

August 2001

FINANCIAL
MANAGEMENT

DOD Improvement
Plan Needs Strategic
Focus



Contents

Letter		3
Appendixes	Appendix I: Objectives, Scope, and Methodology	36
	Appendix II: Comments From the Department of Defense	37
	Appendix III: List of Accounting, Finance, and Feeder Systems Not Included in DOD Fiscal Year 2000 Financial Management Systems Inventory	38
Tables	Table 1: Human Capital Framework	15
	Table 2: Responsiveness of the Plan to the Requirements of the National Defense Authorization Act for Fiscal Year 2000	21
	Table 3: Financial Personnel Competency Plan/Programs	26



United States General Accounting Office
Washington, D.C. 20548

August 17, 2001

Congressional Requesters

The Department of Defense (DOD) is one of the largest and most complex organizations in the world. Defense operations involve about \$1 trillion in assets, \$310 billion in annual budgetary authority, \$24 billion in monthly disbursements, and 3 million military and civilian employees. Moreover, execution of DOD's operations spans a wide range of defense organizations, including the military services and their respective major commands and numerous defense agencies. Effectively managing DOD's finance and accounting operations across this complex array of organizations is both a formidable challenge and prerequisite for effective and efficient departmental performance and accountability. Without reliable financial management information, DOD cannot make informed decisions among competing spending priorities and cannot effectively identify opportunities for reducing costs and reallocating resources to pressing needs. Since 1995, DOD financial management has been on our list of high-risk areas vulnerable to waste, fraud, abuse, and mismanagement.¹

Because of congressional concern with DOD's financial management difficulties, Section 1008 of the National Defense Authorization Act for Fiscal Year 1998 (Public Law 105-85) directed the Secretary of Defense to submit to the Congress, no later than September 30 of each even-numbered year, a biennial strategic plan for the improvement of financial management. The plan is to address all aspects of financial management within DOD, including the accounting, finance, and data feeder systems that support the department's financial operations. The Secretary submitted DOD's first *Financial Management Improvement Plan* to the Congress on October 26, 1998. DOD has elected to prepare the plan annually thereafter.

Subsequently, the National Defense Authorization Act for Fiscal Year 2000 established additional reporting requirements that were to be addressed in DOD's 2000 *Financial Management Improvement Plan*. The plan was to:

- provide an inventory of accounting, finance, and feeder systems;

¹High-Risk Series: *An Update* (GAO/01-263, Jan. 2001).

-
- describe the major procurement actions to replace or improve accounting, finance, or feeder systems and the measures taken or planned to ensure adequate interfaces among the systems;
 - provide a financial management workforce competency plan that includes performance objectives, milestones, responsible officials, and the needed resources;
 - include a detailed plan for improving internal controls at the Defense Finance and Accounting Service (DFAS) and a review process for ensuring that the improved internal controls are implemented and functioning as intended; and
 - include an internal control checklist prescribed by the Under Secretary of Defense (Comptroller) that outlines the internal control standards that are to be followed departmentwide.

The Senate Armed Services Committee Report² that accompanied the National Defense Authorization Act for Fiscal Year 2001 directed that we review the fiscal year 2000 *Financial Management Improvement Plan* and report our findings and recommendations to the congressional defense committees. The objectives of our review were to determine if the plan (1) represents an effective tool for helping resolve DOD's longstanding financial management problems and (2) addresses the reporting requirements stipulated in the National Defense Authorization Act for Fiscal Year 2000. We performed our work in accordance with generally accepted government auditing standards from March to May 2001. Further details on our scope and methodology are discussed in appendix I.

Results In Brief

The fiscal year 2000 *Financial Management Improvement Plan* represents a significant effort and an improvement over prior plans. The plan, which encompasses 2 volumes and over 600 pages, highlights the financial management challenges facing the department and identifies actions underway or planned to address the acknowledged weaknesses. However, the plan is not an effective management tool that establishes a departmentwide strategic approach that can be used to guide and direct the department's financial management reform efforts. The plan was developed primarily to comply with a legislative requirement through a compilation of data calls from DOD's various components. For the most part, the plan presents the military services' and DOD components'

²Senate Report 106-292, May 12, 2000.

stovepiped approaches to reforming financial management, and does not clearly articulate how these various efforts will collectively result in an integrated DOD-wide financial management system. Additionally, the plan does not have performance measures that can be used to assess DOD's progress in resolving its financial management problems. Further, because financial management transcends virtually every DOD function and activity, it is important that financial management reform initiatives be undertaken in conjunction with other DOD reform efforts aimed at transforming DOD's other business activities into more efficient and effective operations. To accomplish this goal, it is critical that DOD develop a more strategic and integrated business transformation plan that includes financial management and other key processes.

Over the years, DOD has undertaken various initiatives to reform its financial management operations. However, as discussed in our January 2001 report³ on the management challenges and high-risk areas facing DOD, the department has had difficulty in resolving these problems. Prior reform initiatives have largely failed due to the lack of top-level support and specific accountability; organizational parochialism; decentralized, nonintegrated systems improvement efforts; and the lack of meaningful performance metrics to monitor and assess progress. The current plan perpetuates many of these fundamental problems. For example, as we recently reported,⁴ DOD plans to spend billions of dollars on new and modified financial management systems despite the fact that it lacks a financial management enterprise architecture or "blueprint" to guide and constrain DOD's investments in financial management operations and systems. If the hundreds of initiatives outlined in the plan are not implemented as part of an overall financial management architecture, DOD runs the risk that its system efforts will result in perpetuating a system environment that is duplicative, not interoperable, unnecessarily costly to maintain, and does not optimize financial management performance and accountability.

One of the lessons learned from DOD's successful efforts to address the Year 2000 computing challenge and our survey of leading financial

³*Major Management Challenges and Program Risks: Department of Defense* (GAO-01-244, Jan. 2001).

⁴*Information Technology: Architecture Needed to Guide Modernization of DOD's Financial Operations* (GAO-01-525, May 17, 2001).

management organizations⁵ was the importance of strong senior management leadership. To his credit, the Secretary of Defense has indicated that financial management reform is among his top priorities. However, the 2000 *Financial Management Improvement Plan* was primarily the responsibility of the DOD Comptroller, who does not have control over and is not accountable for the feeder systems—which account for about 80 percent of the data needed for financial management. The military services and defense agencies control these systems. Similar to its role in the Year 2000 computer challenge, top management’s sustained commitment and leadership could help ensure that the *Financial Management Improvement Plan* becomes an effective management tool. A visible, substantive, and sustained commitment from the Secretary of Defense and the Deputy Secretary of Defense, as well as from the military and civilian leadership, will be needed to overhaul DOD’s financial operations.

In addition to not being an effective management tool, the plan does not fully comply with legislative requirements in the National Defense Authorization Act for Fiscal Year 2000. For instance, the act requires that the plan identify all accounting, finance, and feeder systems. Instead, the plan included only those systems identified as “critical” by DOD components.

Our analysis showed that over 40 systems were not included in the plan. For example, the plan omitted the Defense Logistics Agency’s Distribution Standard System, which accounts for about 75 percent of the items in DOD’s reported \$53 billion inventory.

Developing a comprehensive inventory of DOD’s financial management systems has been a longstanding concern. In 1997, we reported that DOD did not have a comprehensive inventory of systems it relies on to record, accumulate, classify, and report financial information.⁶ Further, although the plan provides information on the military services’ and DOD components’ efforts to improve the professionalism of the financial management workforce, the plan does not provide a strategic human capital approach that will be needed to ensure the competency of financial

⁵*Executive Guide: Creating Value Through World-class Financial Management* (GAO/AIMD-00-134, Apr. 2000).

⁶*Financial Management: DOD Inventory of Financial Management Systems Is Incomplete* (GAO/AIMD-97-29, Jan. 31, 1997).

management personnel. For example, it is not clear how DOD's existing training programs and educational curriculums are designed to meet the financial management core competency requirements specified by the Chief Financial Officers (CFO) Council and the Joint Financial Management Improvement Program (JFMIP). To assist the department in its efforts to reform financial management, we are making recommendations to the Secretary of Defense aimed at improving future *Financial Management Improvement Plans* so that they can be used as a strategic management tool.

In written comments on a draft of this report dated July 26, 2001, the DOD Deputy Chief Financial Officer (CFO) stated that the Secretary of Defense has indicated that financial management reform is among his top priorities. In addition, he stated that the department is developing strategies for resolving DOD's financial management deficiencies and that the department's strategy will encompass a number of our recommendations. These comments are reprinted in appendix II.

Background

As discussed in our January 1999 report on DOD's 1998 plan,⁷ DOD's initial plan provided a first-ever vision of the department's future financial management environment and represented a significant landmark. It included, for the first time, a discussion of the importance of the programmatic functions of personnel, acquisition, property management, and inventory management to DOD's ability to support consistent, accurate information flows to all information users. The plan also identified over 200 initiatives that were intended to improve DOD's financial management operations and systems.

We also reported that the plan's discussion of DOD's future financial management environment focused on DFAS versus the department as a whole and did not address how financial management reform and modernization would address such areas as asset accountability and control and budget formulation. Additionally, we reported that the plan did not (1) clearly link the over 200 improvement initiatives to the department's future environment and (2) address feeder systems' data integrity.

⁷*Financial Management: Analysis of DOD's First Biennial Financial Management Improvement Plan* (GAO/AIMD-99-44, Jan. 29, 1999).

In September 1999, DOD updated the plan, and in May 2000⁸ and July 2000⁹ we testified that the plan provided more detail on strategies and the hundreds of improvement initiatives. We also stated that the plan proposed an integrated financial management system as a long-term solution for establishing effective financial management and specifically identified the critical feeder systems as an essential element of this solution. We noted, however, that the fundamental issues that we reported upon in our January 1999 report still remained.

In transmitting its January 2001 updated plan, DOD stated that it had established the Financial and Feeder System Compliance Process to govern the military services' and Defense agencies' actions to make sure their respective accounting, finance, and feeder systems are compliant with federal financial management requirements¹⁰ and are integrated. If successfully implemented, this effort would help address the data integrity issue within DOD and thereby provide more timely and accurate data to DOD decisionmakers. Modeled after the process DOD used to resolve the Year 2000 computing challenge, the process consists of five phases—awareness, evaluation, renovation, validation, and compliance. Each component is to have defined criteria before moving to the next phase. The Senior Financial Management Oversight Council¹¹ is to provide oversight and guidance.

⁸*Department of Defense: Progress In Financial Management Reform* (GAO/T-AIMD/NSIAD-00-163, May 9, 2000).

⁹*Department of Defense: Implications of Financial Management Issues* (GAO/T-AIMD/NSIAD-00-264, July 20, 2000).

¹⁰The Federal Financial Management Improvement Act of 1996 requires that agency financial management systems comply substantially with (1) federal financial management systems requirements, (2) federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

¹¹ The Senior Financial Management Oversight Council membership includes the Under Secretary of Defense (Comptroller) (Chair); Principal Deputy Under Secretary of Defense (Comptroller) (Vice Chair); Under Secretary of Defense (Acquisition, Technology and Logistics); Under Secretary of Defense (Personnel and Readiness); Assistant Secretary of Defense (Command, Control, Communications and Intelligence); Deputy Chief Financial Officer (Executive Secretary); Director, Defense Finance and Accounting Service; Director, Defense Logistics Agency; Assistant Secretaries of the Military Departments (Financial Management and Comptroller); Assistant Secretary of the Army (Acquisition, Logistics and Technology); Assistant Secretary of the Navy (Research, Development and Acquisition); Assistant Secretary of the Air Force (Acquisition); Assistant Secretary of Defense or Special Operations and Low-Intensity Conflict; and the Deputy Chief of Staff for Installations and Logistics (Air Force).

Department's Fiscal Year 2000 Plan Represents Substantial Effort

The DOD fiscal year 2000 *Financial Management Improvement Plan* represents a significant effort and is an improvement over prior plans. DOD stated that the plan reflects the continued commitment of its senior managers to enhancing financial management systems, operations, and processes. Given the acknowledged financial management challenges facing the department and the size and complexity of DOD's business operations, an attempt to develop a DOD-wide view of efforts in this area represents an enormous undertaking. In former Secretary Cohen's message accompanying the plan, he stated that DOD's overarching strategy for improving its financial management operations is ensuring that financial and feeder systems comply with federal accounting standards and systems requirements.

The fiscal year 2000 plan contains over 600 pages and is divided into 2 volumes. Volume I presents high-level information about DOD's overall financial management operations, while Volume II presents information on DOD's numerous improvement initiatives for financial management systems, policy and oversight, and infrastructure. The plan includes sections addressing:

- DOD's plans for structuring and managing its future operations to comply with legislative and regulatory requirements representing a concept of operations for financial management;
- DOD's current financial management environment;
- DOD's plans for transitioning from its current environment to its target environment; and
- DOD's efforts concerning five specific reporting requirements in the National Defense Authorization Act for Fiscal Year 2000.

The fiscal year 2000 *Financial Management Improvement Plan* also provided a thorough discussion of DFAS improvements implemented in recent years and its plans for accomplishing the requirements of the National Defense Authorization Act for Fiscal Year 2000. In addition, the plan also briefly discussed DFAS' recently implemented management tools, including performance measures, to provide visibility over its internal operations.

The plan also presents DOD's submission in response to several mandated annual reporting requirements related to the CFO Act, the Federal Financial Management Improvement Act (FFMIA), and the Federal Managers' Financial Integrity Act (FMFIA). DOD recognized the National

Defense Authorization Act of 1998 requirement for a biennial financial management improvement plan, beginning in 1998, resulted in duplicate reporting requirements related to the CFO Act, FMFIA, and FFMIA. Consequently, DOD has chosen to publish its plan annually and, as permitted by the Reports Consolidation Act of 2000,¹² to use the plan to address these annual financial management reporting requirements in a consolidated fashion.

Plan Does Not Present A Strategic Approach for Reforming Financial Management

The fiscal year 2000 *Financial Management Improvement Plan* is not a strategic plan that DOD managers can use to reform financial management and improve other DOD operations. The plan, which is compliance oriented, was developed primarily to meet the legislative requirements of the National Defense Authorization Acts for Fiscal Years 1998 and 2000. Information in the plan was obtained through a data call to the military services and defense agencies requesting a compilation of their activities and initiatives to improve financial management.

Central to effectively addressing the underlying causes of DOD's financial management problems will be the recognition that they cannot be addressed in an isolated or piecemeal fashion separate from the other major management challenges and high-risk areas facing the department.¹³ A key to reforming DOD's financial management operations will be to address them as part of a comprehensive, strategic, and integrated, DOD-wide plan to transform all of its business support processes. We have previously recommended that DOD develop a plan to better integrate, guide, and sustain the implementation of its diverse management reform initiatives and an approach for assessing and making key investment decisions. Strategic planning that clearly lays out DOD's mission and goals and the resources needed, strategies to be followed, and assigned responsibilities for accomplishing its goals is crucial to fully focusing the department's activities on achieving desired outcomes. Strategic planning that addresses and appropriately links all DOD business support processes

¹² P. L. 106-531.

¹³The eight interrelated areas that represent the greatest challenge to DOD developing world-class business operations supporting its forces are: strategic planning, human capital, financial management, information technology, acquisition, contract management, support infrastructure, and logistics. See *Major Management Challenges and Program Risks: Department of Defense* (GAO-01-244, Jan. 2001).

is critical if DOD's numerous reform initiatives, including financial management, are to succeed.

Organizational and cultural impediments, human capital challenges, and the lack of meaningful goals, performance measures, progress monitoring, and an enterprise architecture have hindered DOD's past efforts at financial management reform. Leadership and commitment from the highest levels of the department are critical if DOD is to develop an effective strategic plan that can be used to reform financial management.

Organizational and Cultural Impediments to Reform

We have previously reported¹⁴ that a major obstacle to achieving reform initiatives in DOD is the department's organizational structure. In that report of almost 10 years ago, we pointed out that DOD, faced with the challenge of maintaining a strong military with fewer resources, began its Corporate Information Management (CIM) initiative to help streamline operations and manage resources more efficiently. The Deputy Secretary of Defense laid the foundation for CIM and the initiative began with top-level support. However, the initiative failed largely because the top-level support was not sustained and the department was unable to change its culture. Specifically, instead of centralizing responsibility for CIM, the services and defense agencies continued to operate in a business-as-usual manner, maintaining their service parochialism.

Again last year, we reported¹⁵ that DOD has encountered resistance to changes called for under the Defense Reform Initiative (DRI). The ultimate goal of DRI was to improve service to the war fighters and help reduce infrastructure costs so that savings in operations and maintenance funding could be shifted to support weapons modernization. Under DRI, DOD established a Defense Management Council (chaired by the Deputy Secretary and consisting of key civilian and military leaders) to oversee the DRI efforts and advise the Secretary on new reform initiatives. However, the council's effectiveness was impaired because members were unable to put their individual service or other DOD agency parochial interests aside to focus on a departmentwide approach to DOD's longstanding problems. In contrast, the personal involvement of the Deputy Secretary of Defense

¹⁴*Defense ADP: Corporate Information Management Must Overcome Major Problems* (GAO/IMTEC-92-77, Sept. 14, 1992).

¹⁵*Defense Management: Actions Needed to Sustain Reform Initiatives and Achieve Greater Results* (GAO/NSIAD-00-72, July 25, 2000).

played an important role in building entity-wide support in addressing the Year 2000 computing challenge.

DOD's Comptroller is responsible for developing the department's *Financial Management Improvement Plan*. However, mechanisms have not been established between the Comptroller and the military services and other DOD components to gain the cooperation needed to develop an integrated strategic financial management improvement plan. For example, as previously discussed, the Comptroller does not have control over and is not accountable for the feeder systems, which, according to DOD, provide about 80 percent of DOD's financial data. The military services and defense agencies, such as the Defense Logistics Agency, control these systems.

While DOD has established a goal of having an integrated financial management system, it faces a significant challenge in integrating its financial management systems because of its size and complexity and the condition of its current financial management operations. Compounding this challenge is the fact that each service operates unique, nonstandard financial processes and systems that individually have serious weaknesses and collectively do not provide the basis for an integrated system. Although the Comptroller can recognize the need for and types of changes to be made, because of the autonomy of the services and the Comptroller's lack of authority to effect change, past reform efforts have been elusive.

Human Capital Strategy Essential for Reform

While the plan's section addressing efforts to improve the professional competencies of DOD's financial management personnel is a step in the right direction, the plan does not lay out a human capital strategy. Like other federal agencies, DOD is faced with a considerable challenge if it is to improve its financial management human capital to meet changing and increasing work demands. While DOD's financial personnel are now struggling to carry out routine day-to-day transaction processing, personnel in world-class financial management organizations are providing value-added analyses and insights about the financial implications of program decisions and the impact of those decisions on their organizations' performance goals and objectives. We have previously reported¹⁶ that effective human capital management is key to ensuring that DOD will have the right number of people with the right skills to accomplish its mission.

¹⁶*Major Management Challenges and Program Risks: Department of Defense* (GAO-01-244, Jan. 2001).

As previously discussed, while the current plan addresses competency training, DOD has an opportunity to set forth an effective human capital strategy in future plans. Unless such a strategy is developed, DOD will not be able to meet the challenges presented by the increasing number of employees becoming eligible to retire over the next few years, resulting in added risk for management succession as well as meeting existing and changing skill needs.

Modern human capital policies and practices offer the federal government, including DOD, a means to improve its economy, efficiency, and effectiveness. In May 2000, we testified that an integral part of building an effective financial management structure is marshalling and maintaining a strategic approach to improving DOD's financial management human capital.¹⁷

In January 2001, we reported that many of DOD's financial management shortcomings were attributable in part to human capital issues.¹⁸ While DOD has several initiatives underway that are essential for improving the competencies and professionalism of its financial management workforce, it has not yet embraced a strategic approach to improving its financial management human capital challenges.

An effective human capital strategy would include a number of critical and interrelated issues, which are discussed in our April 2000 Executive Guide¹⁹ on financial management practices of leading finance organizations. One such issue is identifying the skills financial management personnel will need to perform effectively in the future work environment. Closely tied to this is closing the gap between current personnel skills and those that will be needed in the future. In DOD's case this would involve a strategy for attracting the right people and training not only the newly hired staff, but also current DOD staff. An effective human capital strategy would also involve developing a plan for retaining staff with the proper skills. In

¹⁷*Department of Defense: Progress in Financial Management Reform* (GAO/T-AIMD/NSIAD-00-163, May 9, 2000).

¹⁸*Performance and Accountability Series: Major Management Challenges and Program Risks, Department of Defense* (GAO-01-244, Jan. 2001).

¹⁹*Executive Guide: Creating Value Through World-class Financial Management* (GAO/AIMD-00-134, Apr. 2000).

addition, a successful human capital strategy would include linking performance with results, holding staff accountable, treating staff fairly, and properly rewarding staff. Finally, it is important that DOD have a good estimate of the costs/investment needed to carry out its human capital initiatives.

In September 2000, we issued a human capital self-assessment checklist for agency leaders to use in developing strategic human capital management.²⁰ The concepts set forth in this self-assessment framework could be used as a guide to improve human capital management across DOD, as well as in its management of human capital in the area of financial management. Further, DOD could utilize the checklist to develop a human capital strategy for future *Financial Management Improvement Plans*. If effectively established and linked to other DOD operations, such an approach would not only help reform financial management human capital issues but other DOD operations. This framework is shown in table 1.

²⁰*Human Capital: A Self-Assessment Checklist for Agency Leaders* (GAO/OCG-00-148, Sept. 1999).

Table 1: Human Capital Framework

Strategic planning	Establish the agency's mission, vision for the future, core values goals and objectives, and strategies <ul style="list-style-type: none">• Shared vision• Human capital focus
Organizational alignment	Integrate human capital strategies with the agency's core business practices <ul style="list-style-type: none">• Improving workforce planning• Integrating the human resources function
Leadership	Foster a committed leadership team and provide for reasonable continuity through succession planning <ul style="list-style-type: none">• Defining leadership• Building teamwork and communications• Ensuring continuity
Talent	Recruit, hire, develop, and retain employees with the skills needed for mission accomplishment <ul style="list-style-type: none">• Recruiting and hiring• Training and professional development• Workforce deployment• Compensation• Employee-friendly workplace
Performance culture	Empower and motivate employees while ensuring accountability and fairness in the workplace <ul style="list-style-type: none">• Performance management• Performance incentives• Continuous learning and improvement• Managers and supervisors• Job processes, tools, and mission support• Information technology• Inclusiveness• Employee and labor relations

Need for Meaningful Goals, Performance Measures, and Monitoring

While DOD's current plan addresses hundreds of initiatives to reform its financial management operations, it does not establish clear goals and a strategy for monitoring and measuring progress. According to the plan, DOD's overarching strategy for improving its financial management operations is to ensure that financial and feeder systems comply with federal accounting standards and systems requirements in order to prepare auditable financial statements. While DOD's strategy is important, it represents only a portion of what should be an overall financial management goal. DOD managers need timely, reliable financial information to make day-to-day decisions. Similarly, the Congress needs such information to exercise effective oversight.

The fiscal year 2000 plan identifies the individuals primarily responsible for each of the initiatives. However, the initiatives set forth in the current plan may not be achieved because the plan does not present a clear methodology for tracking and measuring progress towards achieving the initiatives' goals and objectives. Further, although the plan provides resource requirements for over 50 percent and milestone dates for over 60 percent of the initiatives listed,²¹ the plan does not elaborate on how, or if, this information will be used to evaluate DOD's progress in resolving its financial management difficulties. Given the extensive nature of DOD financial management problems, it is imperative that measures be in place to track DOD's progress in reforming its financial management operations and developing and implementing an integrated financial management system.

The Government Performance and Results Act of 1993 directs agencies²² to develop strategic plans containing mission statements and outcome-related strategic goals; develop annual performance plans with annual performance goals and indicators to measure performance; and prepare annual performance reports with information on the extent to which the agency has met its annual performance goals. However, as discussed in our June 2000 report,²³ DOD's existing measures do not address areas that are critical to improving the department's financial operations, including (1) how its financial management operations will effectively support not only financial reporting but also asset accountability and control, (2) how financial management ties to budget formulation, and (3) how the planned and ongoing improvement initiatives will result in the target financial management environment.

²¹We did not verify the accuracy and reliability of the plan's resource requirements and milestones.

²²The requirements of the Government Performance and Results Act of 1993 apply to executive agencies, including the 24 federal agencies that are required to prepare annual financial statements.

²³*DOD's FY-99 Performance and FY-01 Plan* (GAO/NSIAD-00-188R, June 30, 2000).

Financial Management Enterprise Architecture Needed to Guide and Constrain DOD System Investments

We recently reported²⁴ that DOD lacks a financial management enterprise architecture to guide and constrain its significant investments in financial management operations and systems. DOD's various components are either spending or planning to spend billions of dollars to acquire new or modify existing financial management systems without the benefit of a financial management enterprise architecture. In the absence of a complete, enforceable enterprise architecture for DOD-wide financial management operations and systems, making such investments is unwise. If DOD continues down this road, it runs the serious risk that its components will spend billions of dollars modifying and modernizing financial management systems independently from one another, resulting in DOD perpetuating an existing systems environment that (1) suffers from duplication of systems, limited interoperability, and unnecessarily costly operations and maintenance; and (2) does not effectively address longstanding problems or optimize financial management performance and accountability.

The use of enterprise architectures is a best practice in information technology (IT) management followed by leading public and private organizations and is required by the Clinger-Cohen Act of 1996, the Office of Management and Budget (OMB), and DOD.²⁵ Our experience with federal agencies has shown that attempting a major systems modernization effort without a complete and enforceable enterprise architecture results in systems that are duplicative, not well integrated, unnecessarily costly to maintain and interface, and do not effectively optimize mission performance.²⁶

²⁴*Information Technology: Architecture Needed to Guide Modernization of DOD's Financial Operations* (GAO-01-525, May 17, 2001).

²⁵The Omnibus Consolidated Appropriations Act for Fiscal Year 1997, Public Law 104-208, renamed both Division D (the Federal Acquisition Reform Act) and E (the Information Technology Management Reform Act) of the 1996 DOD Authorization Act, Public Law 104-106, as the Clinger-Cohen Act of 1996; OMB Circular No. A-130, *Management of Federal Information Resources* (Nov. 30, 2000); and *DOD's Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) Architecture Framework, Version 2.0* (Sept. 1997).

²⁶*Air Traffic Control: Complete and Enforced Architecture Needed for FAA Systems Modernization* (GAO/AIMD-97-30, Feb. 3, 1997) and *Customs Service Modernization: Architecture Must Be Complete and Enforced to Effectively Build and Maintain Systems* (GAO/AIMD-98-70, May 5, 1998).

An enterprise architecture systematically captures in useful models, diagrams, and narrative the full breadth and depth of the mission-based mode of operations for a given enterprise, which can be (1) a single organization or (2) a functional or mission area that transcends more than one organizational boundary (e.g., financial, acquisition, or logistics management). Further, such an architecture describes the enterprise's operations in both (1) logical terms, such as interrelated business functions, information needs and flows, work locations, and system applications; and (2) technical terms, such as hardware, software, data, communications, and security attributes and performance standards. An architecture also provides operational and technological perspectives or views both for the enterprise's current (or "as is") environment and for its target (or "to be") environment, and an IT capital investment road map for moving between the two environments.

The development, implementation, and maintenance of enterprise architectures are recognized hallmarks of successful public and private sector organizations. Managed properly, an enterprise architecture can clarify and thus help to optimize the interdependencies and interrelationships among an organization's business operations and the underlying IT infrastructure and applications supporting these operations. Employed in concert with other important IT management controls, such as portfolio investment management (selection, control, and evaluation) practices,²⁷ and continuous information security management practices,²⁸ enterprise architectures can greatly increase the chances of modernization programs succeeding.

The Congress, OMB, and the CIO Council have recognized the importance of enterprise architectures. The Clinger-Cohen Act of 1996 mandates that an agency's CIO develop, maintain, and facilitate the implementation of these architectures as means for managing the integration of business processes and agency goals with IT. Further, OMB has issued guidance²⁹ that, among other things, requires system investments to be consistent with these architectures. Similarly, the CIO Council has issued guidance providing (1) a federal framework for the content and structure of an

²⁷*Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity (Exposure Draft)* (GAO/AIMD-10.1.23, May 2000).

²⁸*Executive Guide: Information Security Management* (GAO/AIMD-98-68, May 1998).

²⁹OMB Circular No. A-130, *Management of Federal Information Resources* (Nov. 30, 2000).

enterprise architecture,³⁰ (2) a process for assessing investment compliance with an enterprise architecture,³¹ and (3) a set of management controls for developing, implementing, and maintaining an enterprise architecture.³²

DOD has also issued enterprise architecture policy, including a framework defining an architecture's structure and content. Specifically, in February 1998,³³ DOD directed its components and activities to use the *Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) Architecture Framework*, Version 2.0. According to DOD, the C4ISR Architecture Framework is a critical tool for achieving its strategic direction and all DOD components and activities should use the framework for all functional areas and domains within the department. The C4ISR Architecture Framework is recognized in the CIO Council's *A Practical Guide to Federal Enterprise Architecture* as a model architecture framework.

Top Level Support and Accountability Key to Success

As previously discussed, DOD faces a monumental, but not insurmountable, challenge in reforming its financial management operations and ensuring that such reforms are integrated with and supported by all affected DOD components. For financial management improvement efforts to be successful, it is critical that they have DOD-wide support from not only financial, but also nonfinancial managers. To ensure this commitment and support throughout the department, sustained and committed leadership is needed from the highest levels of DOD leadership. Because of the size and complexity of DOD's operations and the parochial interests of the military services and defense agencies, this leadership can only come from the Secretary or Deputy Secretary of Defense.

³⁰Chief Information Officers Council, *Federal Enterprise Architecture Framework*, Version 1.1 (Sept. 1999).

³¹Chief Information Officers Council, *Architecture Alignment and Assessment Guide* (Oct. 2000).

³²Chief Information Officers Council, *A Practical Guide to Federal Enterprise Architecture, Version 1.0* (Feb. 2001).

³³The February 28, 1998, memorandum was jointly signed by the Under Secretary of Defense (Acquisition and Technology), the Acting Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), and the Director for C4 Systems, Joint Chiefs of Staff.

DOD's successful Year 2000 effort illustrated—and our survey of leading financial management organizations³⁴ captured—the importance of strong leadership from top management. As we have stated many times before, strong, sustained executive leadership is critical to changing a deeply rooted corporate culture—such as the existing “business as usual” culture at DOD—and successfully implementing financial management reform. The personal, active involvement of the Deputy Secretary of Defense played an important role in building entity-wide support for the department's Year 2000 initiatives. Given the longstanding and deeply entrenched nature of the department's financial management problems and numerous competing DOD organizations, each operating with varying and often parochial views and incentives, such visible, sustained top-level leadership will be critical.

A visible, substantive, and sustained commitment from the Secretary of Defense and the Deputy Secretary of Defense, as well as from the military and civilian leadership, is crucial for overhauling DOD's financial operations. In our recent report,³⁵ we recommended that (1) the Deputy Secretary be Chair of the Senior Financial Management Oversight Council (SFMOC) and the council oversee the development of a financial management enterprise architecture and serve as the DOD financial management investment review board. Consistent with these recommendations, we believe it would be appropriate for the council to oversee the development of the *Financial Management Improvement Plan*.

In written comments on a draft of our May 2001 report (GAO-01-525), the DOD Deputy Comptroller acknowledged that the department had financial management deficiencies and reaffirmed the Secretary's commitment to improving DOD's financial management operations and providing departmental managers and the Congress with more accurate and reliable information for use in the decision-making process. The Deputy Comptroller further noted that it would be more appropriate to consider our recommendations (1) after DOD's new financial management team, such as the Under Secretary of Defense (Comptroller), is in place and (2) in conjunction with recommendations from ongoing studies directed by the

³⁴*Executive Guide: Creating Value Through World-class Financial Management* (GAO/AIMD-00-134, Apr. 2000).

³⁵*Information Technology: Architecture Needed to Guide Modernization of DOD's Financial Operations* (GAO-01-525, May 17, 2001).

Secretary to develop a proposed strategy to improve DOD's financial management operations.

Plan Does Not Fully Address the Fiscal Year 2000 Legislative Requirements

The National Defense Authorization Act for Fiscal Year 2000 directed that the plan include a systems inventory, identification of major system procurement actions, a financial management competency plan, discussion of improvements to DFAS' operations, and an internal controls checklist prescribed by the Under Secretary of Defense (Comptroller). As shown in table 2, our analysis of the plan found that although the above items were discussed in the plan, it is not fully responsive to the requirements of the act.

Table 2: Responsiveness of the Plan to the Requirements of the National Defense Authorization Act for Fiscal Year 2000

Requirements of the act	Discussed in the plan		Responsive to the requirements of the act	
	Yes	No	Fully	Partially
Inventory of accounting, finance, and feeder systems	x			x
Major system procurement initiatives and data integrity	x			x
Financial management competency plan	x			x
Improvements to DFAS' operations	x			x
Internal control checklist	x			x

Financial Management System Inventory Incomplete

It is critical for DOD to identify its financial management systems if the department is to be assured that it is addressing all its accounting, finance, and feeder systems and that they are compliant with federal financial management requirements. Our review of the plan identified over 40 systems that were not included, but that account for billions of dollars of financial resources. For example, the plan did not include:

- The Defense Logistics Agency's Distribution Standard System, which accounts for approximately 75 percent of the items in DOD's reported \$53 billion of inventory.

-
- The Standard Army Ammunition System, which accounts for over \$3 billion worth of Army ammunition and missile assets stored at Army installations worldwide and is the official record-keeping system for the assets it maintains.
 - The Air Force Integrated Logistics System—Supply, which in the future will be responsible for managing base level supply activities at installations worldwide. Based on discussions with several Air Force officials, the system should have been included.

Appendix III, although not necessarily all inclusive, lists other financial management systems that, based on our past work and discussions with DOD personnel, we believe should be reported as part of a comprehensive financial management systems inventory.

Further, according to a DOD Inspector General report, the DOD components inconsistently applied the definition of a critical financial management system in determining their respective critical system inventory for inclusion within the plan.³⁶ The Navy used a \$500 million threshold of dollar transactions processed for defining systems to include in the inventory, while the Army applied the definition at the Army-wide level, the Air Force applied the definition at the general funds and working capital funds level, and the defense agencies each used different thresholds for identifying and reporting systems as critical.

Because each DOD component interpreted the definition differently, one component might have deemed some systems as critical while a similar system in another component might not have been reported. For example, the Army included as a critical data feeder system the Standard Installation and Division Personnel System 3.0, which maintains military personnel information necessary for computing Army payroll and personnel expenses, such as promotion dates, at the installation level. However, the Army system does not calculate payroll or other personnel benefit payments. If the Navy had a similar system it would not have passed the Navy's dollar threshold test for being included as a critical system.

In addition, the fiscal year 2000 plan did not include complete and accurate information on the status of the systems' compliance with applicable government financial management standards. The DOD Inspector General

³⁶*The 2000 DOD Financial Management Improvement Plan* (DOD Inspector General Report No. D-2001-085, Mar. 19, 2001).

report noted that 12 of 19 systems reported to be compliant with FFMIA either were not compliant or their compliance status could not be verified.

As discussed in our January 1997 report,³⁷ a comprehensive inventory of the financial management systems used to record, accumulate, classify, and report DOD's financial management information is a critical step if DOD is to (1) effectively manage its existing systems, (2) prioritize and coordinate efforts to correct its longstanding financial systems deficiencies, and (3) develop a reliable, integrated financial management system. DOD's severe systems deficiencies have been a major factor contributing to its inability to meet its stewardship responsibilities for the vast resources entrusted to it.

To develop a complete inventory of financial management systems, the military services and defense agencies need to "map" the flow of financial information from points of origin through the labyrinth of management information systems to reporting in the various line items on the pertinent financial statements. Without completing such analyses, DOD cannot be certain that the systems involved in the financial management process have been identified and all deficiencies corrected. According to DOD, as part of the Financial and Feeder System Compliance Process announced in January 2001, all DOD components are to identify the flow of data for their respective financial management systems. This effort should help DOD to develop a more accurate inventory of the financial management systems involved in the department's financial management processes.

Major System Procurement Initiatives Do Not Address Data Integrity

The National Defense Authorization Act for Fiscal Year 2000 required DOD to describe in the plan each major new procurement action being taken to replace or improve an existing accounting, finance, or feeder system. Further, the plan was to describe the measures being taken to provide easy and reliable interfacing with core finance and accounting systems and other feeder systems and include appropriate controls to ensure data integrity. The accuracy and reliability of data in DOD financial management systems has been a longstanding problem.³⁸ It is critical to understand and describe how new systems will interface or be integrated with core finance

³⁷*Financial Management: DOD Inventory of Financial Management Systems Is Incomplete* (GAO/AIMD-97-29, Jan. 31, 1997).

³⁸*Major Management Challenges and Program Risks* (GAO/OCG-99-4, Jan. 1999).

and accounting systems and other key systems to optimize system performance and avoid costly future redesign efforts. Additionally, absent a complete inventory, DOD cannot be certain if the procurement actions described in the plan are all inclusive for replacing or consolidating existing financial management systems.

Our analysis of the plan showed that it did not adequately describe the measures program developers were taking or planning to take to ensure easy and reliable interfacing of their systems with the accounting, finance, and other feeder systems. For example, the plan's discussion of the Global Combat Support System-Army (GCSS-A) merely stated that the system was "being developed to meet applicable requirements." The plan did not include sufficient information, strategies, performance measures, or milestones to ensure that GCSS-A's development would achieve financial requirements. Our prior work found that the GCSS-A program developers had not incorporated financial requirements into the planned first releases. Program managers had intended to retrofit the financial functionality in later releases.

Subsequently, because of significant contractor development problems, the Army cancelled its GCSS-A development contract after spending approximately \$70 million and awarded the system development effort to another contractor.

Further, in discussing other new development systems, the plan provided no specific information on controls being implemented to ensure data integrity for only one system. Without appropriate internal controls that ensure the integrity of the data in the myriad of accounting, finance, and feeder systems, DOD risks developing systems that are not FFMIA compliant and do not provide reliable, useful, and timely information for day-to-day decision-making and financial reporting.

Plan Addresses Competency of Financial Management Personnel

The National Defense Authorization Act for Fiscal Year 2000 directed DOD to include in the fiscal year 2000 plan a financial management competency plan that includes performance objectives, responsible officials, and the necessary resources to accomplish the performance objectives. More specifically, the plan was to provide:

- a description of the actions necessary to ensure that the person in each comptroller or comparable position has the necessary educational and

-
- technical financial management expertise to perform in accordance with core competencies necessary for financial management;
- a description of the education that is necessary for a financial manager in a senior grade to be knowledgeable in applicable laws, strategic planning, resource management, budget operations, and systems of financial management;
 - the advantages and disadvantages of establishing a consolidated DOD school for financial management; and
 - the applicable requirements for formal civilian education.

We found that the plan includes an extensive description of the efforts being taken by each of the military services and five defense agencies to provide financial management training to the respective staffs. While the plan does not provide details on the education and requirements necessary for senior financial managers and civilian financial management personnel, it does provide references to other sources that describe the necessary education and other applicable requirements. For example, the plan refers to a Secretary of Navy instruction that details professional development course work and experience required for financial management personnel at all levels. The plan, however, does not include the advantages and disadvantages of a consolidated financial management school.

As shown in table 3, the plan highlights each component's competency program, including the objective and purpose, and development and training programs. However, as noted in the table, only the Defense Contract Audit Agency had a process in place to help ensure that the objectives of the program are being achieved.

Table 3: Financial Personnel Competency Plan/Programs

DOD components	Purpose and objective	Development and training programs	Review check to ensure objectives are achieved
Army	To develop a professional corps of financial managers who possess the competencies, skills, abilities, training, and experience to effectively execute financial management functions	<ul style="list-style-type: none"> • U.S. Army Finance School • Military Financial Management Branch to establish a financial management career field • Comptroller Civilian Career Program Strategic Plan for Civilians which includes the multidisciplinary financial analyst initiative • Professional development guided by mentors and supervisors 	None
Navy/Marines	To develop the Navy's financial management workforce	<ul style="list-style-type: none"> • Naval Financial Management Career Center • Civilian Financial Management Career Program Improvement • Funded Graduate Education Program • Centralized Financial Management Trainee Program • Naval Postgraduate School 	None
Air Force	To improve professional qualifications of its financial management personnel	<ul style="list-style-type: none"> • Implements training and development through guidelines issued by senior financial management leadership to improve the qualifications of its financial management personnel • CPE (80 hours every 2 years) • Fiscal law tutorial via internet and CD-ROM • Individual development plan 	None
Defense Contract Audit Agency	To ensure that financial management personnel are provided the necessary training to attain critical core competencies for their positions by fiscal year 2001	<ul style="list-style-type: none"> • Implements training needs and instructions through published guidelines • Individual development plan 	Annual feedback and validation
Defense Threat Reduction Agency	To implement individual development plans and offer training to match the goals of financial employees to agency needs and criteria	<ul style="list-style-type: none"> • Provides financial training by request • Certified Defense Financial Manager Program • Individual development plan • Meets the minimum of 24 semester hours of accounting for leader/supervisor in a 510 series • Each functional manager is provided a tailored checklist and regulatory reference guide 	None

DOD components	Purpose and objective	Development and training programs	Review check to ensure objectives are achieved
Defense Finance and Accounting Service	To meet guidelines and competencies established by the JFMIP, Chief Financial Officer (CFO) Council	<ul style="list-style-type: none"> • Financial Management Career Development Plan from entry level to executive level • Individual development plan • Financial management education and training for the development, delivery, and maintenance of 160 courses • Professional certification review courses and examinations in place for Certified Government Financial Managers and Certified Defense Financial Manager • Self-paced computer-based training instruction via the learning centers for certified public accountant candidates • Professional and Leadership Certification Program to build a cadre of highly skilled financial managers for future executive positions • Implements an Executive Development Training Suite for all journey level and higher positions • In-house, online, and satellite training 	None
Defense Information Systems Agency	To assess skills of financial management personnel	<ul style="list-style-type: none"> • Provides resources to allow financial personnel to take courses and/or attend seminars on accounting and finance subjects • Participates in the DOD Comptroller training initiative • Provides in-house training on Comptroller topics • Partners with the Air Force to make use of training resources 	None
Defense Logistics Agency	Evaluate financial-related competencies and identify deficiencies and provide training	<ul style="list-style-type: none"> • Financial Management Professional Development Guide for both financial and nonfinancial personnel who impact financial management operations • Sponsors in-house contractor and government-provided financial management training 	None

It is imperative that financial management personnel possess appropriate knowledge, skills, and abilities (KSAs). The core competencies in federal financial management and related areas represent a compilation of KSAs defined by the Human Resources Committees of the CFO Council and JFMIP. The CFO Human Resources Committee and the Joint Financial Management Improvement Program (JFMIP) identify financial manager core competencies under four general categories: Strategic Vision, Resource and Program Management, Human Resources Management, and General. These core competencies enable financial managers to meet the challenges of today's changing environment and the future. Examples of KSAs managers need to develop include:

-
- knowledge of applicable legislative, administrative, and regulatory requirements (including the Government Performance and Results Act), and the impact of those requirements on stakeholders, customers (and other organizations), agency strategic plans, and agency operations;
 - skills at building teams and fostering cooperation throughout the organization; and
 - ability to prepare budget submissions according to prescribed format and specifications.

Core competencies are also important tools that can be used to focus on areas such as recruitment, training programs, and retention of personnel. Success in the management of professionals depends on how the core competencies are implemented and how the results are evaluated, not only from the standpoint of individual feedback for personal development, but also in achieving the agency's goals. Core competencies for financial management personnel according to the CFO Council and JFMIP are ensured when³⁹

- the federal financial management community of each service component has made an investment in the professional development of its workforce;
- education and training courses demonstrate that each course is consistent with the core competency profiles for financial management identified by the CFO Council and published in partnership with the JFMIP; and
- there is a review and evaluation program to assure all the above have been delivered.

Ensuring the competency of financial management personnel is critical to establishing an environment where financial managers are able to provide greater accountability and better decision-making in a cost-effective manner. Although the plan shows that each of the service components is making an investment in the professional development of its workforce, the plan generally lacks specific details needed to ensure the competency of financial personnel. As noted in table 3, not all DOD components have internal control checks, validation procedures, or a review process. Further, it is not clear how some of the training programs and educational

³⁹Core Competencies: *Financial Managers in the Federal Government, A Joint Project of the Chief Financial Officers Council and the Joint Financial Management Improvement Program (JFMIP-ET-99-11).*

curriculums fulfill the requirements of the core competency profiles for financial management personnel as identified by the CFO Council and JFMIP.

Plan Outlines DFAS Improvements

The National Defense Authorization Act for Fiscal Year 2000 required DOD to describe a detailed plan for

- improving internal controls and review processes of DFAS;
- ensuring DFAS' establishment and use of a single standard transaction general ledger that meets FFMA financial requirements; an integrated database for finance and accounting functions; and automated cost, performance, and other output measures;
- providing a single, consistent set of policies and procedures for financial transactions throughout DOD;
- ensuring compliance with applicable policies and procedures for financial transactions throughout DOD; and
- reviewing safeguards for preservation of assets and verifying the existence of assets.

The fiscal year 2000 plan provided a discussion of the improvements DFAS has made in recent years and its plans for accomplishing the above objectives. For example, DFAS reorganized its internal review organization in 1999 to re-focus the organization's mission toward better achieving corporate goals, improving efficiencies, and increasing senior management oversight of the review organization. The plan further noted that DFAS, in conjunction with the DOD Comptroller, is developing a single consistent financial management regulation for the DOD. However, while the plan briefly identifies some of DFAS' performance measures, it does not elaborate how these measures will be used to evaluate DFAS efforts to improve its operations.

Our review of the plan also disclosed that it does not contain a detailed blueprint of the internal controls in place or planned that provide reasonable assurance that key DFAS business processes are operating as intended. Rather, the plan stated that DFAS is currently in the process of developing objectives, capabilities, and initiatives in support of its strategic business goal. As part of this process, DFAS plans to develop a risk management model to identify those areas and functions requiring immediate attention by the internal review function. According to the plan, DFAS will use this model to develop a detailed action plan for the internal review operation, including provisions for quarterly updates, to assure

senior management that DFAS activities are meeting agency goals. According to the plan, ensuring that internal controls are in place and effectively operating will be a major objective of the new internal review operation.

We found that the plan is forthright in acknowledging that much work remains to be done to improve the quality of financial data provided by non-DFAS feeder systems. As the primary accounting and financial arm of DOD, DFAS needs to be actively involved in the ongoing DOD financial and feeder system compliance process by providing guidance to ensure that financial data provided to DFAS by feeder systems are compliant with federal financial management systems requirements.

Limited Information on Internal Controls Included in the Plan

The fiscal year 2000 Authorization Act directed that the plan include an internal controls checklist, to be prescribed by the Under Secretary of Defense (Comptroller), which provides standards for use throughout DOD, together with a statement of DOD's policy on use of the checklist throughout the department. We found that the plan does not contain all of the information on internal controls specified in the act.

Contrary to the act's requirements, DOD has not established (1) a checklist of departmentwide internal controls and standards, or (2) a policy on use of the checklist. Instead, DOD's plan notes that while internal control objectives are similar across DOD, the specific procedures needed to satisfy the internal control objectives would necessarily vary among components. While this may be true, without a departmentwide checklist to guide this effort, DOD may be unable to ensure that each component's controls are effective and current.

Our review of the plan showed that most components have developed their own internal control checklist. Although the plan did not include these checklists, it did provide references to where they could be found. However, there was no standard review of these checklists to ensure they were current. For example, some of the checklists were dated 1994 and earlier. Additionally, we found that the primary responsible office and responsible program manager for one component listed in the plan were in error. In the latter case, the individual listed as program manager for one component was unaware of this designation and the responsibility it entailed.

Because it does not provide a standard checklist for departmentwide use, DOD is unable to assess agency controls to ensure that strong internal controls exist over its financial management systems environment. As stated in the plan, strong internal controls are necessary to process transactions and produce information that is accurate and reliable and to help ensure the proper recording, processing, and maintenance of accounting, finance, and feeder system information.

Conclusions

Reforming DOD financial management is a monumental challenge. The current *Financial Management Improvement Plan* includes hundreds of initiatives to address DOD's longstanding and acknowledged financial management challenges. However, DOD has not developed an effective strategic and integrated business transformation plan, which includes financial management as well as other key business processes. DOD-wide strategic planning is needed to effectively address the department's numerous interrelated management challenges. Further, DOD has not developed a financial management enterprise architecture to help guide these various efforts. In the absence of a complete and enforceable enterprise architecture for DOD-wide financial management operations and systems, investing billions of dollars to acquire new or modify existing systems is unwise. We reaffirm the recommendations made in our recent report on the need for a DOD enterprise architecture to guide the department's financial management modernization, namely that the Deputy Secretary of Defense be appointed chair of the Senior Financial Management Oversight Council (SFMOC) and that this Council's responsibilities and duties be expanded.

Additionally, until DOD successfully resolves issues that have hindered prior reform efforts—such as the lack of sustained top-level leadership, commitment, and accountability; its resistance to cultural change; and the lack of results-oriented goals and performance measures—DOD's financial management difficulties will continue. Without addressing the underlying causes of its financial management weaknesses, DOD at best will only make incremental change, but will not achieve the dramatic improvements needed for effective financial management. With hundreds of billions of dollars in annual DOD spending at stake, true financial management reform is needed to restore public confidence that taxpayer dollars are well spent in meeting our nation's defense objectives.

Recommendations for Executive Action

We recommend that the Secretary of Defense direct the SFMOC to oversee and monitor enhancements to DOD's *Financial Management Improvement Plan* to ensure that it is an effective departmentwide financial management strategic plan. Further, we are making the following recommendations regarding the content of future plans. At a minimum, future plans should

- assign specific responsibility and accountability,
- establish realistic milestones,
- develop measurable performance goals,
- monitor and assess progress in resolving financial management deficiencies,
- establish a viable framework for building, maintaining, and marshaling DOD's financial management human capital needs, and
- develop a complete inventory of all existing DOD accounting, finance, and feeder systems, and interrelationships among the systems.

Agency Comments

In written comments on a draft of this report, the DOD Deputy Chief Financial Officer (CFO) stated that the Secretary of Defense has indicated that financial management reform is among his top priorities. The Deputy CFO also acknowledged that in many cases, DOD's financial management processes do not produce timely and accurate financial information needed by decision makers. Additionally, he noted that the department is taking a fresh look at its *Financial Management Improvement Plan* and reevaluating how the plan should be strengthened and administered. The Deputy CFO also pointed out that resolving DOD's financial management problems is a monumental task, which cannot be accomplished in the near term. In addition, he stated that in conjunction with the formulation of its fiscal years 2002 and 2003 budgets, DOD is reviewing its strategies and will select one that best addresses the resolution of DOD's financial management deficiencies. The Deputy CFO also stated that the strategy DOD selects would encompass a number of our recommendations.

We are sending copies of this report to the Honorable Donald H. Rumsfeld, Secretary of Defense; the Honorable Paul Wolfowitz, Deputy Secretary of Defense; the Honorable Dov S. Zakheim, Under Secretary of Defense (Comptroller) and Lawrence J. Lanzillotta, Principal Deputy and Deputy Under Secretary for Management Reform, Office of Under Secretary of Defense (Comptroller); and the Honorable Mitchell E. Daniels Jr., Director,

Office of Management and Budget. Copies will be made available to others upon request.

Should you or your staff have any questions on matters discussed in this report, please contact me at (202) 512-9095. I can also be reached by e-mail at kutzg@gao.gov . Key contributors to this report were James D. Berry, Jr., Nina E. Crocker, Geoffrey B. Frank, Cleggett S. Funkhouser, Diane G. Handley, Darby W. Smith, and Robert W. Wagner.

Sincerely yours,

A handwritten signature in black ink that reads "Gregory D. Kutz". The signature is written in a cursive style with a large, stylized initial "G".

Gregory D. Kutz
Director, Financial Management and Assurance

List Of Congressional Requesters

The Honorable Carl Levin
Chairman
The Honorable John Warner
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Daniel Inouye
Chairman
The Honorable Ted Stevens
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Bob Stump
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

The Honorable Jerry Lewis
Chairman
The Honorable John Murtha
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

The Honorable Charles E. Grassley
United States Senate

Objectives, Scope, and Methodology

To address the reporting requirements required by section 1007 of the National Defense Authorization Act For Fiscal Year 2000, our objectives were to determine if the plan (1) addresses the reporting requirements stipulated in the Act and (2) represents an effective tool for helping resolve DOD's longstanding financial management problems.

To accomplish our objectives, we obtained and analyzed the fiscal year 2000 *Financial Management Improvement Plan* and compared its contents to the requirements of the National Defense Authorizations Acts for Fiscal Years 1998 and 2000 and to relevant laws, regulations, and standards. We also compared the 2000 plan with previous plans to determine differences between the plans and with prior GAO and DOD IG reports¹ to determine if previously noted deficiencies and recommendations were addressed. In addition, we met with representatives of the Office of the Under Secretary of Defense (Comptroller) who are responsible for issuing the plan to determine the specific role the military services and Defense components had in developing the plan. Further, we contacted representatives of the Offices of the Assistant Secretary for Financial Management, within the military services, to help verify selected information contained in the plan that related to their specific organization. Further, we contacted selected system program managers who were identified in the plan regarding various initiatives. We conducted our review from March to May 2001 in accordance with generally accepted government auditing standards. We did not verify the accuracy and reliability of the information presented in the *Financial Management Improvement Plan*, including cost estimates and resource requirements for the plan's various initiatives. DOD provided written comments on a draft of this report from the DOD Deputy Chief Financial Officer. These comments are reprinted in appendix II.

¹Financial Management: Analysis of DOD's First Biennial Financial Management Improvement Plan (GAO/AIMD-99-44, Jan. 29, 1999); and Assessment of the DoD Biennial Financial Management Improvement Plan (DoD IG Report No. 99-123, Apr. 2, 1999).

Comments From the Department of Defense



COMPTROLLER

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

JUL 26 2001

Mr. Gregory D. Kutz
Director
Financial Management and Assurance
U.S. General Accounting Office
Washington, D.C. 20548-0001

Dear Mr. Kutz:

This is the Department of Defense response to the General Accounting Office Draft Report, "FINANCIAL MANAGEMENT: DoD Improvement Plan Needs Strategic Focus," dated May 25, 2001 (General Accounting Office Code 192018/Office of the Secretary of Defense Case 4005).

The Department has acknowledged that, too frequently, its information management processes do not provide the timely and accurate financial information desired by its decision makers and others. As a result, the Secretary of Defense has indicated that financial management reform is needed, and is among his top priorities.

As part of its reform efforts, the Department is taking a fresh look at its Financial Management Improvement Plan, and reevaluating how the plan could be strengthened and better administered. Given the worldwide scope of the Department's operations, combined with a reliance on decades old management systems--both financial management systems and nonfinancial systems that "feed" financial information to the Department's financial systems--this is a monumental task, and it will not be possible to resolve these problems in the near term. The Department continues to review its strategies and will select the ones that best address the resolution of the Department's financial management deficiencies. The Department anticipates, however, that its overall strategy will encompass many of the proposals addressed in the General Accounting Office draft report.

My point of contact for this matter is Mr. Ron Brooks. He may be reached by e-mail: brooks@osd.pentagon.mil or by telephone at (703) 697-3193.

Sincerely,

A handwritten signature in cursive script that reads "Nelson Toye".

Nelson Toye
Deputy Chief Financial Officer

List of Accounting, Finance, and Feeder Systems Not Included in DOD Fiscal Year 2000 Financial Management Systems Inventory

System name	Acronym	DOD component	Purpose
Air Force Base Conversion Agency Management Information System	AFMCA MIS	Air Force	Provides multiple tools for managing funding, environmental, and real estate actions. The information is used to track and manage environmental project costs and execution of real estate transactions and their revenues.
Automated Civil Engineering System-Environmental	ACES-EM	Air Force	Environmental component of the Automated Civil Engineering System used to track and manage environmental project costs.
Automated Civil Engineering System-Program Management	ACSS-PM	Air Force	Provides information management support for managing and reporting of A-106, O&M, and military construction projects for active, guard, and reserve units.
Combat Ammunition Systems	CAS	Air Force	Inventory management and tracking system for munitions. CAS provides information on weapon location, configuration, status, and critical failure data.
Depot Maintenance Accounting and Production System	DMAPS	Air Force	Provides actual data on repair costs for major weapon systems.
Depot Maintenance Workload Planning and Control System	MWPCS	Air Force	Maintains historical and planning labor applications, supports workload pricing, and maintains the master list of resource control centers and their accepted workload factors.
Equipment Inventory Multiple Status Utilization Reporting System	EIMSURS	Air Force	Accounts for active and inactive aircraft.
Financial Information Resource System	FIRST	Air Force	An initiative to modernize Air Force budget systems into a single integrated information system.
Global Decision Support System	GDSS	Air Force	Provides Air Mobility Command with information necessary to plan, schedule, and monitor flight status.
Integrated Logistics System-Supply	ILS-S	Air Force	A replacement base level inventory accounting and ordering management system.
Integrated Maintenance Data System	IMDS	Air Force	Planned standard, production-oriented base-level automated maintenance information management system.
Maintenance Actual Material Cost System	MAMCS	Air Force	Provides structured information for the effective and economical management of material applied in end item production and cost.
Time and Attendance Reporting System	TASYS	Air Force	Provides an online system to report exception basis time and attendance.
Department of Defense Facilities and Equipment Maintenance System	FEM	Army	Provides a single automated system for real and personal property maintenance.
FUDS Management Information System	FUDSMIS	Army	Information system used by the Corps of Engineers to manage the formerly used defense sites (FUDS) environmental program.
Logistics Integrated Data Base	LIDB	Army	An integrated database being developed to provide status of Army readiness, requisition, supply, maintenance, and service information to customers worldwide.

**Appendix III
List of Accounting, Finance, and Feeder
Systems Not Included in DOD Fiscal Year
2000 Financial Management Systems
Inventory**

(Continued From Previous Page)

System name	Acronym	DOD component	Purpose
Planning Resource for Infrastructure Development and Evaluation	PRIDE	Army	National Guard information base focused on project management and inventory of Guard facilities.
Remedial Action Cost Engineering and Requirements	RACER	Army	Cost-estimating system for determining environmental restoration liability.
Reserve Component Input System	RCIS	Army	Army Reserve software application for pay change input.
Restoration Cost-to-Complete System	RCTCS	Army	Tracks cost-to-complete estimates for environmental restoration activities and forms the basis of the environmental liability to be reported on annual financial statements.
Standard Army Ammunition System-Modernization	SAAS-MOD	Army	Accounts for receiving, storing, and issuing ammunition assets at Army installations.
Total Officer Personnel Management Information System	TOPMIS	Army	System used to manage officer personnel readiness.
Transportation Coordinators-Automated Information for Movement System II	TC AIMS II	Army	New development initiative to provide an integrated information transportation system capability for routine deployment, sustainment, and redeployment/retrograde operations.
Base Accounts Receivable System	BARS	DFAS	Automates the accounts receivable functions on Air Force bases for miscellaneous reimbursement accounts and maintains accounts receivable records for customers.
Departmental on-line Accounting and Reporting System	DOLARS	DFAS	Used to consolidate and prepare Air Force-level budgetary reports.
Contractor Property Management System	CPMS	DLA ^a	Used by DOD contractors to control materials and equipment supplied by the government for contract performance and tracking Operating Materials and Supplies and Property, Plant, and Equipment in the possession of contractors.
Distribution Standard System	DSS	DLA	An automated perpetual inventory system that maintains inventory records; tracks materiel receipts, issues, and re-warehousing at depots; and provides inventory quantities for purchase decisions and financial statements.
Joint Ammunition Management Standard System	JAMSS	DOD	A new development information system for logistical management and financial reporting of conventional ammunition as Operating Materials and Supplies.
Modern Defense Civilian Personnel Data System	Modern DCPDS	DOD	A human resources information system that supports civilian personnel operations in DOD. It allows DOD to use a single management information system for DOD civilian employees.
Automated Travel Order System Plus	ATOS Plus	Navy	An information system to manage personnel travel obligations and costs. This system is scheduled to be replaced by the Defense Travel System.
Financial and Air Clearance Transportation System	FACTS	Navy	Improves the ability to manage the expenditure of transportation funds for cargo and personal property movement.
Funds Administration and Standardized Document Automation	FASTDATA	Navy	Manages and tracks obligation data and provides reports to Navy fund administrators.

**Appendix III
List of Accounting, Finance, and Feeder
Systems Not Included in DOD Fiscal Year
2000 Financial Management Systems
Inventory**

(Continued From Previous Page)

System name	Acronym	DOD component	Purpose
Naval Industrial Materiel Management System	NIMMS	Navy	Navy's standardized materiel management system for depot maintenance operations. System supports inventory accountability and materiel ordering and tracking, and provides managerial controls.
Naval Air Command Project Sigma Enterprise Resource Project (ERP) pilot	Project Sigma	Navy	Pilot project to integrate acquisition, human resources, project management, asset tracking, and financial processes.
Naval Air Logistics Command Management Information System	NALCOMIS	Navy	Provides aviation maintenance and material management information.
Naval Ordnance Management Information System	NOMIS	Navy	Provides automated management support regarding ammunition distribution and control, project planning, financial, supply, payroll, personnel, and transportation functions in the operation of ordnance activities.
Navy Enterprise Maintenance Automated Information System	Project NEMAIS	Navy	ERP pilot to standardize and streamline business processes for maintenance of Navy vessels.
Supply Maintenance Aviation Reengineering Team ERP Project	Project SMART	Navy	Project to use best business practices and supporting architecture (ERP approach) to improve aviation supply and maintenance management.
Navy Facility Assets Data Base	NFADB	Navy	The central repository for land, buildings, and structure assets.
Procurement Contract Monitoring Automated System	ProCMAS	Navy	Provides large procurement action tracking from pre-award through contract award. Downloads award data for contract delivery orders, modifications, and funding data.
Shipboard Non-tactical ADP Program	SNAP	Navy	A logistics management information system that automates equipment configuration, equipment maintenance, requirement requisition, receipt, financial, and inventory functions for Navy ships.
ShipBoard Uniform Automated Data Processing System-Real Time	SUADPS-RT	Navy	Provides financial, inventory, and logistics management of aviation supplies for Marine aircraft.
Smart Procurement Electronic Data Interchange	SPEDI	Navy	Provides automation to the entire procurement management cycle from the customer browsing on-line to electronic payment for the vendor.
Project Cabrillo ERP Pilot	Project Cabrillo	Navy	ERP focuses on improving the Navy Working Capital Funds financial management process.
Standard Personnel Management System II	SPMS	Navy	Provides support to the functions of manpower, personnel, education and training, mobilization planning, and expense distribution for the Bureau of Medicine and Surgery.

^aDefense Logistics Agency

Ordering Information

The first copy of each GAO report is free. Additional copies of reports are \$2 each. A check or money order should be made out to the Superintendent of Documents. VISA and MasterCard credit cards are accepted, also.

Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:
U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

Orders by visiting:
Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders by phone:
(202) 512-6000
fax: (202) 512-6061
TDD (202) 512-2537

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

Orders by Internet:
For information on how to access GAO reports on the Internet, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web home page at:

<http://www.gao.gov>

To Report Fraud, Waste, or Abuse in Federal Programs

Contact one:

- Web site: <http://www.gao.gov/fraudnet/fraudnet.htm>
- e-mail: fraudnet@gao.gov
- 1-800-424-5454 (automated answering system)

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

**Presorted Standard
Postage & Fees Paid
GAO
Permit No. GI00**

