



G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

October 20, 2003

The Honorable Donald H. Rumsfeld
The Secretary of Defense

Subject: *Military Personnel: DFAS Has Not Met All Information
Technology Requirements for Its New Pay System*

In early January 2003, we initiated a review of the Defense Integrated Military Human Resource System (DIMHRS) to get an understanding of the program, its goals, its present status, and the problems it is designed to resolve. During this review, we became aware that in April 2003 the Department of Defense (DOD) authorized the Defense Finance and Accounting Service (DFAS) to initiate a pilot project to demonstrate its ability to develop an interim military pay system, called Forward Compatible Military Pay, before DIMHRS is fully operational. DFAS maintains that an interim system should be developed as soon as possible for two reasons: (1) the planned personnel and pay system that DOD is currently developing as part of the larger DIMHRS¹ will be implemented later than its projected target date of December 2006 and (2) the current military pay system—the Defense Joint Military Pay System—is aging, unresponsive, and fragile and has become a major impediment to efficient and high quality customer service. It is estimated that the Forward Compatible Military Pay system could be operational by March 2006 at a design and development cost ranging from about \$17 million to \$30 million.²

¹ DOD is currently developing the DIMHRS that is designed to provide DOD and the services one integrated, standardized personnel and pay system that will track service members and their dependents.

² DFAS program officials estimate the cost at \$16.8 million, but a Program Analysis and Evaluation estimate came in at \$29.9 million because it included costs that had been left out of the program officials' estimate.

Since the planned interim Forward Compatible Military Pay system is considered an information technology acquisition program under DOD Acquisition Regulations, DFAS must comply with specific legal and administrative requirements before moving forward with the development of this project. In this regard, DFAS must comply with requirements contained in

- the Bob Stump National Defense Authorization Act for Fiscal Year 2003;³
- Office of the Under Secretary of Defense (Comptroller) Memorandum;⁴ and
- the Clinger-Cohen Act of 1996.⁵

We reviewed DFAS's development of the Forward Compatible Military Pay system pilot project to determine whether DFAS had complied with the above requirements. We did not evaluate the cost and benefit, return on investment, or break-even point analyses that were prepared by DFAS. We conducted our review from June 6, 2003, to September 15, 2003, in accordance with generally accepted government auditing standards.

Results in Brief

In moving forward with the development of the Forward Compatible Military Pay system, DFAS has not complied with specific legal and administrative requirements applicable to DOD's information technology investments. It did complete cost and benefit, return on investment, and break-even point analyses as required by the Comptroller's memorandum. However, DFAS has not submitted the forward pay proposal to the responsible domain to determine its compliance with DOD's Business

³ Public Law 107-314 (Dec. 2, 2002), section 1004, Development and Implementation of Financial Management Enterprise Architecture, which requires that the investment in excess of \$1 million to improve a defense financial system be consistent with DOD's enterprise architecture, among other things.

⁴ The memorandum (dated Mar. 7, 2003) provides additional information on how DOD will determine compliance with section 1004 of the Bob Stump National Defense Authorization Act.

⁵ The Federal Acquisition Reform Act of 1996 (FARA) and the Information Technology Management Reform Act of 1996 (ITMRA) were renamed the Clinger-Cohen Act of 1996 by the 1997 Omnibus Consolidated Appropriations Act P.L. 104-208 (Sept. 30, 1996). Both the FARA and the ITMRA were passed as sections D and E in the National Defense Authorization Act for Fiscal Year 1996, P.L. 104-106 (Feb. 10, 1996), which requires federal agencies to maximize the value and assess and manage the risks associated with investments in information technology.

Enterprise Architecture,⁶ which guides DOD's investments in financial systems. Because DFAS has not submitted the proposal to the responsible domain, the DOD Comptroller has not met its responsibility under the authorization act to ensure compliance with the Business Enterprise Architecture. Further, DFAS has not completed the necessary documents to support compliance with the Clinger-Cohen Act. For example, DFAS has not completed the *Acquisition Strategy* or the *Acquisition Program Baseline* document, as required by DOD Acquisition Regulations. By failing to complete all required studies and analyses, DOD lacks assurance that it is meeting its goal of making quality information technology investments, as required. We are recommending that DFAS complete all required steps before proceeding with the Forward Compatible Military Pay project.

Background

By the end of fiscal year 2003, DOD estimates that it will have spent about \$360 million to conceptualize and plan a major new departmentwide integrated military pay and personnel system, known as DIMHRS. In 2002, DOD estimated that DIMHRS would be fully deployed by fiscal year 2007 at a development cost of about \$577 million. However, our review of the fiscal year 2004 information-technology budget request shows the amounts required for fiscal years 2003 and 2005 are \$121.76 million for 2004 and \$94.60 million for 2005. (When added to the amount spent through fiscal 2003, the amounts round to the total of \$577 million.) DOD further estimates that it would cost about \$1.5 billion to operate and maintain DIMHRS through fiscal year 2017. However, DOD expects that the winning contractor will revise the deployment schedule and cost estimates by early 2004. Although the development of DIMHRS has not yet begun, the original schedule has already slipped by about 15 months. Among its various components, DIMHRS will include a military pay component. As a result of the schedule slippage, DFAS has decided that an interim military pay system is needed to meet its short-term needs until the DIMHRS' military pay component is available, which is projected for calendar year 2006 or 2007.

⁶ In May 2003, the DOD Comptroller changed the architecture name from the Financial Management Enterprise Architecture to the Business Enterprise Architecture to reflect the transformation of departmentwide business operations and supporting systems. The Business Enterprise Architecture is a "blueprint" to guide and constrain DOD's investments in financial management operations and systems.

The development of the interim military pay system—the Forward Compatible Military Pay system—is considered an information technology acquisition program, according to DOD acquisition policy. Congress enacted laws to govern DOD’s information technology investments, e.g., Section 1004 of Bob Stump National Defense Authorization Act for Fiscal Year 2003 and the Clinger-Cohen Act of 1996. In addition to these laws, DOD’s acquisition policy also mandates sound information technology investment decisions.

DFAS Has Not Completed All Required Documentation nor Obtained Necessary Approval for Forward Compatible Military Pay System

In moving forward with the development of the interim military pay system, DFAS has not complied with the Bob Stump National Defense Authorization Act for Fiscal Year 2003, the Comptroller Memorandum, and the Clinger-Cohen Act requirements. GAO reported in March 2003⁷ that DFAS failed to complete the required documentation for four other systems undergoing modernization. In that report we recommended that all remaining DFAS information technology projects be evaluated to ensure they are being implemented at acceptable cost and within reasonable time frames.

National Defense Authorization Act for Fiscal Year 2003 and the Comptroller Memorandum

The Bob Stump National Defense Authorization Act for Fiscal Year 2003 requires that any investment in excess of \$1 million to improve a defense financial system be consistent with DOD’s Business Enterprise Architecture,⁸ which lays out a frame of reference governing information technology management. The DOD Comptroller’s March 2003 memorandum details how compliance with the authorization act will be determined. Specifically, the memorandum requires several analyses to

⁷ U.S. General Accounting Office, *DOD Business Systems Modernization: Continued Investment in Key Accounting Systems Needs to be Justified*, [GAO-03-465](#) (Washington, D.C.: Mar. 28, 2003).

⁸ GAO reported in September 2003 that DOD’s initial version of the Business Enterprise Architecture does not adequately address all the requirements in the National Defense Authorization Act for Fiscal Year 2003. Further, DOD has not yet defined and implemented an effective approach to select and control business systems investments for obligations exceeding \$1 million while the architecture is being developed and after it is completed. See U.S. General Accounting Office, *DOD Business Systems Modernization: Important Progress Made to Develop Business Enterprise Architecture, but Much Work Remains*, [GAO-03-1018](#) (Washington, D.C.: Sept. 19, 2003).

demonstrate the costs and benefits; return on investment; break-even point; and overall compliance with the enterprise architecture for any initiative in excess of \$1 million. The Comptroller's administrative requirements do not preclude or eliminate any other required approvals or processes within DOD.

DFAS has not fully complied with the Comptroller's March 7, 2003, memorandum. While DFAS briefed a cost and benefit, return on investment, and break-even point analysis to the DOD Comptroller's Office, the briefing did not include a determination that the Forward Compatible Military Pay initiative is in compliance with the enterprise architecture. Such a determination has not been made because, to date, DFAS has not submitted the proposal to the domain⁹ owner for its evaluation of compliance with the architecture. By determining compliance with the architecture DOD can be sure that the Forward Compatible Military Pay initiative will not result in a system that performs the same tasks or stores the same data as existing systems, cannot communicate with other DOD systems, and is costly to operate and maintain.

In addition, the Secretary of Defense's Office of Program Analysis and Evaluation raised concerns over the accuracy of the information in the presentation. Specific areas of concern included cost, schedule, and the underlying assumptions made in support of the initiative.

Clinger-Cohen Act and DOD Acquisition Regulations

The Clinger-Cohen Act of 1996 requires agencies to establish a process to maximize value and assess and manage the risks of information technology investments, including specific quantitative and qualitative criteria for comparing and prioritizing alternative information technology

⁹ As outlined in DOD's Business Management Modernization Program governance guidance, domains are based on existing functional business lines. The 7 domains are: (1) Acquisition; (2) Finance, Accounting Operations and Financial Management; (3) Human Resource Management; (4) Installations and Environment; (5) Logistics; (6) Strategic Planning and Budgeting; and (7) Technical Infrastructure. Domain owners have the authority, responsibility, and accountability for business transformation, implementation of the Business Enterprise Architecture, and portfolio management within their domains. Owners' responsibilities include: leading business transformation; establishing and maintaining a domain governance process; performing system reviews and approving initiative funding; assisting in the extension of the architecture; enforcing compliance with the architecture; guiding implementation activities; and representing the domain on cross-domain issues.

projects. The primary objective of DOD's acquisition-implementing policy is to acquire quality products that satisfy user needs and contain measurable improvements to mission capability and operational support, in a timely manner and at a fair and reasonable price.

DFAS has not met all of the requirements of the Clinger-Cohen Act applicable to its forward compatible pay initiative. The act requires a variety of actions, and DOD, in its acquisition regulations, requires evidence that the actions have been completed. For example, the act requires clearly established measures and accountability for program progress. Documents such as the Acquisition Strategy and Acquisition Program Baseline documents would contain this information.

Conclusion

DFAS has not complied with each of the Bob Stump National Defense Act, Clinger-Cohen, and administrative requirements for information technology investments. As a result, DOD lacks assurance that it is meeting its goal of making quality information technology investments. Further, the Forward Compatible Military Pay system proposal has not been reviewed for compliance with DOD's Business Enterprise Architecture. As a result, the system may duplicate the functions of existing systems, may not be able to communicate with other DOD systems, and may add to overall operating and maintenance costs.

Recommendations for Executive Action

To ensure that the proposed investment in the Forward Compatible Military Pay system is a prudent business decision for DOD, you should direct

- DFAS to submit its Forward Compatible Military Pay system proposal to the domain owner for determination that it is in compliance with DOD's Business Enterprise Architecture;
- the DOD Comptroller to meet its responsibility under the Bob Stump National Defense Authorization Act for Fiscal Year 2003, Public Law 107-314, to determine compliance with the Business Enterprise Architecture; and
- the DOD Comptroller to require DFAS to demonstrate that it has complied with its responsibilities under the Clinger-Cohen Act of 1996, Public Law 104-106.

The DOD Comptroller and DFAS should complete these steps before the final decision is made to invest in the Forward Compatible Military Pay system.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement of the actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Reform not later than 60 days after the date of this report. A written statement must also be sent to the House and Senate Committees on Appropriations within 60 days after the date of this report.

Agency Comments

DOD provided official comments on a draft of this letter. The Principal Deputy and Deputy Under Secretary of Defense (Management Reform) concurred with the letter and recommendations. DOD stated that if the decision is made to pursue the Forward Compatible Military Pay system, DFAS will finalize the appropriate documentation to satisfy requirements of the Clinger-Cohen Act of 1996, the DOD Business Enterprise Architecture, the DOD acquisition lifecycle management process, and provisions of current governing legislation. The Forward Compatible Military Pay system then will be reviewed through the Business Management Modernization Program process. DOD's comments appear in their entirety in enclosure I.

We are sending copies of this report to the appropriate congressional committees. We will place a copy of this letter on GAO's Web site at <http://www.gao.gov>. If you have any questions concerning the information provided, please call me on (202) 512-5559 or Donald C. Snyder on (202) 512-7204.

Sincerely yours,



Derek B. Stewart
Director, Defense Capabilities and Management

Enclosure

Enclosure I: Comments from the Department of Defense



COMPTROLLER

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

OCT 1 - 2003

Mr. Derek B. Stewart
Director, Defense Capabilities and Management
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Stewart:

This is the Department of Defense (DoD) response to the GAO draft report, GAO-03-1163R, "MILITARY PERSONNEL: DFAS Has Not Met All Information Technology Requirements for Its New Pay System," dated September 24, 2003, (GAO Code 350295).

The Forward Compatible Payroll (FCP) is a replacement of the aging Defense Joint Military Pay System (DJMS), which currently services all active, reserve, and guard members of the Departments of Army, Navy, and Air Force. The FCP will replace DJMS with a modern, technologically efficient integrated active/reserve/guard payroll capability, until the fully integrated (military personnel and pay) DIMHRS is developed and deployed. The FCP will utilize the same Commercial Off-The-Shelf foundation software (PeopleSoft) as DIMHRS and, indeed, will use the DoD enterprise software license for PeopleSoft that the DIMHRS Program has acquired.

Consistent with the GAO request, enclosed is our written response to the draft report. In general, we concur with the report and recommendations. The report indicates DFAS has not complied with specific information technology reporting requirements. If the decision is made to pursue FCP, DFAS will finalize the appropriate documentation to satisfy requirements of the Clinger-Cohen Act of 1996, the DoD Business Enterprise Architecture, the DoD acquisition lifecycle management process, and provisions of current governing legislation. The FCP then will be reviewed through the Business Management Modernization Program process.

In summary, DFAS is in the process of completing the documentation and review requirements to establish whether the FCP initiative is a viable information technology investment. The primary action officer is Mr. Edward Grysavage, 703-607-5032

Sincerely,

A handwritten signature in black ink that reads "Lawrence J. Lanzillotta".

Lawrence J. Lanzillotta
Principal Deputy and Deputy Under Secretary
of Defense (Management Reform)

Enclosure:
As stated

Note: Report number
was changed to
GAO-04-149R.

GAO CODE 350295/GAO-03-1163R

**“MILITARY PERSONNEL: DFAS HAS NOT MET ALL INFORMATION TECHNOLOGY
REQUIREMENTS FOR ITS NEW PAY SYSTEM”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the DFAS to submit its Forward Compatible Military Pay system proposal to the domain owner for determination that it is in compliance with DoD’s Business Enterprise Architecture. (Page 6/Draft Report)

DoD RESPONSE: Concur. As discussed with GAO staff on several occasions, DFAS is in the process of submitting the FCP system initiative through the BMMP domain review process. Currently, Life-Cycle Management documents are in the review and coordination phase.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the DoD Comptroller to meet its responsibility under the Bob Stump National Defense Authorization Act for Fiscal Year 2003, Public Law 107-314, to determine compliance with the Business Enterprise Architecture. (Page 6/Draft Report)

DoD RESPONSE: Concur. As discussed with GAO staff, DFAS will report to the appropriate entities to show compliance with the Business Enterprise Architecture.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense direct the DoD Comptroller to require DFAS to demonstrate that it has complied with its responsibilities under the “Clinger-Cohen Act of 1996,” Public Law 104-106. (Page 6/Draft Report)

DoD RESPONSE: Concur. As discussed with GAO staff, DFAS has drafted and is finalizing program documentation that demonstrates compliance with the “Clinger-Cohen Act of 1996.”

RECOMMENDATION 4: The GAO recommended that the DoD Comptroller and DFAS should complete recommendations 1, 2, and 3 before the final decision is made to invest in Forward Compatible Pay. (Page 6/Draft Report)

DoD RESPONSE: Concur. As discussed with GAO staff, DFAS will submit the FCP initiative through the BMMP domain process. Acquisition program life-cycle documentation will also be developed.

Note: Page numbers in the draft report may differ from those in this report.

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to e-mail alerts" under the "Order GAO Products" heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
 TDD: (202) 512-2537
 Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548