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The Honorable Norm Coleman
Chairman
The Honorable Carl Levin
Ranking Member
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate

The Honorable John Ensign
Chairman
The Honorable Daniel K. Akaka
Ranking Member
Subcommittee on Readiness and Management Support
Committee on Armed Services
United States Senate

Subject: *Financial Management: Further Actions Are Needed to Establish Framework to Guide Audit Opinion and Business Management Improvement Efforts at DOD*

As the Comptroller General recently testified and as discussed in our latest financial audit report,¹ the Department of Defense's (DOD) financial management deficiencies, taken together, continue to represent the single largest obstacle to achieving an unqualified opinion on the U.S. government's consolidated financial statements. For example, to date, none of the military services has passed the test of an independent financial audit because of pervasive weaknesses in internal control, processes, and fundamentally flawed business systems.

Problems with the department's financial management operations go far beyond its accounting and finance processes and systems. The department continues to rely on a reported 4,000 or more fundamentally flawed finance, logistics, personnel, acquisition, and other management information systems to gather the data needed to

¹ GAO, *Fiscal Year 2003 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Future Fiscal Challenges*, GAO-04-477T (Washington, D.C.: Mar. 3, 2004).

support day-to-day management decision making and reporting. These systems were not designed to be, but rather evolved into the overly complex and error-prone operation—vulnerable to fraud, waste, and abuse—that exists today. Further, inefficiencies in DOD’s current business operations, such as (1) little standardization across DOD components, (2) multiple systems performing the same tasks, (3) the same data stored in multiple systems, (4) manual entry of the same data into multiple systems, and (5) a large number of data transactions, combine to exacerbate problems with data integrity.

On November 6, 2003, the DOD Principal Deputy Under Secretary (Comptroller) testified before your Subcommittee that the department had a plan to achieve its goal of an unqualified (clean) audit opinion on its fiscal year 2007 financial statements. In August and September 2003, the DOD Comptroller directed the military services and other DOD components to prepare and submit, by October 31, 2003, comprehensive midrange financial improvement plans for addressing material financial statement line item deficiencies and supporting the department’s fiscal year 2007 unqualified audit opinion goal. Further, applicable DOD directives and business rules emphasized the importance of linking the component’s midrange financial improvement plans to the department’s Business Management Modernization Program (BMMP), the departmentwide initiative responsible for overseeing the development and implementation of DOD’s business enterprise architecture.²

Concerned about whether DOD’s plan to obtain a clean audit opinion by fiscal year 2007 was a prudent use of taxpayer money, in November 2003 you requested that we review DOD’s plan to determine whether it was consistent with DOD’s long-term business enterprise architecture goals and would result in sustainable progress toward addressing financial management deficiencies in key business process areas, such as logistics and finance and accounting. In December 2003, we contacted DOD Comptroller staff to make initial inquiries regarding the department’s plan for achieving an unqualified audit opinion on its fiscal year 2007 consolidated financial statements. At that time, DOD Comptroller staff informed us that they had not yet received or reviewed all the individual component plans that would constitute the departmental plan.

As a result, and as agreed to with your staff in December 2003, we delayed our review until after February 2004 to provide the DOD Comptroller more time to receive and review the component plans. However, following our initial fieldwork in April 2004, we determined that it would not be feasible to perform a detailed review of the major component plans that constitute the DOD plan, due to their current and continuing state of development. Instead, we agreed with your staff, that we would answer the following key questions.

² 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, including accounting and finance, budget formulation, acquisition, inventory management, logistics, personnel, and property management systems.

- (1) Does DOD have a comprehensive, integrated plan for obtaining an unqualified audit opinion on the department's fiscal year 2007 consolidated financial statements?
- (2) Has the DOD Comptroller established effective processes and procedures for monitoring the implementation of the plan(s) to increase the likelihood of sustainable progress and to ensure that component auditability assertions are supported?
- (3) Has DOD established a clear link between DOD component improvement efforts and the department's BMMP?

Further, as agreed, we will continue reviewing DOD's efforts to address its financial management deficiencies as part of our continuing DOD business enterprise architecture work and oversight of DOD's consolidated financial statement audit. We will provide periodic briefings to you or your staff as DOD's improvement plans are further refined and implemented over the next few years.

We performed our work from March 2004 through July 2004 in accordance with generally accepted government auditing standards. Details of our scope and methodology are included in enclosure I.

Results in Brief

DOD's goal to obtain an unqualified audit opinion on its fiscal year 2007 consolidated financial statements is not yet supported by a comprehensive and integrated plan. Although most of the DOD components, including the Army, Navy, and Air Force, have submitted improvement plans to the DOD Comptroller, DOD has not yet developed an integrated departmental strategy, key milestones, accountability mechanisms, or departmental cost estimates for achieving its fiscal year 2007 audit opinion goal. Further, there is little evidence of a direct linkage between component midrange financial improvement plans and the department's BMMP. Importantly, the department's fiscal year 2007 unqualified audit opinion goal was set without direct input from all major DOD components. Involving and gaining a commitment from key DOD stakeholders will be critical to meeting any calendar year audit goal. Nevertheless, most of the DOD officials we interviewed, including component officials, said they believed that the department would achieve significant interim improvements in its business operations as a result of working toward a stated goal and that a goal date was needed. However, given the magnitude of DOD's challenges and its current lack of a comprehensive and integrated departmental plan with results-oriented performance measures and complete and reliable cost estimates, and a corresponding infrastructure to effectively oversee and monitor component efforts, we do not believe that DOD will be in position to achieve an unqualified audit opinion by fiscal year 2007.

Our review of key individual component plans revealed that the plans varied in levels of detail, completeness, and scope, such that it will be difficult for DOD Comptroller staff to use its departmental database of component plans to oversee and monitor

component efforts. In this regard, we found that the component plans did not consistently identify how staff, processes, or business systems would be changed to implement corrective actions. Such changes are key elements in assessing the adequacy of a component's plan and in monitoring progress and sustainability. In fact, after performing a high-level review, DOD Comptroller staff returned most of the component plans initially submitted due to format and content deficiencies. Furthermore, DOD Comptroller staff indicated that once the department has its infrastructure (including a database, staffing, processes, and procedures) in place to improve its oversight and monitoring capability, additional plans would likely be returned to the components for clarification.

DOD also does not yet have effective oversight and accountability mechanisms in place to ensure that the plans are implemented and corrective actions are sustainable. The database the department is currently using is not integrated electronically with subordinate component plans. Rather, the department currently relies upon DOD components to resubmit their plans when revisions are made so the departmental database can be updated. Because component plans are continually changing, the information contained in the departmental database will only be as current as the latest version of component plans received and input into the database. In addition, we found that the milestone dates identified in the component plans were based on assertion dates prescribed by the DOD Comptroller and not on actual estimates of effort required. Furthermore, task dependencies were not clearly identified, including critical corrective action tasks that would need to be completed in order for the fiscal year 2007 audit opinion to be achieved. As a result, DOD's current database is not an efficient or effective oversight and monitoring tool. DOD is in the process of developing and refining its infrastructure to better integrate component improvement efforts with those of BMMP. The DOD Comptroller's office recently contracted with a consulting firm to expand the department's capability to (1) analyze and compare component plans, (2) oversee and monitor component efforts—including the establishment of a reporting process and metrics for measuring performance, and (3) coordinate with BMMP. In addition, the DOD Comptroller issued business rules to guide DOD components through the various processes and procedures the department has established. The business rules are intended to minimize the likelihood that DOD components would request audits of financial line items or statements before they have made sufficient progress toward ensuring that their reported financial information is auditable. If implemented as planned, this control mechanism should help ensure that audit resources are not wasted.

To date, DOD has not established a clear link between DOD component improvement efforts and BMMP—the department's long-term improvement initiative. According to DOD officials, DOD components plan to rely primarily upon manual work-arounds and modifications to existing legacy business systems rather than on new business system deployments to support DOD's fiscal year 2007 audit opinion effort. However, we found that the component plans we reviewed did not consistently identify whether a proposed corrective action included a manual work-around or business system modification or deployment. In addition, as we have previously reported,³ the

³ GAO, *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability*, GAO-04-615 (Washington, D.C.: May 28, 2004).

department currently lacks a mechanism to effectively identify, monitor, and oversee business system investments, including modifications, occurring within the department. Because of this lack of visibility over how DOD components plan to advance their financial management functionality, the DOD Comptroller and BMMP may not have sufficient information to assess the feasibility of a work-around or to review and approve all modifications to existing legacy business systems to ensure that they are sound investments, optimize mission performance and accountability, and are consistent with applicable requirements and key architectural elements in DOD's business enterprise architecture.

At this stage, an unqualified fiscal year 2007 audit opinion remains simply a goal for which there is not yet a clearly defined, well-documented, and realistic plan to achieve. However, by involving its components in developing and implementing solutions to long-standing deficiencies in their business operations, DOD has taken a critical step toward obtaining the commitment and buy-in needed to successfully improve the timeliness, accuracy, and reliability of its business management information. DOD Comptroller staff acknowledged that their goal is ambitious, but believe that they are in the process of laying a framework to facilitate movement towards sustainable financial management improvements and eventually obtaining an unqualified audit opinion. The DOD Comptroller has several initiatives planned or under way to (1) refine the departmental database and component plans, (2) improve the department's ability to effectively oversee and monitor component efforts, (3) ensure the completeness of the department's business enterprise architecture, and (4) establish clearer links between component midrange efforts and BMMP.

This report includes four recommendations to the Under Secretary of Defense (Comptroller) to (1) develop and implement an integrated department-level plan, including a brief executive level summary, in order to tie currently disparate improvement efforts at the component and departmental levels together with accountable personnel, milestones, and required resources; (2) develop and implement an effective oversight and monitoring infrastructure, including staffing, processes, procedures, and performance metrics, to provide assurance that actions taken by DOD components to address deficiencies are sustainable, cost-effective, and result in timely, accurate, and reliable information for business management; (3) direct DOD components to develop and implement plans that include sufficient corrective action information, such as changes affecting people, process, and business systems, and are electronically linked to DOD's database tool, with appropriate results-oriented performance measures, to facilitate efficient and effective oversight and monitoring; and (4) direct BMMP to review the plans to identify system investments occurring at the DOD component level.

In its written comments on a draft of this report, DOD agreed with our recommendations and outlined its actions to address the deficiencies noted in our report.

Background

Essential to achieving an opinion on the consolidated financial statements is resolution of the serious financial management problems at DOD, which we have

designated as a high-risk area since 1995.⁴ Based largely on DOD's assertion that its financial information was not auditable, the DOD Inspector General (IG) again disclaimed an audit opinion on DOD's financial statements for fiscal year 2003 as it had for the previous 7 fiscal years. Pursuant to the requirements in section 1008 of the National Defense Authorization Act for Fiscal Year 2002 (the Act),⁵ DOD has asserted for each of the past 3 years that the department was not able to provide adequate evidence supporting material amounts in its financial statements. Specifically, DOD stated that it was unable to comply with applicable financial reporting requirements for (1) property, plant, and equipment; (2) inventory and operating materials and supplies; (3) environmental liabilities; (4) intragovernmental eliminations and related accounting entries; (5) disbursement activity; and (6) cost accounting by responsibility segment. Although DOD reported that the reliability of its military retirement health care liability data had improved for fiscal year 2003, the cost of direct health care provided by DOD-managed military treatment facilities—a significant amount of DOD's total recorded health care liability—was based on estimates for which adequate support was not available.

As previously stated, to date, none of the military services has passed the test of an independent financial audit. This failure is due primarily to pervasive weaknesses in DOD's business management systems, operations, and internal control, including an inability to compile financial statements that comply with generally accepted accounting principles. Recent audits and investigations by GAO and DOD auditors continue to confirm the existence of pervasive weaknesses in DOD's financial management and related business processes and systems. These problems have (1) resulted in a lack of reliable information needed to make sound decisions and report on the status of DOD activities, including accountability over its assets, through financial and other reports to Congress and DOD decision makers; (2) hindered its operational efficiency; (3) adversely affected mission performance; and (4) left the department vulnerable to fraud, waste, and abuse.

In prior years, DOD expended significant resources and made billions of dollars of financial account adjustments to derive its financial statements. However, such statements were determined to be unauditably. In this regard, section 1008 of the Act has offered the department some relief from the cost and time associated with preparing and auditing its financial statements. By acknowledging that its financial statements were unauditably because underlying information was unreliable, DOD is in a position to redirect its resources from preparing and auditing financial statements to improving the department's financial management systems and policies, procedures, and controls.⁶ Over the past 13 years, DOD leaders have attempted to address financial management problems in various ways but have largely been unsuccessful despite good intentions and significant effort.

⁴ GAO, *High-Risk Series: An Overview*, GAO/HR-95-1 (Washington, D.C.: February 1995), and *High-Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

⁵ National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, §1008, 115 Stat. 1012, 1204 (Dec. 28, 2001).

⁶ Specifically, section 1008 requires that DOD assess its auditability each year and report the results to the DOD IG and others. If DOD asserts that its financial information is not auditable, DOD and the DOD IG are required to limit the work performed to prepare and audit the financial statements.

Under the leadership of DOD's previous Comptroller, the department began earnestly addressing a number of its financial management problems as part of its business transformation effort. One broad-based initiative that is vital to the department's efforts to transform DOD business operations is BMMP, which the department established in July 2001. The purpose of BMMP is to oversee the development and implementation of the departmentwide business enterprise architecture, a supporting transition plan, and related efforts. BMMP is then to ensure that DOD business system investments are consistent with the architecture.⁷ A well-defined and properly implemented business enterprise architecture can provide assurance that the department invests in integrated enterprisewide business solutions and, conversely, can help move resources away from nonintegrated business system development efforts.

Recognizing that it would take several years to transform the department's current business process and systems environment, in August and September 2003 DOD's Comptroller directed the military departments, defense agencies, and other major DOD fund holders to prepare comprehensive and cost-effective midrange financial improvement plans. According to DOD officials, the financial improvement plans of the military services and defense agencies are intended to identify planned improvements, milestones, and costs required for DOD to achieve its goal of an unqualified audit opinion for fiscal year 2007.

Further, DOD anticipated reprogramming additional funds from each of the components to the DOD IG to fund the cost of required financial line item and statement assessments and audits following assertions by DOD components that the amounts reported are reliable.

DOD Does Not Yet Have a Comprehensive, Integrated Plan for Achieving Its Fiscal Year 2007 Audit Opinion Goal

The plan currently under development by DOD was not intended to be an executive-level document that integrates the department's various improvement initiatives into a single strategic plan with clear objectives, results-oriented performance measures, and resource requirements. Rather, the department's plan, when completed, will consist of a database of information obtained from 52 individual component midrange plans, including the military services, the Army Corps of Engineers (the Corps), defense agencies, and other major fund holders. At the time of our review, component plans varied in length (from 4 pages to about 150 pages), and focused on the use of work-arounds and modifications to legacy business systems to obtain an unqualified audit opinion by fiscal year 2007. In addition, the department's database plan lacked appropriate scope (including clear links to other departmentwide improvement initiatives), results-oriented performance measures, and cost information for Congress and senior DOD management to guide both project execution and control over departmentwide business management improvement initiatives.

⁷ In December 2002, Congress directed DOD to develop and implement a financial management enterprise architecture and repealed an earlier requirement that DOD produce a comprehensive biennial financial management improvement plan. Bob Stump National Defense Authorization Act for Fiscal Year 2003, Pub. L. No. 107-314, §1004, 116 Stat. 2458, 2629 (Dec. 2, 2002).

The department has said it intends to rely upon the collective efforts of the DOD components, as shown in their discrete plans, to address its financial management deficiencies and achieve its fiscal year 2007 audit opinion goal. According to DOD directives and instructions pertaining to the plans, each component plan must identify by financial statement and financial statement line item (1) all major known deficiencies; (2) corrective actions for eliminating each deficiency; (3) required resources (people and dollars); (4) estimated completion date (although the completion date can be no later than the component assertion date established in the DOD Comptroller's August and September 2003 directives); (5) responsible office/person; (6) links, if any, to BMMP; and (7) dates when improved financial line items or statements will be ready for external assessment and audit (although the external assessment and audit dates provided cannot be any later than the dates established in the DOD Comptroller's August and September 2003 directives).

DOD is currently in the process of populating and updating its departmental database plan, as new and revised component plans are received. Within the database, DOD has grouped components into the following four tiers to facilitate planned oversight and monitoring of component improvement efforts.

- Tier 1: Entities, such as the military services and the Corps, that are directed by the Office of Management and Budget to prepare audited financial statements and the Medicare Eligible Retiree Health Care Fund.
- Tier 2: Intelligence agencies.
- Tier 3: Entities, such as the Defense Logistics Agency (DLA), directed by DOD to prepare stand-alone statements.
- Tier 4: All other DOD agencies, entities, and funds. Although Tier 4 entities are not required to prepare financial statements, they are required to prepare improvement plans to ensure information provided for the DOD consolidated financial statements is auditable.

DOD components that have already obtained unqualified audit opinions on their financial statements, such as the Defense Finance and Accounting Service (DFAS)⁸ and the Military Retirement Fund, were not required to submit financial improvement plans.

As illustrated in table 1, as of July 14, 2004, DOD had received initial plan submissions from 36 of the 52 components required to submit plans, including all 11 of its tier 1 components, and was awaiting submissions from the remaining 16 components. As of July 14, 2004, DOD had requested revisions to 26 of the 36 plans initially submitted because the plans were either not in the required format or lacked sufficient detail for inclusion in DOD's database. While table 1 reflects that the DOD has received 21 revised plans, the department currently lacks the infrastructure to perform a thorough review of the plans. Accordingly, DOD Comptroller staff acknowledged that additional component plans, including those that were revised and resubmitted,

⁸ DFAS's financial statements and corresponding unqualified audit opinion pertain only to the administrative functions of DFAS itself and, consequently, do not provide any assurance as to the reliability of the accounting processes and systems DFAS uses to provide services to other DOD components, including the military services.

would likely be rejected for content deficiencies when the department’s consultant begins to review the plans.

Table 1: Status of DOD Component Financial Improvement Plans as of July 14, 2004

Component	Requested	Initial submission pending	Initial submission received	Initial submission rejected	Revision submission received
Total	52	16	36	26	21

Source: GAO analysis of DOD data.

Our review of eight component plans (consisting of the Corps, DLA, and the general and working capital funds of the Departments of the Army, Navy, and Air Force) revealed that none of these plans were comprehensive in nature. The plans did not consistently address DOD instructions to fully describe why each identified deficiency affected the auditability of a line item or statement and how the deficiency would be addressed. For instance, we found that the plans did not clearly or consistently include descriptive elements— such as people (human capital), processes, and systems—that are key to clearly understanding

- the nature of the deficiency and how it occurred;
- how the deficiency affects the timeliness, accuracy, and reliability of financial management information; and
- how the deficiency will be addressed, including whether the corrective action relies upon manual work-arounds or will require automated business system changes. This distinction is key to assessing the sustainability of planned corrective actions and identifying and monitoring business system investments that are outside the DOD Comptroller’s direct line of responsibility.

The following are some examples of the deficiencies we observed in the component plans we reviewed.

- Some components submitted “plans to develop plans.” For instance, we found that DLA’s and the Corps’ plans referred extensively to the development and implementation of subordinate improvement plans or to agreements between DLA and the Corps and others regarding corrective actions intended to address reported deficiencies pertaining to several key line items. For example, DLA referred to future development of a plan of action to address deficiencies in key financial statement line items, including accounts receivable, other assets, inventory, and general property, plant, and equipment. Similarly, the Corps’ plan refers to memorandums of agreement with the audit community as a key element of its corrective action process, but does not provide any specifics regarding those agreements, particularly what actions, if any, the Corps has agreed to take to address the deficiencies.
- All the plans we reviewed used numerous vague terms such as “ensure,” “provide,” “establish,” and “determine” in their corrective action descriptions. What the plans uniformly lacked were clear descriptions of intended corrective actions, including how the component would address the deficiency

through changes to people, processes, and business systems. For instance, see the following:

- The Army’s consolidated general and working capital fund plans identified a deficiency related to the auditability of its fund balance with Treasury (FBWT) line item that read “lack of long-term solutions to improve the accountability and reporting of FBWT.” The corresponding corrective actions to address this deficiency included “establish a long term solution to improve the accountability and reporting of FBWT.”
 - The Navy’s general and working capital fund plans stated that “physical inventory procedures are not being performed on a consistent and periodic basis.” Corresponding corrective actions were limited to enforcing the current policy and conducting physical inventories in accordance with existing policy. Navy did not provide any corresponding detail on who was accountable, how it intended to ensure compliance, or timelines for making this happen.
 - The Air Force’s general and working capital fund plans stated that Air Force “ensure that capital lease liabilities are accurately valued and reported” and “establish a baseline for capital leases.” Air Force did not provide any additional detail on how it intended to implement or sustain these corrective actions or measure progress.
- Other than providing training to staff to address a specific deficiency pertaining to training, none of the component plans reviewed included actions to address human capital issues, such as size of staff (including whether contract support would be used), staff turnover, specific skill mixes, and staff performance. In April 2002, DOD published a departmentwide strategic plan for its civilian employees that sets forth its vision to “design, develop, and implement human resources policies, strategies, systems, and tools to ensure a mission-ready civilian workforce that is motivated to excel.” Without correcting human capital deficiencies, sustainability of corrective actions, particularly those that depend on extensive manual work-arounds, is questionable.
 - Although most of the component plans implied that business process and system changes would be needed, they provided little or no information on what specific changes were planned. Without clear descriptions of planned business process changes, the DOD Comptroller lacks information to assess the feasibility, cost-effectiveness, and sustainability of the corrective actions. Further, in May 2004, we reported⁹ that DOD lacked an effective and transparent process for overseeing and monitoring system investments. Clearer descriptions of component system changes needed to implement corrective actions could aid the department in its efforts to identify future

⁹ GAO-04-615.

business system investments and improve oversight and monitoring of these activities.

Further, our review of the plans revealed that the milestone dates—critical for measuring progress—identified in component plans were generally based on the component assertion and audit opinion dates established by the DOD Comptroller in August and September 2003. Further, the plans did not identify task dependencies—key to identifying tasks that must be finished on schedule if the project is to be completed as planned. For example, the only dates provided in the Navy’s general and working capital fund plans for addressing Navy’s deficiencies were the assertion and audit opinion dates established by the DOD Comptroller for the applicable Navy line item or financial statement. As a result, the milestone dates provided in the plans do not generally depict actual estimates of the time required to address each deficiency, nor do they identify critical tasks that must be completed on time in order to achieve the department’s audit opinion goal. The lack of valid results-oriented performance measures undermines the department’s ability to effectively monitor and measure progress and hold individuals accountable.

In addition, DOD has not yet calculated the cost of its effort to obtain a fiscal year 2007 unqualified audit opinion. Although it requested and received some cost information from DOD components, DOD has not accumulated this cost information in its database or used it to assess the cost-effectiveness or feasibility of its fiscal year 2007 unqualified audit opinion goal or component plans (including the use of manual workarounds and the need for contractors and additional DOD human capital). Without assessing the cost of component efforts, DOD has little or no assurance that its resources are being utilized in the most cost-effective manner.

As illustrated by previous examples, DOD does not yet have a comprehensive, integrated strategic plan with results-oriented performance measures and cost information for addressing its financial management deficiencies by fiscal year 2007. Developing and implementing a plan to overcome the deficiencies in financial and related business operations of one of the largest and most complex organizations in the world by fiscal year 2007 represents a huge management challenge. Tasking DOD components to take an active role in identifying and addressing known deficiencies systematically is an important step toward obtaining buy-in and establishing responsibility and accountability for corrective actions. However, DOD must recognize that its deficiencies cannot be addressed in an insolated, stovepiped, or piecemeal fashion separate from the other high-risk areas it faces—previous reform efforts have tried this approach and failed.¹⁰

In the past, we have reported that DOD’s financial management problems are the result of long-standing deficiencies related to three factors: its systems, processes, and people. To successfully address the department’s deficiencies, it is important that the components’ plans, as incorporated in DOD’s database, clearly address all three factors and incorporate cost and valid results-oriented performance measures aimed

¹⁰ The nine interrelated high-risk areas that represent the greatest challenge to DOD developing world-class business operations supporting its forces are financial management, human capital, information security, systems modernization, weapon system acquisition, contract management, infrastructure management, real property, and inventory management.

at achieving timely, accurate, and reliable information for business management rather than solely an audit opinion.

DOD's Infrastructure for Effectively Overseeing and Monitoring Improvement Efforts Is Not Yet Developed

DOD has not yet developed the ability to effectively oversee and monitor component efforts to address financial management deficiencies. The department's capacity, including available resources, processes, and controls, for overseeing and monitoring the development and implementation of individual component plans is also evolving. As of July 14, 2004, the DOD Comptroller had assigned five staff on a part-time basis to review 52 component plans and oversee and monitor component improvement efforts. However, the department's ability to effectively oversee and monitor component efforts is reduced because of the lack of sufficient information pertaining to deficiencies and corrective actions in the component plans, valid results-oriented performance measures, and resource requirements. Further, the lack of electronic integration between the component plans and the department's database diminishes the utility of the department's database as an efficient and effective oversight and monitoring tool. As currently designed, DOD components must resubmit their entire plan if a revision is made so that DOD Comptroller staff can update the departmental database. Because component plans and the status of corrective actions are continually changing, such an onerous process means that DOD's departmental database will probably never reflect the current status of component plans and corrective actions.

In July 2004, DOD contracted with a consulting firm to improve component plans and its own oversight and monitoring efforts. The contractor is tasked with analyzing DOD component plans to determine if milestones are sufficient and executable and adequately support attainment of an unqualified opinion on the department's fiscal year 2007 consolidated financial statements. Moreover, the contractor is required to (1) refine, design, and maintain DOD's database plan, which consists of individual component plans; (2) recommend metrics for use in tracking implementation of component plans; and (3) prepare various reports to aid the DOD Comptroller in monitoring component progress. Further, the contractor is tasked to provide liaison support between component plans and the department's business enterprise architecture effort. Given that the contractor only began assisting DOD in late July 2004, it is unknown at this point what impact the contractor will have on improving DOD's oversight and monitoring abilities.

On June 23, 2004, DOD issued business rules¹¹ to implement section 1008 of the Act and guide its components along the path toward obtaining a clean audit opinion. Simply stated, the business rules describe the oversight process the DOD Comptroller has established to ensure that the corrective actions, as described in component plans, are implemented and validated in order to minimize the department's risk of unsupported claims that reported financial information is auditable. Further, DOD officials indicated that the new business rules recognize that management, not the auditor, is responsible for documenting business processes, systems, and internal

¹¹ Business rules are statements of fact, policy, law, regulation, or a combination of these that drive business activities.

control, and for collecting and maintaining transaction data. As of July 22, 2004, no DOD component required to submit an improvement plan has asserted that its reported financial information is auditable and that it has completed the process required by the new business rules as described below. However, DOD Comptroller staff advised us that they expect to receive several financial line item packages by the end of fiscal year 2004, primarily from Air Force, that support component claims that their financial information is auditable.

Under DOD's business rules, the department's process for preparing, implementing, and monitoring component actions toward achieving the department's fiscal year 2007 audit opinion goal will consist of three management phases: (1) discovery and correction, (2) validation, and (3) assertion. Following the assertion phase, the DOD IG will either assess the auditability of a financial line item or statement or subject it to audit.

Discovery and correction phase. During the discovery and correction phase, DOD components are expected to identify deficiencies and prepare and implement improvement plans with measurable outcomes and milestone dates for overcoming their deficiencies. Most DOD components are currently in this phase of the process. Our review of component plans revealed that the plans focused primarily on addressing previously reported deficiencies and provided little or no indication that the components were attempting to identify additional deficiencies. It is important to note that the discovery of additional deficiencies will likely require additional time and resources and may adversely affect the ability of DOD components to achieve their milestones. Further, we found that the milestone dates identified in most of the plans reviewed were generally based on the targeted end dates assigned by the DOD Comptroller rather than on actual estimates of the time required to implement and validate a corrective action. Therefore, the department's ability to identify critical tasks or actions that must be completed on time if the department is to achieve its unqualified audit opinion for fiscal year 2007 is diminished.

Validation phase. Once a DOD component has implemented corrective actions to resolve identified deficiencies it is required to validate that the deficiencies in its financial line item or statement were effectively addressed. According to DOD Comptroller staff, a contractor, a military service audit organization, or the component itself can validate the corrective actions. Our review of selected component plans and interviews with component representatives responsible for developing the plans revealed that planned approaches for validating corrective actions varied. Some components, such as DLA, plan to hire contractors to assist in developing and applying procedures for ensuring that corrective actions effectively address deficiencies identified in the discovery and correction phase. Other components, such as the Corps and the Air Force, stated that at least some of the business process and other improvements currently being made or recently completed should not require validation under the new business rules since many of these actions originated from agreements reached with the auditors to address previously identified deficiencies.

Assertion phase. Once efforts to address financial statement line item or statement deficiencies are complete, DOD components are required to submit an assertion package to the DOD Comptroller for review and approval to obtain an assessment or

audit. Each assertion package should contain (1) a management letter asserting the audit readiness of the validated financial line item or statement, (2) a summary of the validation work performed and an explanation of corrective actions taken, (3) validation reports, and (4) a complete assertion package checklist attesting to the availability of process, procedural, system, and transaction data pertaining to the financial line item or statement. To further aid in ensuring sufficient evidential material is available to support financial information, on October 20, 2003, the DOD Comptroller issued a directive that all activities retain monthly accounting reports, accompanying system backups that contain supporting transactions, and related documentation for 1 year after appropriations cancel.

DOD Comptroller and DFAS staff, as well as a DOD IG advisor, will review each assertion package to determine whether the corrective actions taken by the component provide sufficient support for a recommendation that an assessment or audit be performed on the financial line item or statement. DOD is utilizing a complicated matrix approach (by component, financial statement, and financial line item) to identify and address its financial management deficiencies. As a result, DOD Comptroller staff and contractors involved in overseeing and monitoring component plans need to possess a sufficient understanding of pertinent accounting and auditing standards and component deficiencies to ensure that the corrective actions will actually accomplish their objective and result in improved financial management information. After a component has received approval to obtain an assessment or audit, the DOD IG, in coordination with the component, will either perform or contract for the assessment or audit.

While full compliance with DOD's new business rules will increase the level of supporting documentation required to assert that a financial line item or statement is auditable, successful application of DOD's new rules offers significant benefits. For example,

- resource requirements for preparing for and conducting an audit would not be wasted;
- audit efficiency would increase due to improved documentation of business processes, controls, systems, and transactional data; and
- the documentation submitted by DOD components to support assertions that their financial information is auditable could be used by components and BMMP to increase DOD's understanding of existing business processes and systems in order to transition to more efficient ones in the future.

DOD's business rules clearly reflect management's intent that the department avoid using its resources to prepare and audit unreliable financial information. Further, implementation of business rules to guide components through the process of ensuring that sufficient evidence exists to support assertions that their financial information is auditable is a significant step toward clearly communicating expectations. However, it is critical that DOD establish an adequate infrastructure to effectively and efficiently oversee and monitor component improvement efforts and ensure compliance with its business rules.

Clear Links between Midrange and Long-term Efforts to Address Deficiencies in DOD's Business Operations Are Not Yet Established

The department has not yet integrated its component efforts to obtain a fiscal year 2007 unqualified audit opinion with the long-term improvement efforts of BMMP. Although both DOD components and BMMP were directed by the DOD Comptroller to support the department's fiscal year 2007 audit opinion goal, the focus of their efforts appears to be quite different. According to DOD officials, the department will rely primarily on business process changes, including manual work-arounds and modifications to component legacy business systems, to achieve DOD's fiscal year 2007 audit opinion goal. In contrast, BMMP's efforts, particularly those of its functional business process areas (commonly referred to as domains) are long-term and therefore directed toward sustaining the unqualified opinion rather than producing auditable financial statements for fiscal year 2007. However, DOD Comptroller staff told us that they were working closely with the Finance, Accounting, and Financial Management (Finance and Accounting) domain to develop an approach that will establish a clearer link between the two improvement efforts.

At the time of our review, BMMP had only limited involvement in reviewing DOD component improvement plans. Our interviews with representatives from three of the nine BMMP domains—Installations and Environment, Logistics, and Finance and Accounting—revealed that only the Finance and Accounting domain had performed more than a cursory review of component plans. According to the Finance and Accounting domain representative, the domain's objective in reviewing the component plans, which the representative acknowledged contained insufficient detail regarding deficiencies and corrective actions planned, was to identify (1) processes or process changes that were not considered in DOD's business enterprise architecture and incorporate them in the architecture and (2) manual work-arounds that could potentially be automated in the future. Although all BMMP officials we interviewed, including domain representatives, expected to review and approve all modifications to legacy systems that would result from component improvement efforts, they were adamant in stating that the DOD Comptroller, rather than BMMP, was responsible for assessing the completeness, feasibility, and cost-effectiveness of corrective actions identified in component improvement plans. However, as we previously reported,¹² the department does not have efficient and effective processes and controls in place to identify business system investments, including modifications to legacy business systems that are occurring within the department. Further, component plans, which should identify planned system investments, including modifications to legacy systems, often lacked sufficient details needed to readily determine that modifications to legacy business systems are planned. Better integration of component midrange improvement efforts is needed to not only identify omissions in the department's business enterprise architecture, but also to aid the department in managing and controlling business system investments occurring throughout the department. As we recently reported,¹³ if the department is unable to more efficiently and effectively manage its business system investments, it will continue to invest billions of dollars in systems that fail to markedly improve its

¹² GAO-04-615.

¹³ GAO-04-615.

financial management information and do not comply with its business enterprise architecture.

The component plans that we reviewed did not consistently provide information to identify or highlight business systems as a key element of a planned corrective action. However, Army's midrange improvement plan indicated that it expects to implement two systems as part of its improvement effort in support of the fiscal year 2007 goal:

- the Global Combat Support System in fiscal year 2006, to address deficiencies in recording and reporting operating materials and supplies for the general fund financial statement; and
- the Defense Medical Logistics Standard Support System in fiscal year 2005, to address compliance deficiencies currently existing in the Army Medical Department Property Accounting System.

Accordingly, given BMMP's role in sustaining an unqualified audit opinion, it would be reasonable to expect—though not clearly stated in the Army's plan—that BMMP would be involved in ensuring that these new systems complied with the department's business enterprise architecture, including the new financial reporting business rules that are expected to be in effect prior to fiscal year 2007. The new financial reporting business rules, which are intended to standardize financial information processing in the department, include

- pro forma accounting entries to standardize how transactions are recorded in the department;
- identification of applicable *U.S. Government Standard General Ledger* accounts; and
- a standard fiscal financial information structure that would require all organizations to capture the same type of information in their systems (such as contractor or invoice number, appropriation number, and fiscal year) to facilitate transaction recording within and between organizations.

While the development and implementation of financial reporting business rules is an important step in DOD efforts to begin applying its business enterprise architecture, the impact of these rules on current business systems will be negligible. To address financial reporting deficiencies in DOD's current systems until a long-term solution can be implemented, BMMP plans to utilize software commonly referred to as "middleware" to extract data from DOD's current inventory of over 4,000 systems and put that data in the proper format in accordance with the established business rules and regulations. Middleware may be used successfully to extract, format, and report data from legacy systems. However, the availability, completeness, and reliability of the financial data extracted by the middleware from the legacy systems for financial reporting will depend upon the efficiency and effectiveness of component efforts to identify and address deficiencies.

Conclusions

Given the magnitude of DOD's challenges and its current lack of a comprehensive and integrated departmental plan with results-oriented performance measures and

complete and reliable cost estimates, and a corresponding infrastructure to effectively oversee and monitor component efforts, we believe it is highly unlikely that DOD will be in a position to achieve an unqualified audit opinion by fiscal year 2007. Further, while we support the intent of both DOD's midrange and long-term efforts to improve the department's financial management, DOD has not yet clearly linked these efforts. The department needs a comprehensive, integrated plan with result-oriented performance measures to guide project execution and to control departmentwide business management improvement efforts. In our experience, efforts aimed primarily at obtaining a financial statement opinion seldom are a prudent use of taxpayer resources nor do they result in marked improvements in the timeliness, accuracy, and reliability of business management information. To the extent that DOD's efforts to obtain an unqualified audit opinion by fiscal year 2007 result in lasting improvements in DOD's business operations, they are worth pursuing. However, focusing improvement efforts on implementing manual workarounds and patching legacy business systems in order to obtain information primarily for financial reporting purposes may inadvertently divert limited resources away from ongoing efforts to develop and implement long-term solutions and improve data for managing DOD's business operations. The department should be able to achieve an unqualified audit opinion on its financial statements as ongoing efforts to transform DOD business operations mature and the department is able to more effectively and efficiently support both the warfighter and DOD decision makers.

Recommendations for Executive Action

To expand DOD's ability to effectively oversee and monitor component and departmental financial improvement initiatives intended to improve the timeliness, accuracy, and reliability of business management information for DOD decision makers and financial reporting, we recommend that the Under Secretary of Defense (Comptroller) take the following four actions:

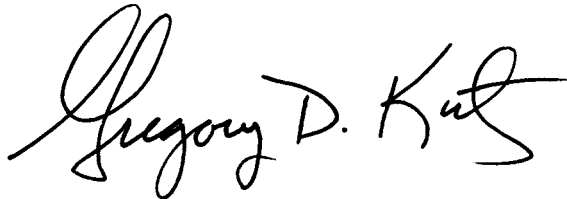
- Develop an integrated departmental plan, including a brief executive summary, which ties currently disparate improvements at the component and departmental levels together with accountable personnel, milestones, and required resources.
- Establish an infrastructure, including staff, processes, procedures, and performance metrics, to facilitate efficient and effective oversight and monitoring of the development and execution of component improvement plans to ensure that corrective actions are sustainable and will result in timely, accurate, and reliable business management information.
- Direct DOD components to include in their plans sufficient corrective action information, such as changes affecting people, process, and business systems, and to link their plans electronically to a DOD database, with appropriate results-oriented performance measures, to facilitate oversight and monitoring.
- Direct BMMP, including its domains, to use component plans as an aid in identifying system investments occurring at the DOD component level.

Agency Comments and Our Evaluation

In its written comments, DOD concurred with our recommendations and identified actions to address identified deficiencies. Specifically, DOD's response outlined recent actions taken, others that are underway, and further planned actions with respect to our recommendations. If effectively implemented, these actions should substantially improve DOD's management and oversight of its financial management initiatives. DOD's comments are reprinted in enclosure II.

We are sending copies of this report to interested congressional committees. We are also sending copies to the Secretary of Defense and the Under Secretary of Defense (Comptroller). Copies will be made available to others upon request. In addition, this report will also be available at no charge on GAO's home page at <http://www.gao.gov>.

Please contact me at (202) 512-9095 or by e-mail at kutzg@gao.gov or Evelyn Logue, Assistant Director, at (202) 512-3881 or by e-mail at loguee@gao.gov if you or your staffs have any questions concerning this report. Major contributors to this report were Shawn Ahmed, Molly Boyle, Cherry Clipper, and Carolyn Voltz.



Gregory D. Kutz
Director, Financial Management and Assurance

Enclosures - 2

Scope and Methodology

We obtained and reviewed individual component plans for the general and working capital funds of the Defense Logistics Agency (DLA) and the Departments of the Army, the Navy, and the Air Force. We also reviewed the component plan for the Army Corps of Engineers (Corps). We did not verify the reliability of the information provided in the plans beyond information obtained during interviews with component representatives responsible for developing the plans. As agreed with our requesters, given the continuing evolution of the Department of Defense's (DOD) improvement efforts and corresponding processes and procedures, we limited our work to determining whether

- DOD had a comprehensive, integrated plan for obtaining an unqualified opinion on its fiscal year 2007 consolidated financial statements,
- the DOD Comptroller had established effective processes and procedures for monitoring the implementation of the plan(s) to increase the likelihood of sustainable progress and to ensure that component auditability assertions are supported, and
- DOD had established a clear link between DOD component improvement efforts and the department's Business Management Modernization Program (BMMP).

To assess the plans, we compared them to the various criteria identified in DOD Comptroller directives, instructions, and business rules issued to the components to guide their plan development activities and guide them through DOD's process for achieving an unqualified audit opinion. In addition, we interviewed appropriate Army, Navy, Air Force, DLA, and Corps officials responsible for preparing component midrange financial improvement plans to increase our understanding of the status of component plans and corresponding efforts to address audit impediments and coordination with BMMP and links to DOD's business enterprise architecture.

We also interviewed pertinent staff of the Under Secretary of Defense (Comptroller), in Washington, D.C., responsible for (1) the development of DOD's database plan; (2) review of individual component plans; (3) development of DOD directives, instructions, and business rules; and (4) development and implementation of processes and procedures for overseeing and monitoring component efforts. In addition, we reviewed extracts from the DOD database to gain an understanding of how it stored information and what information it contained. We also reviewed the DOD Comptroller's financial improvement initiative tracking schedule, as of July 14, 2004, to identify staff assigned to oversee and monitor component plans and the status of component plans. Furthermore, we reviewed the financial improvement initiative business rules issued by the department to obtain an understanding of the processes, procedures, and requirements, including documentation requirements, DOD had established to minimize the likelihood of an unsupported auditability assertion. In addition, we reviewed a copy of the contract DOD issued to obtain oversight and monitoring support.

To assess whether clear links exist between component improvement efforts and those of BMMP to refine and implement a business enterprise architecture to guide DOD's business transformation effort, including overseeing and controlling business system investments, we reviewed component plans to determine the extent to which business system investments and related coordination activities with BMMP were identified. In addition, we interviewed DOD component and Comptroller staff to discuss coordination of component midrange improvement efforts and BMMP. Further, we interviewed BMMP staff—including business process area representatives of the Logistics; Installations and Environment; and Finance, Accounting, and Financial Management domains (functional business process areas)—to assess the extent of their involvement in reviewing component plans and coordination with DOD components in support of DOD's fiscal year 2007 audit opinion goal.

We briefed DOD Comptroller officials on the details of our audit, including findings and their implications. On August 9, 2004, we requested comments on a draft of this report. We received comments on September 9, 2004, and have summarized those comments in the "Agency Comments and Our Evaluation" section of this report. DOD's comments are reprinted in enclosure II. We conducted our audit work from March 2004 through July 2004 in accordance with generally accepted government auditing standards.

Comments from the Department of Defense



COMPTROLLER

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



SEP 8

Mr. Gregory D. Kutz
Director, Financial Management and Assurance
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Kutz:

This is the Department of Defense (DoD) response to the U.S. Government Accountability Office (GAO) draft report, GAO-04-910R, "Financial Management: Further Actions Are Needed to Establish Framework to Guide Audit Opinion and Business Management Improvement Efforts at DoD," dated August 9, 2004 (GAO Code 192122).

The Department concurs with the results of the GAO review and the recommendations. However, the GAO draft report does not reflect recent decisions and actions by the Office of the Under Secretary of Defense (Comptroller) (OUSDC) that address the problems and recommendations identified in the draft report. The enclosure to this letter provides information on such decisions and actions, and also addresses the problems and recommendations identified in the GAO draft report.

To date, much has been accomplished to improve DoD financial management. Nevertheless, much more needs to be done, and the Department understands the critical importance of having one comprehensive, integrated DoD-wide financial improvement plan. As indicated in the GAO draft report, the Department required the DoD Components to develop Mid-Range Financial Improvement Plans (MRFIPs) that were submitted last fall. There have been numerous lessons learned from this requirement, as well as benefits. We have plans that identify requirements needed at various levels within the Department. We established business rules and a process for collecting and evaluating plans that focus improvement efforts within the Components. With the assistance of a recently acquired support contractor and based on the lessons learned, the Department is currently taking steps to significantly revise and improve the process for developing and monitoring the improvement plans.


The revised process for a comprehensive, integrated DoD-wide financial improvement plan will identify additional deficiencies, corrective actions, accountable organizations and personnel, milestones, and required resources. The revised process and plan will provide various levels of management within the OUSDC and Components



the real-time ability to track progress within each Component, as well as across Components by deficiency. It will also provide the Components with cross-Component visibility of corrective actions thereby resulting in more standard solutions and less redundancy. In addition, the revised plan is being linked to the Business Enterprise Architecture (BEA) of the Business Management Modernization Program (BMMP) to utilize and capitalize on reengineered process steps and compliance requirements in the BEA and to provide a mechanism to validate the architecture. The revised plan will also capture essential information on financial and business systems to assist in more effective portfolio management of information technology systems by the BMMP Domains and Components. The revised integrated DoD-wide plan will provide the ability to better assess the Department's ability to achieve an unqualified audit opinion of the DoD Consolidated Financial Statements.

The Department appreciates the opportunity to comment on the subject report. My staff point of contact on this matter is Mr. James Ariail. He may be contacted by e-mail: james.ariail@osd.mil or by telephone at (703) 602-6988, extension 108.

Sincerely,



Robert J. Henke
Principal Deputy and Deputy
Under Secretary of Defense
(Management Reform)

Enclosure
As stated

GAO DRAFT REPORT DATED AUGUST 9, 2004
GAO-04-910R (GAO CODE 192122)

**“FINANCIAL MANAGEMENT: FURTHER ACTIONS ARE NEEDED TO ESTABLISH
FRAMEWORK TO GUIDE AUDIT OPINION AND BUSINESS MANAGEMENT
IMPROVEMENT EFFORTS AT DOD”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommended that the Under Secretary of Defense (Comptroller) develop an integrated departmental plan, including a brief executive summary, which ties currently disparate improvements at the component and departmental levels together with accountable personnel, milestones, and required resources. (Page 33/GAO Draft Report)

DoD RESPONSE: Concur. On August 11, 2004, the Deputy Chief Financial Officer (DCFO) of the Office of the Under Secretary of Defense (Comptroller) (OUSDC), approved the development of a web-based tool for mandatory use by the DoD Components to plan, manage, and report their efforts to improve financial management deficiencies.

The web-based tool will result in the following improvements to the existing financial improvement plan process:

- There will be *one* DoD-wide comprehensive, integrated financial improvement plan utilizing a standard plan framework, process, and procedures.
- Real-time access will be provided to various levels of management within the OUSDC, Business Management Modernization Program (BMMP) Domains, and the Components to the financial improvement plans, deficiencies, corrective actions, milestones, requirements, and progress.
- Cross-Component visibility of deficiencies, corrective actions, solutions, and progress will be provided to the DoD Components to facilitate corrective actions and solution sharing and reduce unnecessary duplicative efforts, as well as encourage more competition among the Components to show progress and achieve success.
- Implementation of standard and meaningful metrics at Department and Component levels will be more readily available through the use of a standard plan framework.
- Plan review, analysis, and feedback will be performed more timely and facilitated through automated analyses and consistent, standard plans.
- Expensive, time consuming and labor intensive data calls for plan information will be eliminated.

The web-based tool will be developed collaboratively with the DoD Components to ensure that requirements they need to properly plan and execute the corrective actions necessary to resolve their financial deficiencies are incorporated into the tool. The web-based tool will be developed in a phased approach to enable rapid development and deployment of an initial capability by November 15, 2004. Among other requirements, the initial phase and capability

will include requirements for identifying responsible Component organizations and personnel, milestones, and required resources, as recommended by the GAO. After an initial capability is operational in November, the contractor will develop in subsequent phases automated progress and reporting tools to include a “dashboard” for OUSD(C) and Component senior management with the ability to drill down into the plans for additional information, linkages to the BMMP Enterprise Business Process Model (EBPM), information on critical financial and business information systems, and information pertaining to plans, assessments, and audits of the Office of the DoD Inspector General.

RECOMMENDATION 2: The GAO recommended that the Under Secretary of Defense (Comptroller) establish an infrastructure, including staff, processes, procedures, and performance metrics, to facilitate efficient and effective oversight and monitoring of the development and execution of component improvement plans to ensure that corrective actions are sustainable and will result in timely, accurate, and reliable business management information. (Page 33/GAO Draft Report)

DoD RESPONSE: **Concur.** Recently, the OUSD(C) created and filled a new Senior Executive Service position to serve as the Associate Director for Financial Improvement. The Associate Director for Financial Improvement reports through the Director for Accounting and Finance Policy and Analysis to the Deputy CFO and is responsible for managing and overseeing the Department’s Financial Improvement Initiative (FII). Among other requirements, the FII includes ensuring that the DoD Components develop and execute comprehensive financial improvement plans that address near-term and long-term corrective actions. The Associate Director for Financial Improvement has an infrastructure with dedicated staff accountant positions and a support contract that was awarded on July 7, 2004. However, the Department believes that this infrastructure is not sufficient to effectively manage and oversee the Components’ improvement plans. The Department is currently assessing the amount of additional resources needed, until such time as an unqualified audit opinion is achieved, and is committed to adding resources.

The FII staff and contractor team are thoroughly reviewing the Components’ existing plans to identify problems and to provide feedback to the Components. In addition, two individuals from the Defense Finance and Accounting Service were detailed to the FII for several months to review the Component plans. The reviews included assessing deficiencies and corrective actions to ensure that the corrective actions provide sufficient detail and sustainable solutions. The reviews also included analyzing the milestone dates in the plans to ensure that the dates appear reasonable and achievable. For corrective actions and milestone dates that do not appear correct, or where sufficient detail does not exist, follow-up action is taking place and plan adjustments will be made. The FII staff and contractor team expect to have thoroughly reviewed all of the Component plans received to date, while reviewing more detailed Component plans as they are made available, and to have provided feedback to the Components for those reviews completed prior to November 15, 2004, when the web-based tool is operational. A primary goal of these reviews is to have taken the steps necessary to have as much reliable information as possible when the web-based tool becomes operational in November, or as soon thereafter for those Components requiring more time to update their plans.

The OUSD(C) understands the importance of meaningful and measurable performance metrics and intends to develop metrics that will be useful to various levels of management both within the OUSD(C) and the Components. Two basic overall performance metrics have been developed and are currently being monitored. The support contractor has been tasked to develop additional performance metrics and several recommendations are being considered. Additionally, as the requirements are being collaboratively developed with the BMMP Domains and DoD Components, as explained below, additional performance metrics will be considered.

RECOMMENDATION 3: The GAO recommended that the Under Secretary of Defense (Comptroller) ensure that DoD Component plans include sufficient corrective action information, such as changes affecting people, processes, and business systems, and are linked electronically to a DoD database, with appropriate results-oriented performance measures, to facilitate oversight and monitoring. (Page 33/GAO Draft Report)

DoD RESPONSE: **Concur.** As indicated in the above DoD responses, the Department is thoroughly reviewing the DoD Component plans, and such reviews include assessing them to ensure that they properly reflect the level of detail necessary to verify that the corrective actions will resolve the deficiencies, and that the plans adequately identify changes that affect people, processes, and systems. In addition, during the collaborative effort to develop requirements for the web-based tool, the OUSD(C) will ensure that the web-based tool requires additional information to be associated with corrective actions to identify changes affecting people, processes and systems. System requirements have been determined to be an essential requirement for the plans.

To ensure processes are considered in the corrective actions, the financial deficiencies identified in the web-based tool will be linked to the process steps in the BMMP EBPM. Linking the deficiencies to the EBPM process steps was started by the Accounting and Finance Domain on the existing Mid-Range Financial Improvement Plans and will continue in the web-based tool. Linking the financial deficiencies to the EBPM process steps will provide benefits to both the Components and to the BMMP. As the deficiencies are being worked by the Components, applicable EBPM process steps and requirements necessary to achieve a favorable audit opinion will be provided to the Components for their use in building corrective actions. In addition, as the Components are correcting deficiencies, they will supply important feedback information essential to future transformation.

RECOMMENDATION 4: The GAO recommended that the Under Secretary of Defense (Comptroller) direct BMMP, including domains, to use component plans as an aid in identifying system investments occurring at the DoD Component level. (Page 33/GAO Draft Report)

DoD RESPONSE: **Concur.** The Department knows that accurate and timely information on financial and business (non-financial feeder) Information Technology (IT) systems (e.g., planned changes to the system to achieve compliance or plans to migrate to a compliant system, whether such plans are funded, milestone dates for the system changes or migration) is essential to

resolving many financial deficiencies and knows that capturing such information and providing it to decision-makers will greatly improve IT system Portfolio Management and the Department's ability to achieve an unqualified audit opinion. Therefore, the Department's plan for the web-based tool includes a capability to capture essential IT system information.

The identification of the specific IT system information requirements will be determined through a collaborative development effort with the Business Management and Systems Integration Office, BMMP Domains and Components, since it is anticipated that they will be the users of this information. Additionally as users of the information, it is expected that they will assist in ensuring that IT Program Managers keep this information up to date through access to the web-based tool. The Department is evaluating the level of Information Technology system information to be included in the web-based tool.

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