



Highlights of [GAO-12-177T](#), a testimony before the Panel on Defense Financial Management and Auditability Reform, Committee on Armed Services, House of Representatives

## Why GAO Did This Study

As one of the largest and most complex organizations in the world, the Department of Defense (DOD) faces many challenges in resolving its long-standing financial and related business operations and system problems. DOD is in the process of implementing modern multifunction enterprise resource planning (ERP) systems to replace many of its outdated legacy systems. The ERPs are intended to perform business-related tasks such as general ledger accounting and supply chain management. Modernizing DOD's business systems is a critical part of transforming the department's business operations, addressing high-risk areas, and providing more-accurate and reliable financial information to Congress on DOD's operations.

The Panel requested that GAO provide its perspective on DOD's ERP implementation efforts and the impact implementation problems could have on DOD's efforts to improve financial management and be audit ready by fiscal year 2017.

This statement is based on GAO's prior work, reports issued by the Department of Defense Inspector General (DOD IG), and GAO's ongoing oversight of selected DOD ERP efforts. Over the years, GAO has made numerous recommendations to improve the department's financial management operations.

View [GAO-12-177T](#). For more information, contact Asif A. Khan at (202) 512-9869 or [khana@gao.gov](mailto:khana@gao.gov).

## DOD FINANCIAL MANAGEMENT

### Challenges in the Implementation of Business Systems Could Impact Audit Readiness Efforts

## What GAO Found

DOD has invested billions of dollars and will invest billions more to develop and implement 10 ERPs that it has estimated will replace over 500 legacy systems that reportedly cost hundreds of millions of dollars to operate annually. DOD considers implementation of the ERPs as critical not only for addressing weaknesses in financial management, but also for resolving weaknesses in other high-risk areas such as business systems modernization and supply chain management. The ERPs are also important for DOD's goal of departmentwide audit readiness by fiscal year 2017. Furthermore, in light of the Secretary of Defense's recent decision that the Statement of Budgetary Resources is to be audit ready by fiscal year 2014, it is critical that the department have such systems in place to support its auditability goals.

To date, however, DOD's ERP implementation has been impaired by delays, cost increases, failures in delivering the necessary functionality, and a lack of compliance with required standards. Delays in implementation have extended the use of existing duplicative, stovepiped systems, and the need to fund them. More specifically,

- GAO has reported that, based upon the data provided by DOD, 6 of the 10 ERPs DOD had identified as critical to transforming its business operations experienced schedule delays ranging from 2 to 12 years, and five had incurred cost increases totaling an estimated \$6.9 billion.
- GAO's review of 6 ERPs found that none of the programs had developed a fully integrated master schedule, a best practice and tool in the management of business-system development that is crucial to estimating the overall schedule and cost of a program.
- DOD IG has reported that the Army's Logistics Modernization Program, which is intended to provide financial management capabilities for the Army Working Capital Fund, was not compliant with the U.S. Government Standard General Ledger, which supports the consistent recording of financial information and the preparation of standard reports required by the Office of Management and Budget and the Department of the Treasury.

Further, GAO's preliminary results from an ongoing audit of two ERPs—the Army's General Fund Enterprise Business System and the Air Force's Defense Enterprise Accounting and Management System—found that the systems did not provide Defense Finance and Accounting Service users with the expected capabilities in accounting, management information, and decision support. System problems identified include interface issues between legacy systems and the new ERPs, lack of ad hoc query reporting capabilities, and reduced visibility for tracing transactions to resolve accounting differences. To compensate for these operational deficiencies, users were relying on manual workarounds to perform day-to-day operations. Such performance deficiencies, delays, and other problems in ERP implementation can negatively impact DOD's auditability goals.