our Response

1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense (Comptroller)/Chief Financial Officer coordinate to establish policy that is consistent with sections 403 and 437, title 41, United States Code, that states if and under what conditions Research, Development, Test, and Evaluation funding can be used for commercial items and services.

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

The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller)/Chief Financial Officer, disagreed and stated that Volume 2A, Chapter 1 of the DoD Financial Management Regulation describes the purposes for which Research, Development, Test, and Evaluation funding can be used and specifies that commercial-off-the-shelf systems, such as GFEBS, should be budgeted in Research, Development, Test, and Evaluation funding. The Deputy Chief Financial Officer indicated that Research, Development, Test, and Evaluation funding is appropriate to support the GFEBS acquisition based on this policy.

Our Response

The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller)/Chief Financial Officer comments are not responsive. A commercial item is defined as a “nondevelopmental item” in 41 U.S.C. 403. Because design and development are required for GFEBS, the acquisition is not commercial. Acquisitions that use Research, Development, Test, and Evaluation funds because the effort is developmental do not fit the U.S.C. definition of a commercial acquisition. Section 437, title 41, U.S.C., does allow contracts or task orders that do not exceed \$25 million to be treated as a contract for the procurement of commercial items, if they meet specific guidelines. Any system acquisition that requires a developmental effort cannot be considered a commercial acquisition unless it meets the guidelines specified under section 437, title 41, U.S.C. DoD Financial Management Regulation 7000.14, Volume 2A, Chapter 1 does not address the guidelines specified under section 437, title 41, U.S.C. The Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense (Comptroller)/Chief Financial Officer should provide clear and concise policy on these issues that is in accordance with U.S.C. We request that the Deputy Chief Financial Officer reconsider his position and provide comments on the final report. The Under Secretary of Defense for Acquisition, Technology, and Logistics did not comment on a draft of this report. We request that the Under Secretary of Defense for Acquisition, Technology, and Logistics provide comments on the final report.

2. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics discontinue use of blanket purchase agreements, such as the Enterprise Software Initiative, as the contract vehicle for system integration contracts or task orders exceeding \$25 million that require Research, Development, Test, and Evaluation funding.

Management Comments Required

The Under Secretary of Defense for Acquisition, Technology, and Logistics did not comment on a draft of this report. We request that the Under Secretary of Defense for Acquisition, Technology, and Logistics provide comments on the final report.

3. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics provide a description of how the policy requiring contracting officers to provide written commercial determinations was implemented for General Services Administration blanket purchase agreements.

Management Comments Required

The Under Secretary of Defense for Acquisition, Technology, and Logistics did not comment on a draft of this report. We request that the Under Secretary of Defense for Acquisition, Technology, and Logistics provide comments on the final report.

4. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer use the Investment Review Boards, the Milestone Decision Authority, and the Defense Business Systems Management Committee to review the Army's Enterprise Resource Planning strategy to determine its effect on the further deployment of the General Fund Enterprise Business System.

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

The Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller)/Chief Financial Officer, agreed and stated that as co-chair of the Combined Financial Management/Weapon Systems Lifecycle Management/Material Supply and Services Management Investment Review Board he reviews program related decisions, such as requests for GFEBS funds certifications and deployments. The Deputy Chief Financial Officer indicated that this investment review board is monitoring the Army's Enterprise Resource Planning strategy to inform decisions on further GFEBS deployment. The Deputy Chief Financial Officer stated that the Under Secretary of Defense (Comptroller)/Chief Financial Officer is also a member of the Defense Business Systems Management Committee that the Investment Review Boards report to as part of the tiered governance process.

Deputy Chief Management Officer Comments

The Deputy Chief Management Officer agreed, and stated that as the Milestone Decision Authority, she uses the Investment Review Boards to review specific program related decisions -- such as requests for GFEBS deployments -- as she holds integrated business system discussions. These discussions include review of the Army's Enterprise Resource Planning strategy. The Deputy Chief Management Officer stated that the Investment Review Boards report to the Defense Business Systems Management Committee, of which she is a member.

Our Response

The Deputy Chief Financial Officer and Deputy Chief Management Officer comments are responsive.

5. We recommend that the Deputy Chief Management Officer not approve the deployment of the General Fund Enterprise Business System to any additional users until the Army completes the recommendations contained in this report and corrects the deficiencies identified by the U.S. Army Test and Evaluation Command.

Deputy Chief Management Officer Comments

The Deputy Chief Management Officer disagreed and stated that the material deficiencies identified by the U.S. Army Test and Evaluation Command have been fully addressed. She indicated that ongoing validation and verification is being conducted by the U.S. Army Test and Evaluation Command and is proceeding in accordance with her guidance through the Investment Review Board. As the Milestone Decision Authority, she has determined that the business benefit of GFEBS is greater than reported program risks based on additional information available for her review after this audit. The Deputy Chief Management Officer stated that her staff closely monitors all program activities with the Army and the GFEBS Program Office through the Investment Review Board.

Our Response

The Deputy Chief Management Officer comments are responsive. As a result of the open recommendations, the GFEBS program remains at high risk of incurring additional schedule delays and exceeding planned costs, and the Army risks implementing a system that does not meet program objectives. The close monitoring of the GFEBS program by the Deputy Chief Management Officer may help to lessen some of this risk. We are currently performing an audit on GFEBS' compliance with the U.S. Government Standard General Ledger and the Standard Financial Information Structure. If we find problems with the functionality of GFEBS, we will make a recommendation regarding the further deployment of the system in that report. As such, no further action is required in response to this report.

6. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) ensure that the General Fund Enterprise Business System Program Management Office prepares a detailed data conversion plan and addresses data migration from "brownout" systems.

Army Comments

The Assistant Secretary of the Army (Financial Management and Comptroller) neither agreed nor disagreed but stated that to ensure a full understanding of the GFEBS data migration strategy, the PMO would prepare a concept of operations within 180 days from April 6, 2011. Further, she indicated that the Army has significantly mitigated risks associated with data conversions by not modifying the existing transactional data to make it compatible with GFEBS. She stated the current cost estimates reflect this strategy by including the continued operation of the legacy systems through September 30, 2016. Finally, she indicated that it would be necessary to migrate other data, such as beginning balances and master data.

Our Response

The Assistant Secretary of the Army (Financial Management and Comptroller) comments are responsive.

7. We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) establish procedures to ensure that information provided to decision makers concerning the economic justification of system acquisitions is complete and supported in accordance with the Defense Acquisition Guidebook.

Army Comments

The Assistant Secretary of the Army (Financial Management and Comptroller) responded for the Assistant Secretary of the Army (Acquisition, Logistics, and Technology). The Assistant Secretary of the Army (Financial Management and Comptroller) disagreed and stated that the requirements of DoD Instruction 7041.3, "Economic Analysis for Decisionmaking," DoD Instruction 5000.02, "Operation of the Defense Acquisition System," and DoD 5000.4-M, "Cost Analysis Guidance and Procedures," are incorporated in the Defense Acquisition Guidebook to provide detailed guidance on the preparation of the Cost Analysis Requirements Description. She indicated that the GFEBS Cost Analysis Requirements Description was prepared in accordance with the Defense Acquisition Guidebook and reviewed and approved by the appropriate decision makers. The Assistant Secretary of the Army (Financial Management and Comptroller) stated that the Army would reaffirm its current procedures to ensure economic justifications for all systems acquisitions are prepared in accordance with the Defense Acquisition Guidebook.

Our Response

The Assistant Secretary of the Army (Financial Management and Comptroller)'s agreement to reaffirm the Army's current procedures to ensure economic justifications for all systems acquisitions are prepared in accordance with the Defense Acquisition Guidebook is responsive to the recommendation. The Army did not prepare the GFEBS Cost Analysis Requirements Description in accordance with the Defense Acquisition Guidebook. Specifically, the GFEBS Program Management Office did not fully identify requirements for the systems impacted by GFEBS. The September 2009 Cost Analysis Requirements Description did not describe the difference of 24 systems in sufficient

detail to understand the reasons for the change. In addition, the September 2009 Cost Analysis Requirements Description did not comply with the requirement to provide all the interfaces, upgrades, and operations and support requirements for all systems impacted by GFEBS. The Defense Acquisition Guidebook provides the acquisition workforce with best practices that each program should tailor to its needs. The Defense Acquisition Guidebook states that the Cost Analysis Requirements Description should stand alone as a readable document, make liberal use of references to the source documents, and make source documents readily available or provide them as an appendix to the Cost Analysis Requirements Description. In response to the previous audit, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) agreed to update the Cost Analysis Requirements Description to ensure that all information used in the document was supported and to identify the interface, upgrade, and operations and support requirements for all systems with financial management relevance to GFEBS. No further action is needed.

8. We recommend that the General Fund Enterprise Business System Program Manager develop complete and supported information for Army's use in preparing budget and cost estimates and for managing the General Fund Enterprise Business System program.

Army Comments

The Assistant Secretary of the Army (Financial Management and Comptroller) responded for the General Fund Enterprise Business System Program Manager. The Assistant Secretary of the Army (Financial Management and Comptroller) disagreed and stated that GFEBS Cost Analysis Requirements Description was prepared in accordance with the Defense Acquisition Guidebook, and included all development and maintenance requirements and other information needed to develop an independent cost estimate. She indicated that the GFEBS Economic Analysis was prepared in accordance with the Army Economic Analysis Manual of 2001, and was reviewed and approved by required Army and Office of the Secretary of Defense entities. She stated that the Cost Analysis Requirements Description and the Economic Analysis provide the information needed to prepare budgets and cost estimates required to manage the program. The Assistant Secretary of the Army (Financial Management and Comptroller) indicated that the completeness and reliability of these documents is supported by the fact that since establishing the acquisition program baseline in 2008, the cost has remained within all thresholds and is within two percent of the 2008 baseline. She stated that the Army would ensure the budget and cost estimates are updated if necessary upon completion of the data migration concept of operations.

Our Response

The Assistant Secretary of the Army (Financial Management and Comptroller)'s agreement to ensure the budget and cost estimates are updated if necessary upon completion of the data migration concept of operations is responsive to the recommendation. In response to the prior audit, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) agreed to update the Cost Analysis Requirements Description to ensure that all information used in the document was

supported and to identify the interface, upgrade, and operations and support requirements for all systems with financial management relevance to GFEBS and to update the Economic Analysis and ensure it included all source documents, relevant costs, and system requirements. As stated above, the Cost Analysis Requirements Description did not fully identify requirements for the systems impacted by GFEBS. In addition, the updated Economic Analysis did not include the costs related to data migration or for interfacing systems with GFEBS. Specifically, data migration and brownout costs were not transparent and properly allocated to GFEBS implementation in the Economic Analysis and the Army did not provide sufficient detail on system interfacing costs for the 55 systems that require a GFEBS interface. No further action is needed.

Appendix A. Scope and Methodology

We conducted this performance audit from June 2009 through February 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed DoD Inspector General Report No. 2008-041, “Management of the General Fund Enterprise Business System,” January 14, 2008 to determine the status of the recommendations. We contacted personnel from USD (AT&L), USD (C)/CFO, Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer, Office of the Deputy Chief Management Officer, ASA (AL&T), ASA (FM&C), PEO EIS, GFEBS PMO, and DFAS. We requested that they provide evidence of actions taken to implement the recommendations. We reviewed the evidence to determine whether management adequately implemented the recommendations from our prior report.

We reviewed the GFEBS PMO data conversion plans, the CARD, and the EA. We determined whether the data conversion plans provided sufficient detail to adequately identify the data conversion processes required for GFEBS implementation. We analyzed the data presented in the CARD and the EA and determined if the Army sufficiently supported the documents. We also reviewed the CARD and the EA to determine compliance with existing guidance. In addition, we reviewed DoD and Army guidance to determine whether it adequately addressed ERP systems.

Use of Computer-Processed Data

We did not use computer-processed data for the audit of the GFEBS project.

Use of Technical Assistance

The Technical Assessment Directorate, Office of the Deputy Inspector General for Policy and Oversight, provided technical assistance for this audit. Specifically, the Technical Assessment Directorate evaluated the results of the ATEC Initial Operational Test and Evaluation for the GFEBS program.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued one report and the U.S. Army Audit Agency (AAA) issued seven reports discussing the General Fund Enterprise Business System. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted Army reports can be accessed from .mil and gao.gov domains over the Internet at <https://www.aaa.army.mil/>.

DoD IG

DoD IG Report No. D2008-041, "Management of the General Fund Enterprise Business System," January 14, 2008

Army

AAA Report No. A-2009-0226-FFM, "Examination of Federal Financial Management Improvement Act Compliance - Test Validation General Fund Enterprise Business System Release 1.2," September 30, 2009

AAA Report No. A-2009-0231-FFM, "General Fund Enterprise Business System - Federal Financial Management Improvement Act Compliance Examination of Release 1.3 Functionality," September 30, 2009

AAA Report No. A-2009-0232-FFM, "General Fund Enterprise Business System - Federal Financial Management Improvement Act Compliance Examination of Releases 1.4.1, 1.4.2, 1.4.3, and 1.4.4 Requirements," September 30, 2009

AAA Report No. A-2008-0263-FFM, "General Fund Enterprise Business System - Federal Financial Management Improvement Act Compliance Examination of Release 1.3 Requirements," September 29, 2008

AAA Report No. A-2008-0204-FFM, "General Fund Enterprise Business System - Federal Financial Management Improvement Act Compliance Examination of Release 1.2 Business Process Designs," August 14, 2008

AAA Report No. A-2007-0217-FFM, "General Fund Enterprise Business System - Federal Financial Management Improvement Act Compliance Examination of Release 1.2 Requirements," September 13, 2007

AAA Report No. A-2007-0187-FFM, "General Fund Enterprise Business System - Federal Financial Management Improvement Act Compliance Examination of Release 1.1 Requirements," August 9, 2007

Appendix B. Recommendation Status

Total Number of Recommendations*	Recommendation number from prior report	Recommendation	Current Status
1	A.1	We recommend that the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer coordinate with Office of Management and Budget personnel to add the General Fund Enterprise Business System program to the High-Risk Information Technology Projects list.	Closed
2	A.2.a	We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) withhold funding for systems whose owners do not provide the information concerning system functionality necessary to integrate the General Fund Enterprise Business System.	Closed
3	A.2.b	We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) identify subject matter experts for all potential system interfaces and commit personnel to the project for the duration of the project.	Closed
4	A.2.c	We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) prepare a detailed data conversion plan within 30 days of completing the blueprint of the General Fund Enterprise Business System.	Open
5	A.2.d	We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) evaluate current timeframes for the General Fund Enterprise Business System program and adjust to accomplish the actions in this recommendation.	Closed
6	B.1.a	We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics establish policy that is consistent with sections 403 and 437, title 41, United States Code, that states if and under what conditions Research, Development, Test, and Evaluation funding can be used for commercial items and services.	Open

Total Number of Recommendations*	Recommendation number from prior report	Recommendation	Current Status
7	B.1.b	We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics discontinue use of blanket purchase agreements, such as the Enterprise Software Initiative, as the contract vehicle for system integration contracts or task orders exceeding \$25 million that require Research, Development, Test, and Evaluation funding.	Open
8	B.1.c	We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics provide written commercial determination to justify that the item or service being procured using General Services Administration blanket purchase agreements meets the Federal Acquisition Regulation 2.101 definition of a commercial item for all acquisitions valued at over \$1 million.	Open
9	B.2	We recommend that in the future the Under Secretary of Defense (Comptroller)/Chief Financial Officer not provide obligation authority to programs planning to use the Enterprise Software Initiative Blanket Purchase Agreement for large and complex system implementations until system requirements are fully defined and approved and the use of Research, Development, Test, and Evaluation funding is no longer required.	Closed
10	B.3	We recommend that the Director, Program Executive Office Enterprise Information Systems contact the Defense Contract Audit Agency to audit contract line items that are not fixed-price.	Closed
11	C.1	We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, and the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) make a decision to continue, modify, or discontinue the General Fund Enterprise Business System contracts based on the results of the updated economic analysis.	Closed

Total Number of Recommendations*	Recommendation number from prior report	Recommendation	Current Status
12	C.2.a	We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) develop and implement procedures to ensure that information provided to decision makers concerning the economic justification of system acquisitions is complete and supported in accordance with the Defense Acquisition Guidebook.	Open
13	C.2.b	We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) update the cost analysis requirements description to ensure that evidential matter supports all information used in the cost analysis requirements description and identify the interface, upgrade, and operations and support requirements for all systems with financial management relevance to the General Fund Enterprise Business System program.	Open
14	C.2.c	We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) update the economic analysis to ensure that evidential matter supports all information used in the economic analysis and include all relevant costs and system requirements for each alternative in the economic analysis.	Open
15	C.2.d	We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) retain documentation of the Under Secretary of the Defense for Acquisition, Technology, and Logistics review and validation of cost and benefit data as part of the official program documentation.	Closed
16	C.3	We recommend that the Director, Defense Finance and Accounting Service, develop and implement procedures to ensure that information provided to decision makers concerning the economic justification of system acquisitions is complete and supported in accordance with the Defense Acquisition Guidebook.	Closed

*auditor generated number

Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

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

MAY 2 2011

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING, OFFICE OF
THE INSPECTOR GENERAL OF THE DEPARTMENT OF
DEFENSE

SUBJECT: Office of the Inspector General Draft Audit Report, "Previously Identified
Deficiencies Not Corrected In The General Fund Enterprise Business System
Program," Project No. D2009-D000FL-0217

This memo is in response to the subject March 11, 2011, draft report provided to this
office for review and comment. Responses to the audit report recommendations directed to the
Under Secretary of Defense (Comptroller)/Chief Financial Officer are attached.

We appreciate the opportunity to respond to the draft audit report and look forward to
resolving the cited issues. My point of contact is [REDACTED] He can be contacted by
telephone at [REDACTED]

A handwritten signature in black ink, appearing to read "Mark E. Easton", is positioned above the printed name.

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

cc:
Deputy Comptroller (Program/Budget)
Office of the General Counsel (Fiscal)

**DOD OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT
DATED MARCH 11, 2011
PROJECT NO. D2009-D000FL-0217**

**“PREVIOUSLY IDENTIFIED DEFICIENCIES NOT CORRECTED IN THE
GENERAL FUND ENTERPRISE BUSINESS SYSTEM PROGRAM”**

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)
RESPONSES TO THE DOD OIG RECOMMENDATIONS**

RECOMMENDATION 1: We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense (Comptroller)/Chief Financial Officer coordinate to establish policy that is consistent with sections 403 and 437, title 41, United States Code, that states if and under what conditions Research, Development, Test and Evaluation funding can be used for commercial items and services.

OUSD(C) RESPONSE: Non-Concur. The *DoD Financial Management Regulation* (DoDFMR) clearly articulates purposes for which RDT&E funding can be used. The DoDFMR 7000.14, Volume 2A, Chapter 1, pages 1-29, dated October 2008, clearly indicates that commercial-off-the-shelf (COTS) systems that require engineering design, integration, test, and evaluation to achieve the objective performance – such as the Army’s General Fund Enterprise Business System (GFEBS) – will be budgeted in RDT&E. Based on the DoDFMR policy, RDT&E funding is appropriate to support GFEBS acquisition.

RECOMMENDATION 4: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer use the Investment Review Boards, the Milestone Decision Authority, and the Defense Business Systems Management Committee to review the Army’s Enterprise Resource Planning strategy to determine its effect on the further deployment of the General Fund Enterprise Business System.

OUSD(C) RESPONSE: Concur. As co-chair of the Combined Financial Management/Weapon Systems Lifecycle Management/Material Supply & Services Management Investment Review Board (CIRB), the Deputy Chief Financial Officer reviews specific program-related decisions such as requests for GFEBS funds certifications and deployments. The CIRB is closely monitoring the progress of the Army’s Enterprise Resource Planning strategy to inform future decisions on GFEBS deployment. Additionally, the Under Secretary of Defense (Comptroller)/Chief Financial Officer is a member of the Defense Business Systems Management Committee (DBSMC), and the IRBs report to the DBSMC as part of the tiered governance process.

Attachment

Deputy Chief Management Officer Comments



DEPUTY CHIEF MANAGEMENT OFFICER
9010 DEFENSE PENTAGON
WASHINGTON, DC 20301-9010

APR 9 2011

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
(ATTN: ASSISTANT INSPECTOR GENERAL FOR FINANCIAL
MANAGEMENT AND REPORTING)

SUBJECT: Comments to Draft Audit Report, "Previously Identified Deficiencies Not Corrected in
the General Fund Enterprise Business System Program"
(Project No. D2009-D000FL-0217.000)

This memorandum is in response to your request for comments on Recommendations 4 and 5
contained in the subject draft report issued March 11, 2011. My responses are provided in the
attachment.

We appreciate the opportunity to comment on the audit recommendations. [REDACTED]
[REDACTED] is my point of contact for this response. She can be reached by telephone at [REDACTED]
or [REDACTED]

A handwritten signature in black ink, appearing to read "Elizabeth A. McGrath".

Elizabeth A. McGrath

Attachment:
As stated



**DEPARTMENT OF DEFENSE (DoD) OFFICE OF THE INSPECTOR GENERAL (OIG)
DRAFT REPORT DATED MARCH 11, 2011, PROJECT NO. D2009-D000FL-0217.000
“PREVIOUSLY IDENTIFIED DEFICIENCIES NOT CORRECTED IN THE GENERAL
FUND ENTERPRISE BUSINESS SYSTEM PROGRAM”**

**OFFICE OF THE DEPUTY CHIEF MANAGEMENT OFFICER (ODCMO)
COMMENTS TO OIG RECOMMENDATIONS**

RECOMMENDATION 4: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer use the Investment Review Boards, the Milestone Decision Authority, and the Defense Business Systems Management Committee to review the Army’s Enterprise Resource Planning strategy to determine its effect on the further deployment of the General Fund Enterprise Business System.

DCMO RESPONSE: **Concur.** As Milestone Decision Authority (MDA), I utilize the Investment Review Boards (IRBs) to review specific program related decisions - such as requests for GFEBS deployments - as we hold integrated business system discussions (e.g., the Army Enterprise Resource Planning strategy). Additionally, the IRBs report to the Defense Business Systems Management Committee, which I am also a member of.

RECOMMENDATION 5: We recommend that the Deputy Chief Management Officer not approve the deployment of the General Fund Enterprise Business System to any additional users until the Army completes the recommendations contained in this report and corrects the deficiencies identified by the U.S. Army Test and Evaluation Command.

DCMO RESPONSE: **Non-Concur.** Material deficiencies identified by the U.S. Army Test and Evaluation Command (ATEC) have been fully addressed. Ongoing validation and verification conducted by ATEC and the Director of Operational Test and Evaluation is proceeding in accordance with my guidance via the IRB. As MDA, I have determined the business benefit of the General Fund Enterprise Business System is greater than reported program risks and based on additional positive information made available for review/ analysis subsequent to your audit, I support continued deployment of the program. My staff is closely monitoring all program activities with the Army and the Program Office via the IRB.

Attachment

Department of the Army Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

APR -6 2011

MEMORANDUM FOR Department of Defense Office of Inspector General

SUBJECT: Previously Identified Deficiencies Not Corrected in the General Fund Enterprise Business System Program (Project no. D2009-D000FL-0217.000)

1. We appreciate the opportunity to comment on the subject draft report. Detailed responses to recommendations directed to the Army are enclosed. The draft report indicates the General Fund Enterprise Business System (GFEBS) program is at high risk of exceeding costs and incurring schedule delays due to open recommendations related to data migration, Cost Analysis Requirements Description (CARD), and Economic Analysis (EA). We believe these risks are manageable and do not materially impact the program's cost and schedule.
2. The Army will not migrate transactional data from legacy systems. Instead, these transactions will remain in the legacy systems until the transaction is completed and closed. New transactions, including those citing appropriations with multiple or indefinite periods of availability will be transacted in GFEBS. To accommodate this strategy, we will operate legacy transaction systems through September 30, 2016, more than four years after final GFEBS deployment. Our EA captures the cost of this strategy.
3. The CARD was prepared in accordance with the Defense Acquisition Guidebook. Program requirements have remained stable and actually decreased from 1,755 to 1,490. The GFEBS CARD includes all development and maintenance requirements and other information needed to develop an independent cost estimate. Increased testing requirements had no impact on program requirements, and created negligible risk to program cost and schedule. Program cost is within all threshold limits and is within two percent of the acquisition program baseline established in 2008.
4. The EA was prepared in accordance with the procedures and cost element structure required by the Army EA Manual of February 2001. Version 1.4 of the program's Economic Analysis was released in November 2009, and was fully reviewed and approved by required Army and OSD entities. The Army Cost Position established a total program cost of \$1.425 billion of which \$651.7 million is investment and the remainder operations and support. Stable requirements have enabled current execution to remain well below threshold levels.
5. Our point of contact is [REDACTED] or [REDACTED]

Dr. Mary Sally Matiella, CPA

Enclosure

Response to audit recommendations, Previously Identified Deficiencies Not Corrected in the General Fund Enterprise Business System Program (Project no. D2009-D000FL-0217.000):

6. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) ensure that the General Fund Enterprise Business System Program Management Office prepares a detailed data conversion plan and addresses data migration from “brownout” systems.

By not modifying existing transactional data in an attempt to make it compatible in the GFEBS environment, the Army has significantly mitigated risks associated with data conversions. Our cost estimates reflect this strategy to include the continued operation of legacy transaction systems through September 30, 2016, four years after final GFEBS deployment. Although transactional data will not be modified and migrated to GFEBS, it will be necessary to migrate other data such as certain beginning balances and master data. To ensure a full understanding of our data migration strategy, we will prepare a concept of operations within 180 days from the date of this response.

7. We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) establish procedures to ensure that information provided to decision makers concerning the economic justification of system acquisitions is complete and supported in accordance with the Defense Acquisition Guidebook.

Requirements of DODI 7041.3, DODI 5000.02, and DOD 5000.4-M are incorporated in the Defense Acquisition Guidebook to provide detailed guidance on CARD preparation. The GFEBS CARD was prepared in accordance with the Defense Acquisition Guidebook, and was reviewed and approved by the appropriate decision makers. We will reaffirm our current procedures to ensure economic justifications for all systems acquisitions are prepared in accordance with the Defense Acquisition Guidebook.

8. We recommend that the General Fund Enterprise Business System Program Manager develop complete and supported information for Army's use in preparing budget and cost estimates for managing the General Fund enterprise Business System program.

The GFEBS CARD was prepared in accordance with the Defense Acquisition Guidebook, and includes all development and maintenance requirements and other information needed to develop an independent cost estimate. The GFEBS Economic Analysis was prepared in accordance with the Army Economic Analysis Manual of 2001, and was reviewed and approved by required Army and OSD entities. Collectively, these documents provide the information needed to prepare budgets and cost estimates required to manage the program. The completeness and reliability of these documents is supported by the fact that since establishing the acquisition program baseline in 2008, program cost has remained within all thresholds and is within two percent of the 2008 baseline. We will ensure budget and cost estimates are updated if necessary upon completion of the concept of operations in response to recommendation-6 above.



Inspector General Department of Defense