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Management of the General Fund Enterprise Business System

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Acronyms

| | |
|---------------|---|
| ASD (NII/CIO) | Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer |
| BPA | Blanket Purchase Agreement |
| CARD | Cost Analysis Requirements Description |
| COTS | Commercial Off-the-Shelf |
| DFAS | Defense Finance and Accounting Service |
| EA | Economic Analysis |
| ERP | Enterprise Resource Planning |
| FAR | Federal Acquisition Regulation |
| FINSRAC | Financial System Realignment and Categorization |
| GFEBs | General Fund Enterprise Business System |
| OSD (PA&E) | Office of the Secretary of Defense (Program Analysis and Evaluation) |
| OUSD (AT&L) | Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics |
| PEO EIS | Program Executive Office Enterprise Information Systems |
| RDT&E | Research, Development, Test, and Evaluation |
| RFQ | Request for Quotation |
| SME | Subject Matter Expert |
| SOO | Statement of Objectives |
| USD (C)/CFO | Under Secretary of Defense (Comptroller)/Chief Financial Officer |



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

January 14, 2008

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

SUBJECT: Report on Management of the General Fund Enterprise Business System
(Report No. D-2008-041)

We are providing this report for review and comment. We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We are redirecting Recommendation A.1. to the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer and request that management provide comments. As a result of comments from the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Assistant Secretary of the Army (Financial Management and Comptroller) we revised Recommendations A.2.c., B.1., and B.2. We request that the Under Secretary of Defense for Acquisition, Technology, and Logistics provide comments on revised Recommendation B.1, and the Under Secretary of Defense (Comptroller)/Chief Financial Officer provide comments on revised Recommendations B.2. and C.1. Also, we request that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) provide comments on Recommendation C.2.d. Management should provide comments on the final report and indicate concurrence or nonconcurrence with the potential monetary benefits by February 14, 2008.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Auddfs@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Jack L. Armstrong at (317) 510-4801, ext. 274 (DSN 699-4801) or Mr. Craig W. Michaels at (317) 510-4801, ext. 230 (DSN 699-4801). See Appendix F for report distribution. The audit team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

Patricia A. Marsh
for Paul J. Granetto, CPA
Assistant Inspector General and Director
Defense Financial Auditing Service

Department of Defense Office of Inspector General

Report No. D-2008-041

January 14, 2008

(Project No. D2006-D000FI-0017.000)

Management of the General Fund Enterprise Business System

Executive Summary

Background. This report discusses the Army's justification, planning, and acquisition of the General Fund Enterprise Business System (GFEBS). The FY 2006 Army General Fund Financial Statements reported assets of \$226.6 billion, liabilities of \$70.3 billion, and budgetary resources of \$229.4 billion. The Army has acknowledged it does not meet the requirements of the Chief Financial Officers Act of 1990, which requires that auditable financial statements be prepared annually. The lack of integrated, transaction-driven, financial management systems prevents the Army from preparing auditable financial statements. To address this issue, the Army is developing GFEBS, which will replace at least 77 existing systems currently supporting Army General Fund accounting and financial management.

Results and Management Comments

Finding A., Program Planning. The Army did not effectively plan the acquisition of GFEBS system integration services. This lack of planning places the program at high risk for incurring schedule delays, exceeding planned costs, and not meeting program objectives. We recommended that the Office of Management and Budget list of High-Risk Information Technology Projects include the GFEBS program. The Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) (OUSD [AT&L]) partially concurred with this recommendation and stated that the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer is responsible for the high-risk list within the Office of the Secretary of Defense. As a result, we redirected the recommendation and requested that the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer provide comments to the final report. We also recommended that the Assistant Secretary of the Army (Financial Management and Comptroller) define GFEBS program requirements and adjust the current GFEBS deployment schedules to allow more time for properly defining program requirements. Finally, we recommended that the Assistant Secretary withhold funding from unresponsive system owners, identify the subject matter experts for the systems that GFEBS will need to interface with or replace, and prepare a detailed data conversion plan. The Assistant Secretary concurred with these recommendations and has revised the GFEBS timelines in the Army Strategic Plan. We will continue to monitor the GFEBS program to ensure that the data conversion plan is adequate and the system implementation meets the established timeframes.

Finding B., Commercial Item Acquisition. The Army used an inappropriate method to contract for services to design, develop, integrate, and implement GFEBS. The GFEBS contract lacked adequate controls, and the Army has incurred about \$3.9 million in unnecessary fees for contract administration. We revised the recommendations to clarify the need for DoD policy that limits commercial acquisitions to end items that are nondevelopmental. OUSD (AT&L) did not agree to establish policy that is consistent with United States Code. Specifically, OUSD (AT&L) staff did not

agree to provide guidance regarding the use of Research, Development, Test, and Evaluation funding for commercial procurement and to discontinue using blanket purchase agreements that violate this guidance. They also stated that the Enterprise Software Initiative Blanket Purchase Agreement approach for acquiring commercial information technology and integration services is a tool available for programs with defined requirements. We consider this comment to be nonresponsive, because the GFEBS program does not lend itself to fixed-pricing. We request that OUSD (AT&L) staff reconsider their position and provide comments on the final report. OUSD (AT&L) staff did agree with our recommendation to provide written commercial determinations to justify procurements over \$1 million and stated that contracting officers must provide written commercial determinations to comply with a March 2, 2007, Defense Procurement and Acquisition Policy memorandum. We consider these comments to be partially responsive and request that OUSD (AT&L) provide comments to the final report describing how the requirements of the memorandum will be implemented. The Under Secretary of Defense (Comptroller)/Chief Financial Officer did not provide comments to our recommendation to withhold obligation authority from programs planning to use the Enterprise Software Initiative Blanket Purchase Agreement for large and complex system implementations until: (1) requirements are fully defined and approved and (2) the use of Research, Development, Test, and Evaluation funding is no longer required. Therefore, we request that Under Secretary of Defense (Comptroller)/Chief Financial Officer staff provide comments on this recommendation in response to the final report. The Director, Program Executive Office Enterprise Information Systems agreed to obtain contract auditing services to monitor contract costs but still needs to provide an action date in response to the final report.

Finding C., Economic Analysis. The Army did not prepare a realistic economic analysis (EA) for the GFEBS program. As a result, the Army did not provide sufficient economic justification to support the decision to invest more than \$556.2 million in GFEBS and does not have realistic baseline information needed to manage the GFEBS program. Assistant Secretary of the Army (Acquisition, Logistics, and Technology) staff agreed to prepare a fully supported EA, but did not provide comments on the recommendation to retain documentation of those reviews and validations. We request that they provide comments on the final report. OUSD (AT&L) and the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) agreed with our recommendation to continue, modify, or discontinue the GFEBS program based on the updated economic analysis when making the milestone decision. However, Under Secretary of Defense (Comptroller)/Chief Financial Officer staff did not comment on it. Accordingly, we request that they provide comments on the final report. We deleted the recommendation to put the GFEBS contracts on hold because of management concerns that the contracts were needed for the completion of the system design work. The Director, Defense Finance and Accounting Service, did not agree with our recommendation to develop and implement procedures to ensure that information provided to decision makers to develop EAs is complete, supported, and retained. Defense Finance and Accounting Service staff stated that they have taken action to retrieve and retain documentation for the GFEBS EA; however, no policy has been issued. We request that they reconsider this position and include planned actions to ensure that documentation is retained in the future.

We issued a draft of this final report on July 3, 2007. We request that management, when appropriate, provide comments on the final report by February 14, 2008. See the Finding sections for discussion of management comments and the Management Comments section for the full text of the comments.

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Background

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

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

Acquisition Guidance. DoD Directive 5000.1, “The Defense Acquisition System,” May 12, 2003, provides management principles and mandatory procedures for managing DoD acquisition programs. The Defense Acquisition System is a management process designed to provide effective, affordable, and timely systems to users. DoD Instruction 5000.2, “Operation of the Defense Acquisition System,” May 12, 2003 provides “a simplified and flexible management framework for translating mission needs and technology opportunities, based on approved mission needs and requirements, into stable, affordable, and well-managed acquisition programs.” The Federal Acquisition Regulation (FAR) provides rules and guidance on acquisition contracts by Federal agencies. Appendix B provides further detail on acquisition and contract guidance.

Army Financial Reporting. The FY 2006 Army General Fund Financial Statements reported total assets of \$226.6 billion, total liabilities of \$70.3 billion, and total budgetary resources of \$229.4 billion. The Defense Finance and Accounting Service (DFAS) Indianapolis Operations began preparing Army financial statements in 1991 by compiling financial information from Army and DFAS sources. Auditors have issued disclaimers of opinion on the Army General Fund financial statements each year, including FY 2006, because the lack of integrated, transaction-driven, financial management systems prevents the Army from preparing auditable financial statements. Therefore, the Army needs to implement a modern financial capability to streamline the Army’s current portfolio of overlapping and redundant finance and accounting systems.

General Fund Enterprise Business System. The General Fund Enterprise Business System (GFEBS) is a financial management system the Army is developing so that it can obtain a clean audit opinion and improve accuracy of financial information. The Army developed the GFEBS program to meet an Office of the Secretary of Defense goal for the Military Services to comply with the Chief Financial Officers Act and the Federal Financial Management Improvement Act of 1996 by FY 2007. At the time of this audit, the Army’s target date for having auditable financial statements for the Army General Fund was FY 2011. In September 2007, the Army’s target date for auditable financial statements changed to FY 2017.

Army's primary objectives for developing GFEBS are to:

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

The FY 2005 National Defense Authorization Act required that DoD establish a Defense Business Systems Management Committee (Systems Management Committee). The Systems Management Committee approves system investment decisions. This act stated that DoD-appropriated funds may not be obligated for a business system modernization with costs exceeding \$1 million, unless the appropriate authority certifies the system, and the certification is approved by the Systems Management Committee. The Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD [C]/CFO) is the certification authority for GFEBS.

The GFEBS program includes two contracts, valued at a total of \$556.2 million, for system integration and program management support services. The life-cycle cost estimate for GFEBS, which includes anticipated costs for the initial system investment, system operation and support, and existing systems phase-out, is \$2.5 billion. The following table describes the systems that were relevant to the GFEBS program as of May 2006.

| Table 1. Systems Relevant to GFEBS | |
|--|--------------------------|
| Description | Number of Systems |
| System functions replaced by GFEBS | 77 |
| System functions replaced by a system other than GFEBS | 19 |
| System functions not replaced by GFEBS or any other existing systems | 51 |
| System functions that require further analysis | 61 |
| Total number of systems relevant to the GFEBS program | 208 |

System Integration. The Army awarded a \$516.2 million system integration contract on June 28, 2005. The contract's period of performance consists of 1 base year with 9 option years. The Army awarded the contract as part of the DoD Enterprise Software Initiative. The Enterprise Software Initiative, a DoD

effort to standardize the acquisition process for commercial off-the-shelf (COTS)¹ software and associated system integration services, has established a blanket purchase agreement (BPA) with five vendors for system integration services (system integrators). A BPA is a simplified method of filling anticipated repetitive needs for commercial supplies or services by establishing “charge accounts” with qualified vendors.

The contract includes the purchase of a COTS enterprise resource planning system (ERP)² and system integration services. System integration services span full system life-cycle activities and include:

- designing, building, and testing;
- customizing GFEBs software;
- developing external interfaces;
- converting data; and
- implementing and deploying the system.

Program Management Support Services. The Army awarded a \$40 million program management support services contract on April 25, 2005. The management support contract has a 5-year period of performance. The purpose of the management support contract is to provide specialized change management planning (helping the organization transition to the new system), ERP oversight, and program management support services to guide the GFEBs program.

Objectives

Our overall audit objective was to determine whether the Army properly justified GFEBs and identified system requirements. We also examined internal controls over the development of GFEBs and evaluated the effectiveness of management’s assessment of internal controls as it related to the audit objective. See Appendix A for a discussion of the scope and methodology and for prior coverage related to the objectives.

Review of Internal Controls

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive

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

² Enterprise resource planning systems are software systems designed to support and automate key operational processes.

system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.³

Scope of the Review of Management Control Program. We reviewed the adequacy of the internal controls over the development of GFEBs. We also reviewed the adequacy of management’s self-evaluation of those controls.

Adequacy of Management Controls. We did not identify any internal control weaknesses in the GFEBs program, as defined by DoD Instruction 5010.40. However, the Army did not adequately follow existing policies on defining the GFEBs program requirements (Finding A). In addition, the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD [AT&L]) and the Army did not follow existing policies on acquisition methodologies (Finding B) or ensure that the GFEBs program was adequately justified (Finding C).

Adequacy of Management’s Self-Evaluation. Management did not identify or report any management control weaknesses related to the GFEBs program. As of FY 2006, the Program Executive Office Enterprise Information Systems (PEO EIS) had not identified GFEBs as an assessable unit. PEO EIS identified GFEBs as an assessable unit in FY 2007. However, the Army has identified financial management systems as a material weakness—specifically the:

- lack of audit trails,
- lack of U.S. Standard General Ledger transaction accounting, and
- use of large unsupported adjustments made to the Army General Fund accounting records.

The Army has reported GFEBs as a partial solution to financial management system weaknesses.

³ Our review of internal controls was done under the auspices of DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996. DoD Directive 5010.38 was canceled on April 3, 2006. DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” was reissued on January 4, 2006.

A. Program Planning

The Army did not effectively plan the acquisition of the GFEBS system integration services. The Army's planning was ineffective because it did not adequately define program requirements for potential bidders. Specifically, the Army did not:

- sufficiently describe the resource requirements for system interfaces, or
- adequately develop data conversion processes.

As a result, potential bidders did not have sufficient information to prepare reliable bids on the GFEBS system integration contract, which places GFEBS at high risk for incurring schedule delays and exceeding planned costs. In addition, the Army risks implementing a system that does not meet program objectives.

DoD Policy

The Defense Procurement and Acquisition Policy "Contract Pricing Reference Guide," Volume 1, Chapter 7, "Account for Differences," states that requirements include any element that defines what the contractor must do to complete the contract successfully. The price offered by a potential bidder reflects their understanding of the requirements.

Defining Program Requirements

The Army did not adequately define GFEBS program requirements for potential bidders (system integrators). Specifically, the Army did not provide a clear and concise description of its system requirements in the request for quotation (RFQ). An RFQ is an invitation extended to a vendor or contractor by a purchasing organization to submit a quotation, or bid, for the supply of materials or performance of services. The RFQ should describe program requirements to potential bidders. The purchasing organization then can evaluate the potential bidders by determining their ability to meet the requirements as described in the RFQ.

The statement of objectives (SOO), an element of the RFQ, describes the products and services the purchasing organization requires. In other words, the purchasing organization uses the SOO to communicate the program objectives to the potential bidders. The Army incorporated the SOO into the contract as its statement of work. FAR Part 37.602-1, "Statements of Work," says that the statement of work must define requirements in clear, concise language identifying specific work to be accomplished. Also, according to the "DoD Handbook For Preparation of Statement of Work," the SOO should provide potential bidders with enough information and detail to structure a sound program. However, the SOO for the GFEBS program included 16 requirements identified as "subject to change." The following are examples of the SOO requirements subject to change:

-
- deployment locations,
 - system interfaces,
 - number of users,
 - transaction volumes,
 - amount of data to be converted,
 - implementation schedule, and
 - task order type, including method of contracting for items encompassed by system integrator services and application provider services.

The 16 requirements in the SOO are critical to the successful development of GFEBS. A change in any of the 16 requirements would have a significant impact on GFEBS development costs and implementation schedule. For example, a change in deployment locations could affect the number of system interfaces, which could then cause an increase in the number of users and transactions and, ultimately, delay the date of conversion. Therefore, if the program requirements are subject to significant changes, or are not clear, potential bidders will have widely different interpretations of the program requirements. This may have been the cause for the \$409.1 million variance between the highest bid of \$707.6 million and the lowest bid of \$298.5 million for the \$516.2 million GFEBS contract.

System Interfaces. The Army did not adequately identify the resource requirements for system interfaces. Specifically, the Army did not provide a complete inventory of the systems that GFEBS would need to interface with or replace and did not identify the subject matter experts for those systems.

Inventory of Systems. The RFQ did not include a complete inventory of the systems that GFEBS will need to interface with or replace. The Army was not able to collect a complete universe of financial systems and did not provide all identified system interfaces to potential bidders. The Army was just completing the second phase of a two-phase Financial System Realignment and Categorization (FINSRAC) study to identify financial systems when it issued the RFQ in March 2005. According to PEO EIS personnel, the RFQ was prepared earlier in the GFEBS acquisition process, but the Army did not issue it because of a delay in approval of the GFEBS Acquisition Strategy. Then, the Army did not update the RFQ to add the results of the FINSRAC study once the GFEBS Acquisition Strategy was approved. As a result, the Army issued the RFQ without the critical information FINSRAC could have provided.

The goal of the FINSRAC study was to collect information about the universe of financial systems that the Army supported. The purpose of FINSRAC I, the first phase of the study, was to identify the Army's accounting and finance systems. The Army completed FINSRAC I in October 2004, 5 months prior to issuing the RFQ. The purpose of FINSRAC II, the second phase of the study, was to increase participation and supplement the information collected in FINSRAC I, and to identify the Army's strategic planning and budgeting systems. During FINSRAC I, 36 percent of the target organizations provided the information requested. The percentage of organizations that completed the FINSRAC II

information request increased to 44 percent. However, this level of participation was inadequate and could impede the development of GFEBS. The Army needs to hold organizations accountable for providing information to system integrators. This information should include memorandums of agreement from the system owners for each system interface. The Army should consider withholding funding for systems whose owners do not provide needed information.

The RFQ identified 112 systems; however, it did not disclose 74 systems identified in FINSRAC I or an additional 15 systems identified in FINSRAC II. By excluding the results of the FINSRAC studies from the RFQ, the Army did not provide potential bidders an accurate description of the true complexity of the Army's system architecture. According to GFEBS personnel, minimal requirements information was available in developing the RFQ. GFEBS personnel stated, "GFEBS followed a best-practices approach to ERP [Enterprise Resource Planning] interfaces development by allowing the business process analysis and reengineering efforts of the ERP implementation [system integrator contract] to drive requirements for system interfaces." GFEBS personnel also said that the best practices they followed did not require the Army to identify the system interface requirements prior to the RFQ. However, we believe that the Army should have used the information available to provide bidders with a complete inventory of the systems GFEBS would potentially need to interface with or replace. See Appendix C for a listing of the 89 additional systems identified in the FINSRAC studies that the Army did not include in the RFQ.

Subject Matter Experts. The Army did not identify subject matter experts (SMEs) for all potential system interfaces. The RFQ stated that the contractor should assume limited availability of Government personnel for functional and technical support. A system integrator needs SMEs to provide information on current system functionality in order to plan system interfaces or system replacements. The Army needed to identify SMEs and ensure a system expert would be readily available prior to issuing the RFQ. Without SMEs, the system integrator cannot incorporate the elements necessary for the interfaces to communicate with each other. In addition, the system integrator could not ensure that GFEBS would be capable of replacing the current system functionality. For GFEBS to succeed, the Army must direct system experts to make themselves available. In addition to specific Army commands, such as Medical Command or Forces Command, the Army will also need to identify SMEs from non-Army organizations such as DFAS.

Data Conversion. The Army did not adequately identify the data conversion processes required for GFEBS implementation. Data conversion is the modification of existing data to enable it to operate with similar capabilities in a different environment. It is a significant part of the financial system implementation in terms of workload, complexity, risk, and cost and is one of the most frequently underestimated tasks. The Army should have considered its conversion strategy, methodology, resources, and timeliness early in the planning of GFEBS. Inadequate planning for data conversion processes may lead to long-term repercussions, including failure to meet program objectives. The Army needs to prepare a detailed data conversion plan within 30 days of completing a blueprint of GFEBS. This blueprint should outline the target solution and document the design decisions for the application, technology, process, and training required to support the GFEBS program.

The Army did not follow the best practices described in the Joint Financial Management Improvement Program white paper, "Financial System Data

Conversion—Considerations,” December 2002 (the White Paper).⁴ This best-practices guidance provides data conversion topics that program managers should address when planning or implementing a new financial management system. For example, the White Paper addresses the following elements to be included in a comprehensive, detailed conversion plan:

- the scope of conversion,
- the specific transactions and data to be converted,
- the existing data to be archived, and
- the systems impacted by the conversion.

The Army identified the scope of the data conversion in the RFQ and stated that it did not intend to convert all historical data; however, the Army did not specify the existing data to archive or the systems affected by the conversion. In addition, through the RFQ, the Army required the system integrator to develop a data conversion plan that specified and justified what data to convert from the existing systems that GFEBS is to replace. The Army should have identified the items listed in the White Paper early in the planning process and not relied on the system integrator to perform these tasks.

Existing Systems. The Army did not develop a definitive plan for phasing out the data in existing Army systems. The RFQ stated that data conversion relates to extracting appropriate data from existing systems into GFEBS, but it did not provide the detail needed for the system integrator to determine which data were appropriate. However, as data conversion is a critical task, the Army should have developed a definitive plan in the early stages of the program before awarding the system integration contract.

Data Cleansing. The Army did not determine the level of data cleansing required for each system GFEBS will replace prior to issuing the RFQ. The RFQ defines data cleansing as a process of removing errors and inconsistencies within the existing data, standardizing or consolidating common data among multiple systems, and removing unnecessary data. The RFQ stated that the contractor was to develop a data-cleansing strategy that specified how the contractor would resolve data quality issues before conversion. However, the RFQ did not provide adequate information on the number of systems and the scope of cleansing required. For example, the contractor recently subcontracted out a study to review the quality and quantity of the property, plant, and equipment data. The objective of the study was to:

- inventory a sample of real property and general equipment at Fort Hood;
- establish general ledger values reflecting depreciation, capital improvements, and other factors affecting financial value;
- create documentation to substantiate the general ledger values; and

⁴ A copy of the White Paper can be obtained from http://www.fsio.gov/fsio/fsiodata/fsio_otherreports.shtml.

-
- present the recommended changes to the Army.

Although the Army should have determined the condition of its existing data prior to issuing the RFQ, it still has not determined the amount of data that it needs to convert or cleanse.

Schedule and Cost Impact

GFEBs has already incurred schedule delays, and inadequately defined system requirements increase the risk for additional schedule delays and exceeding planned costs. In addition, the Army risks implementing a system that does not meet program objectives. Requirements guide the blueprint that system developers and program managers use to design, develop, acquire, and evaluate a system. Improperly defined or incomplete requirements can cause system failures, such as systems not meeting their costs, schedules, or performance goals. Well-defined requirements provide the foundation for system evaluation and testing. Inadequately defined requirements prevent an organization from implementing a disciplined testing process to determine whether a system meets program objectives and performance goals. Without well-defined requirements, an organization is taking a significant risk that its testing efforts will not detect significant defects until after the organization places the system into production.

The Army's Logistics Modernization Program is an example of a program where inadequately defined requirements resulted in schedule delays, exceeding planned costs, and failure to meet program objectives. Government Accountability Office report number GAO-04-615, "DoD Business Systems Modernization," May 2004, stated that the Army had not effectively managed its implementation of the Logistics Modernization Program. In addition, the Government Accountability Office found that the program's requirements lacked the specific information needed to understand the required system functionality and did not describe how to determine whether the system would meet the Army's needs. According to the report, Army officials have acknowledged that requirements and testing defects were factors contributing to operational problems as well as schedule slippages and cost increases. As a result of the operational problems, the Logistics Modernization Program's original full operational capability⁵ date of FY 2004 is no longer valid. According to the September 2006 Enterprise Transition Plan,⁶ the Logistics Modernization Program's fourth anticipated deployment date is July 2010. In addition, the Government Accountability Office reported that the Army's estimated cost for the program increased from \$421 million in October 1999 to more than \$1 billion in March 2004. If the Army does not effectively plan for the development and implementation of GFEBs, it could experience similar delays and exceed planned costs.

Current Schedule Delays. The Army has already delayed the dates for GFEBs initial operational capability⁷ and full operational capability. The proposed

⁵ A system reaches full operational capability when all organizations have received the system and have the ability to employ and maintain it.

⁶ The Enterprise Transition Plan describes a systemic approach for the transformation of business operations within the DoD.

⁷ A system reaches initial operational capability when a unit scheduled to receive the system has received it and has the ability to employ and maintain it.

August 2007 date for initial operational capability was delayed 16 months to December 2008. The proposed December 2009 date for full operational capability was delayed 7 months to July 2010. By February 2006, 8 months after the Army awarded the contract, the GFEBs schedule had incurred a 7-week delay. PEO EIS personnel partly attributed this delay to an aggressive schedule, inconsistent subject matter expert participation, and new requirements added by the Business Transformation Agency. PEO EIS personnel stated that the remaining delays were because the Army added time to the GFEBs implementation schedule to allow for additional planning and analysis that was prompted by information learned during the initial phase and because of Congressional budget cuts. The Army needs to evaluate, and possibly adjust, its current target dates to ensure that all needed planning is completed prior to continuing with the GFEBs implementation.

Future Schedule Delays. Changes in the implementation schedules for the many developing systems with which GFEBs will be required to interface may also impact the GFEBs implementation schedule and costs. For example, between September 2005 and September 2006, the Army delayed the full operational capability date for the Global Combat Support System-Army by 3 years and 10 months. The Army is developing the Global Combat Support System-Army to provide the warfighter with a flow of timely, accurate, and secure information on tactical logistics (the movement of troops and battlefield supplies). Once this system obtains full operational capability, it should allow the Army to retire 11 existing systems supporting tactical logistics. The Global Combat Support System-Army was originally supposed to attain full operational capability in March 2010, which was prior to the full operational capability date planned for GFEBs. The current full operational capability date for the Global Combat Support System-Army is now January 2014, three years after the current full operational capability date for GFEBs. As a result, there could be delays resulting from additional interface requirements for GFEBs with systems that the Global Combat Support System-Army was originally going to interface with or replace. Figure 1 illustrates a timeline of major events in the GFEBs acquisition process.

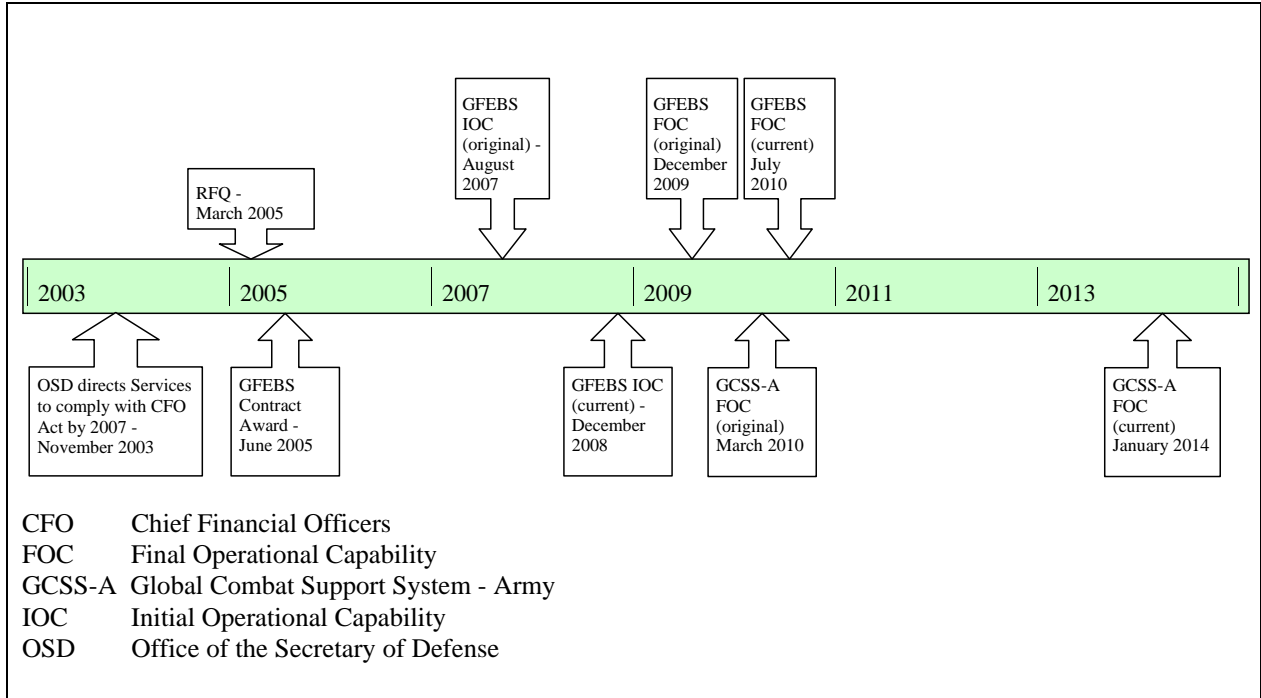


Figure 1. GFEBS Timeline

Conclusion

Because GFEBS is at high risk for incurring schedule delays, exceeding planned costs, and not meeting program objectives, the program needs management oversight from the highest levels of the Under Secretaries of Defense for Acquisition, Technology, and Logistics and (Comptroller)/Chief Financial Officer and the Army. Completely and accurately defining program requirements and blueprinting the system are critical, because GFEBS will interface with or replace at least 208 systems (with an unknown number of feeder systems) and will include at least 79,000 users at more than 300 DoD installations. In August 2005, the Office of Management and Budget established a High-Risk Information Technology Projects list to help ensure that agencies and programs were meeting their intended goals and producing results. Projects on the High-Risk Information Technology Projects list are not necessarily “at risk,” but require special attention from the highest level of agency management because of the following factors.

- The agency has not consistently demonstrated the ability to manage complex projects.
- The project has exceptionally high development, operating, or maintenance costs.
- The project is being undertaken to correct recognized deficiencies in the adequate performance of an essential mission program or function of the agency, a Component of the agency, or another organization.

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- A delay or failure in the project would introduce unacceptable or inadequate performance or failure of an essential mission function of the agency, a Component of the agency, or another organization.

The Army is developing GFEBs to obtain a clean audit opinion on the Army's financial statements, which is an essential mission function of the Army. As such, the GFEBs program meets the Office of Management and Budget definition of a high-risk program and should be included in the DoD quarterly assessment on the performance of high-risk projects. In addition, the Government Accountability Office has identified DoD Business Systems Modernization as a high-risk area.

Management Actions

The Army has taken steps to identify interfaces and provide needed resources that it did not initially provide. GFEBs personnel have completed a list of the systems that GFEBs will need to interface with or replace, as of May 2007. Prior to issuing the RFQ, the Army had not identified the SMEs required for system interfaces. However, according to GFEBs personnel, although the system integrator required only 36 SMEs, the Army had provided the names of 249 SMEs (as of June 12, 2007).

Recommendations, Management Comments, and Audit Response

Revised and Redirected Recommendations. Based on the Director, Defense Procurement and Acquisition Policy, OUSD (AT&L) comments, we redirected Recommendation A.1. to the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer (ASD [NII/CIO]). In addition, we revised Recommendation A.2.c. to clarify the timeframe for completing the data conversion plan.

A.1. We recommend that the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer coordinate with Office of Management and Budget personnel to add the General Fund Enterprise Business System program to the High-Risk Information Technology Projects list.

Management Comments. The Director, Defense Procurement and Acquisition Policy, OUSD (AT&L) partially concurred and stated that the ASD (NII/CIO), not USD (AT&L), is responsible for the list within the Office of the Secretary of Defense. Therefore, we redirected the recommendation to the ASD (NII/CIO) and requested that they provide comments in response to the final report.

A.2. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) provide support to the General Fund Enterprise Business System program through the following actions.

a. Withhold funding for systems whose owners do not provide the information concerning system functionality necessary to integrate the General Fund Enterprise Business System.

Management Comments. The Assistant Secretary of the Army (Financial Management and Comptroller) concurred and stated that the information concerning system functionality has been provided by system owners and Government SMEs; therefore, the Army has not had to resort to withholding funding. However, they will retain this option, as required, as they go forward. No additional action is required on this recommendation.

Although not required to comment, the Director, PEO EIS, agreed with the recommendation and reiterated the information contained in the Assistant Secretary of the Army (Financial Management and Comptroller) response.

b. Identify subject matter experts for all potential system interfaces and commit personnel to the project for the duration of the project.

Management Comments. The Assistant Secretary of the Army (Financial Management and Comptroller) concurred and stated that the Army understood that government staff participation in solution design is critical to the success of GFEBS. The Army executive leadership ensured that necessary functionality was integrated into GFEBS by placing a significant emphasis on securing participation of subject matter experts from a wide range of organizations. Army comments are responsive to the recommendation and the action is considered complete.

Although not required to comment, the Director, PEO EIS, stated that the Army had provided the names of 249 SMEs to the system integrator. Additional details are provided in the "Management Actions" section.

c. Prepare a detailed data conversion plan within 30 days of completing the blueprint of the General Fund Enterprise Business System.

Management Comments. The Assistant Secretary of the Army (Financial Management and Comptroller) concurred and stated that the blueprint phase dictates which conversion activities should be undertaken, which ties the conversion plan directly to the blueprinting process. Therefore, a data conversion plan will be completed within 30 days of completing the blueprint.

Although not required to comment, the Director, PEO EIS, disagreed with Recommendation A.2.c. as originally written. The Director stated that the data conversion plan would be prepared after the GFEBS blueprint was complete. The Director's comments are consistent with the requirements of the revised recommendation.

Audit Response. We consider the comments to be responsive. The blueprint phase was scheduled to be completed by September 30, 2007. We will review the data conversion plan to ensure that the issues identified in the finding are addressed.

d. Evaluate current timeframes for the General Fund Enterprise Business System program and adjust to accomplish the actions in this recommendation.

Management Comments. The Assistant Secretary of the Army (Financial Management and Comptroller) concurred and stated that after evaluating their current timeframes, they determined that the current schedule meets the intent of the recommendation.

Although not required to comment, the Director, PEO EIS, reiterated the information contained in the Assistant Secretary of the Army (Financial Management and Comptroller) response.

Audit Response. After reviewing the Defense Financial Improvement and Audit Readiness Plan and the Army Chief Financial Officer Strategic Plan, we determined that the Army had adjusted the GFEBS timelines. As such, we consider the comments to be responsive. We plan to continue monitoring the GFEBS program to ensure that the implementation meets the established timeframes.

B. Commercial Item Acquisition

The Army inappropriately used a blanket purchase agreement (BPA) to contract for services to design, develop, integrate, and implement GFEBS. The Army used this improper contracting method because the Office of the ASD (NII/CIO) required the use of the BPA for new ERP implementations. As a result, the GFEBS system integration contract lacked controls that would have been required if the Army had used a cost-reimbursement contract. In addition, the Army incurred about \$3.9 million in unnecessary fees and did not comply with the DoD Financial Management Regulation.

Government Contracting

DoD has a variety of contract types Defense organizations can choose from to purchase supplies and services. When selecting a contract type, the objective is to choose the contract type that will result in a reasonable contractor risk and provide the contractor with the greatest incentive for efficient and economical performance. Complex requirements, particularly those in research and development contracts where performance uncertainties or the likelihood of changes make it difficult to estimate performance costs in advance, usually result in greater risk assumption by the Government. The FAR classifies contracts into two broad categories: fixed-price contracts and cost-reimbursement contracts.

Fixed-price Contracts. Fixed-price contracts allow the purchaser to establish a firm price or an adjustable price. Fixed-price contracts providing for an adjustable price may include a ceiling price, a target price, or both. These contracts include firm-fixed-price, fixed-price with economic price adjustment, and fixed-price incentive. A fixed-price contract provides incentive for the contractor to control costs. According to the FAR, the contracting officer must use firm-fixed-price contracts or fixed-price contracts with economic price adjustment when acquiring commercial items. The FAR defines a commercial item as:

- any item customarily used for nongovernmental purposes that has been sold, leased, or licensed to the general public or that has been offered for sale, lease, or license to the general public;
- an item that evolved from a commercial item as described in the first bullet;
- an item that meets the description from the first bullet, but with minor modifications to meet DoD needs or modifications of a type normally done for commercial customers; or
- any combination of items meeting the commercial item descriptions above.

The GFEBS system integrator contract primarily includes contract line items that are fixed-price. Contract line items identify an item of supply or service on a contractual document.

Cost-reimbursement Contracts. Cost-reimbursement contracts provide for payment of allowable incurred costs to the extent stated in the contract. These contracts establish an estimate of total cost for obligating funds and a ceiling cost that the contractor may not exceed without the approval of the contracting officer. Cost-reimbursement contracts are suitable when uncertainties involved in contract performance do not permit organizations to estimate costs with sufficient accuracy to use a fixed-price contract. Under cost-reimbursement contracts, the Government can audit costs incurred by the contractor for compliance with Cost Accounting Standards, the Truth in Negotiations Act, FAR, and the contractor's internal control systems.

Blanket Purchase Agreement

The Army inappropriately used the BPA to contract for system integrator services. Examples of why the BPA was inappropriate include the following:

- the system integration contract did not fit the definition of commercial services;
- program risks were too high to justify the use of a fixed-price contract; and
- the program scope was too large, undefined, and complex to use the BPA for system design, development, integration, and implementation.

Commercial Services Definition. The GFEBs contract did not fall within the FAR definition of commercial services. Commercial services are bought to support commercial items and are sold competitively in the commercial market for specific tasks or outcomes. The Army issued the GFEBs system integrator contract under the BPA, as if the system integration services were commercial. FAR Part 8.4, "Federal Supply Schedules," regulates the BPA. The Federal Supply Schedule provides agencies with a simplified process for obtaining commercial supplies and services at volume prices. The prices for services under the Federal Supply Schedule are either at hourly rates or at a fixed-price for performance of a specific task. The Army should not have used the BPA because the GFEBs contract, while containing some commercial elements, does not fit the definition of commercial services, and the RFQ did not identify specific tasks or outcomes for the contractor to perform.

Although the GFEBs core system is a COTS system, this does not make the entire effort a commercial purchase.⁸ The purchase of the COTS system software licenses only accounts for \$34.6 million, or 6.7 percent, of the \$516.2 million in contract costs. The remaining contract costs relate to the system integration services.

The system integrator requirements contained in the RFQ did not contain specific tasks to perform or specific outcomes to achieve. As stated in Finding A, the RFQ did not adequately define GFEBs program requirements. In addition, the

⁸ DoD Office of Inspector General Report No. D-2006-115, "Commercial Contracting for the Acquisition of Defense Systems," September 29, 2006, states that a small portion of a program being commercial does not justify considering the entire effort commercial.

SOO, which the Army incorporated into the contract, did not provide specific descriptions of the tasks system integrators should perform. For example, the SOO did not provide adequate descriptions of the effort that will be required to accomplish:

- identification of existing financial and feeder systems,
- analysis of system functionality,
- design of the system,
- development of system interfaces,
- data cleansing and conversion, and
- implementation of GFEBS.

On March 2, 2007, the Director of Defense Procurement and Acquisition Policy issued a memorandum to the military services requiring a commercial item determination. The memorandum states that contract files must “fully and adequately document” the market research and rationale supporting a conclusion that the FAR 2.101 definition of a commercial item has been satisfied for all acquisitions valued at over \$1 million. Prior to March 2, 2007, the Army was not required to conduct a commercial item determination. In light of this new guidance, Army contracting officers should conduct a commercial item determination for GFEBS to assess whether GFEBS system integration services meet the FAR definition of a commercial item.

Program Risks. GFEBS program risk was too great to justify the use of a fixed-price contract. As discussed in Finding A, the GFEBS contract is at high risk because:

- the RFQ did not adequately describe system requirements and will rely on the contractor to define these system requirements,
- GFEBS meets the Office of Management and Budget’s definition of a high-risk program, and
- the wide range between the highest bid of \$707.6 million and the lowest bid of \$298.5 million for the system integrator contract indicates that realistic and equitable pricing was difficult to determine.

Defense Federal Acquisition Regulation Supplement Part 235, “Research and Development Contracting,” states that fixed-price contracts should not be used unless the level of program risk permits: (1) realistic pricing and (2) an equitable and sensible allocation of program risk between the Government and the contractor. In addition, the Defense Federal Acquisition Regulation Supplement, Part 235 requires a written determination from the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD [AT&L]) that the program risk meets these two criteria. However, personnel in the OUSD (AT&L) stated that there was no written determination of program risk prepared for GFEBS.

Program Scope. The scope of the GFEBS program was too large, undefined, and complex to justify use of the BPA for system design, development, integration, and implementation. The BPA describes a complex system integration and

implementation as anything greater than 201 users at 4 to 8 business locations. However, GFEBS will interface with or replace at least 208 systems (with an additional unknown number of feeder systems) and include 79,000 users at more than 300 DoD installations. In addition to the number of systems and users exceeding the BPA's description of a complex system integration, the Army had not properly identified all the systems in the RFQ. Finally, the GFEBS program requirements included many unknowns and variables. For example, the Army plans to use \$240 million in Research, Development, Test, and Evaluation (RDT&E) funds to design and develop requirements for GFEBS. GFEBS system integrators will have to determine how numerous developing DoD and Army systems will affect the GFEBS implementation. GFEBS system integrators must also account for changes in these developing systems' implementation schedules.

Requirement to Use BPA

The ASD (NII/CIO) decided the Army should use the BPA as the contracting method for the GFEBS system integration services. ASD (NII/CIO) was the milestone decision authority⁹ for GFEBS. GFEBS personnel completed the acquisition strategy in August 2004; however, ASD (NII/CIO) did not approve it until March 2005. On May 31, 2005, the USD (C)/CFO provided the authority to obligate funds in support of the GFEBS acquisition. GFEBS contracting personnel stated that ASD (NII/CIO) had delayed the approval of the acquisition strategy until the Army agreed to use the BPA, which required a fixed-price contract. The Army wanted to use a cost-reimbursement contract for the GFEBS acquisition. The Assistant Secretary of the Army (Acquisition, Logistics, and Technology) stated that he tried to convince ASD (NII/CIO) and personnel in the OUSD (AT&L) to allow the use of a cost-reimbursement contract, but that he was unable to "sway his colleagues." In order to continue with the GFEBS program, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) agreed to use the BPA.

ASD (NII/CIO) personnel stated that ERP software implementations must use the BPA because commercial vendors have established the methodologies for COTS software implementation, and the methodologies are repeatable. For example, ASD (NII/CIO) personnel stated that the five system integrator vendors involved with the BPA had implemented 18,000 COTS software packages for both commercial and Government clients. The Office of the Secretary of Defense required those DoD Components to use the BPA for COTS software implementations. For example, the BPA was used for the following COTS software implementations:

- the Expeditionary Combat Support System,
- the Defense Enterprise Accounting and Management System,
- the Global Combat Support System-Marine Corps, and
- the Common Food Management System.

⁹ The milestone decision authority has overall responsibility for a program. The milestone decision authority has the authority to approve an acquisition program's entry into the next phase of the acquisition process.

The award amounts for these contracts, including GFEBs, totaled \$1.3 billion.

The BPA may be acceptable for smaller, less complex projects; however, it is not practical for programs such as GFEBs that do not fit into the BPA's scope. The OUSD (AT&L) should not use the BPA for future large and complex system implementations requiring RDT&E funding. Also, the USD (C)/CFO should not provide obligation authority to programs for future large and complex systems implementations that use the BPA and require RDT&E funding. Because the Army used the BPA to contract for GFEBs system integration services:

- the contract lacked controls required in cost-reimbursement contracts,
- the Army incurred about \$3.9 million in unnecessary contract administration fees, and
- the Army does not comply with the DoD Financial Management Regulation.

Contract Cost Controls. The GFEBs BPA contract lacked certain controls that would normally be required in cost-reimbursement contracts. Due to the high risk related to the program and the undefined requirements, the controls required in a cost-reimbursement contract would be more appropriate for the GFEBs system integration contract. The Army does not have access to data on contractor-incurred costs because the BPA required the use of a fixed-price contract. Fixed-price contracts do not require audits of the contract costs, although the Defense Contract Audit Agency could audit any contract line items that are not fixed-price through coordination with the GFEBs Program Management Office. In contrast, with cost-reimbursement contracts, the Government may review the contractor's internal control system to determine whether costs incurred by the contractor comply with Cost Accounting Standards, the Truth in Negotiations Act, and the FAR. Therefore, if the Army had used a cost-reimbursement contract, it would have greater ability to protect the Government against possible overpricing for GFEBs system integrator services.

In this case, the Army arranged the contract line items into various firm-fixed-price, fixed-price-incentive, time-and-materials, and cost line items. Contracting office personnel stated that they had difficulty monitoring costs with the original contract because of the contract's complexity. Therefore, they restructured the contract in an attempt to facilitate the monitoring of costs. The contracting office modified the contract to reorganize the contract line items into standard firm-fixed-price, time-and-materials, cost, and FY 2006 funding line items. However, the documentation developed by the contracting office was not detailed enough to allow the tracing of costs from the original contract line items to the current contract line items, and we could not identify costs associated with the contract line items.

Contract Administration Fees. The use of the BPA required the Army to incur about \$3.9 million in unnecessary contract administration fees. Contracts that use the BPA are subject to a General Services Administration fee. As a result, the Army will pay \$3.6 million in General Services Administration fees over the life of the GFEBs contract. There is an additional fee, equal to 2 percent of the contract price, charged to the Army for awarding, administering, and managing the BPA. Navy receives 1 percent of this fee, and the remaining 1 percent is paid to the Component that places the order for services. For the GFEBs contract, the

Army waived its 1 percent fee and negotiated with the Navy to decrease its fee to \$25,000 for each year of the contract. If the Army exercises all of the option years, the Navy fee will total \$0.3 million.

Contract Funding. The milestone decision authority's decision to use the BPA resulted in the Army not complying with the DoD Financial Management Regulation. The DoD Financial Management Regulation, Volume 2A, Chapter 1 states that DoD Components should fund all commercial acquisitions with Procurement or Operations and Maintenance appropriations. However, if the acquisition requires RDT&E funding, the entire acquisition is not commercial. The Army obligated \$85.6 million in RDT&E funds for FYs 2005 and 2006 for the GFEBS acquisition. The Army plans to obligate an additional \$154.4 million in RDT&E funds for FYs 2007 through 2009. Although GFEBS does not fit the definition of commercial services, the Army issued the contract under the BPA as if the program were a commercial acquisition, as decided by ASD (NII/CIO). The Army appropriately used RDT&E funds, because the activities performed under the GFEBS contract were for development and design of the system. If the Army had complied with DoD Financial Management Regulation, Volume 2A, Chapter 1 by using Procurement or Operations and Maintenance appropriations, it would have violated the purpose statute of the Antideficiency Act.

Recommendations, Management Comments, and Audit Response

Revised and Renumbered Recommendations. As a result of management comments, we revised Recommendations B.1.a. (now B.1.a. and B.1.b.) and B.2. to clarify their intent. We also revised the recommendations to demonstrate the need within DoD for acquisition policy that limits commercial acquisitions to items that are non-developmental as defined in section 403, title 41, United States Code (41 U.S.C. 403) and Federal Acquisition Regulation Part 2.101. Draft Report Recommendation B.1.b. was renumbered and is now Recommendation B.1.c.

B.1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

a. Establish policy that is consistent with sections 403 and 437, title 41, United States Code, that states if and under what conditions Research, Development, Test, and Evaluation funding can be used for commercial items and services.

b. Discontinue use of blanket purchase agreements, such as the Enterprise Software Initiative, as the contract vehicle for system integration contracts or task orders exceeding \$25 million that require Research, Development, Test, and Evaluation funding.

Management Comments. The Director, Defense Procurement and Acquisition Policy, OUSD (AT&L) nonconcurred with Recommendations B.1.a. and B.1.b. The Director stated that the DoD Enterprise Software Initiative systems integration BPA approach for acquiring COTS information technology products and related integration services is one of the tools available when program requirements have been sufficiently defined to permit realistic fixed pricing of

system integration contracts. The Director indicated that the vehicles facilitate more efficient buying of system integration services and that risks associated with these efforts can be mitigated. He further stated that although GFEBs may not have performed sufficient up-front work prior to award, it is not appropriate to draw a general conclusion concerning this type of contractual vehicle based on this one program.

Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer Comments. Although not required to comment, the ASD (NII/CIO) stated that the implementation of Recommendations B.1.a., B.1.b., and B.2. would not be in the Department's best interest. The ASD (NII/CIO) indicated the implementation of these recommendations would have negative consequences for ERP systems currently trying to use the DoD Enterprise Software Initiative systems integration BPA. He stated that the audit seemed to confuse the Enterprise Software Initiative systems integration BPAs with "fixed-price contracts." The ASD (NII/CIO) indicated that customer issued delivery orders, which required use of both fixed-price, including various incentives, and time-and-materials are used in the DoD Enterprise Software Initiative systems integration BPA.

Business Transformation Agency Comments. Although not required to comment, the Director, Business Transformation Agency, also disagreed with Recommendations B.1.a. and B.1.b. The Director stated that it is inappropriate to assume that because the GFEBs program struggled with various aspects of the Enterprise Software Initiative system integration BPA, other similar programs will also struggle with those aspects. The Director conceded that the report raised legitimate questions about the Enterprise Software Initiative system integration BPA that had been brought to his attention by several other programs. The Director stated that the nature of ERP programs requires a discovery phase in the early cycles of the implementation and indicated that conducting this portion of the program under fixed-price parameters is highly problematic. He felt that the GFEBs program suffered because it predominantly used fixed-price parameters from the very beginning of the program. The Director also stated that it is acceptable to use RDT&E funding for significant portions of the system implementations even after requirements have been fully defined.

Program Executive Office Enterprise Information Systems Comments. Although not required to comment, the Director, PEO EIS, agreed with the recommendations.

Audit Response. The Director, Defense Procurement and Acquisition Policy, OUSD (AT&L) comments are not responsive to Recommendations B.1.a. and B.1.b. A commercial item is defined as a "nondevelopmental item" in 41 U.S.C. 403. Because design and development are required for GFEBs, the acquisition is not commercial. Acquisitions that use RDT&E funds because the effort is developmental do not fit the U.S.C. definition of a commercial acquisition. BPAs are for commercial items and services that are non-developmental. Section 437, title 41, U.S.C., does allow contracts or task orders that do not exceed \$25 million to be treated as a contract for the procurement of commercial items, if they meet specific guidelines. Any system integration effort above \$25 million that requires RDT&E funding cannot be considered a commercial item and cannot use the Enterprise Software Initiative system integration BPA. The OUSD (AT&L) should provide clear and concise policy on these issues that is in accordance with U.S.C.

The FAR requires that commercial acquisitions, including items procured under a BPA, use a firm-fixed-price contract, with an allowance for a limited number of time-and-materials line items. We do not agree that it is acceptable to use RDT&E funding on a commercial acquisition. As discussed above, commercial acquisitions must be for nondevelopmental items. Although the later phases of the GFEBs system integration are commercial, the entire effort will require extensive development. Any system acquisition that requires a developmental effort cannot be considered a commercial acquisition unless it meets the guidelines specified under section 437, title 41, U.S.C. An acquisition in excess of \$25 million that must use RDT&E funding cannot be considered a commercial acquisition. The GFEBs system integration effort will require approximately \$240 million in RDT&E funding. We request that the Director reconsider his position and provide comments on the final report.

c. Provide written commercial determination to justify that the item or service being procured using General Services Administration blanket purchase agreements meets the Federal Acquisition Regulation 2.101 definition of a commercial item for all acquisitions valued at over \$1 million.

Management Comments. The Director, Defense Procurement and Acquisition Policy, OUSD (AT&L) concurred with this recommendation and stated that contracting officers must provide the written commercial determinations to comply with the March 2, 2007, Defense Procurement and Acquisition Policy memorandum.

Although not required to comment, the Director, PEO EIS, agreed with the recommendation.

Audit Response. The Director, Defense Procurement and Acquisition Policy, OUSD (AT&L) comments are partially responsive. We request that the Director provide a description of how the requirements of the March 2, 2007, Defense Procurement and Acquisition Policy memorandum will be implemented for BPAs in comments to the final report.

B.2. We recommend that in the future the Under Secretary of Defense (Comptroller)/Chief Financial Officer not provide obligation authority to programs planning to use the Enterprise Software Initiative Blanket Purchase Agreement for large and complex system implementations until system requirements are fully defined and approved and the use of Research, Development, Test, and Evaluation funding is no longer required.

Management Comments. The USD (C)/CFO did not comment on the original recommendation. We request that the USD (C)/CFO provide comments on the revised recommendation in response to the final report.

Although not required to comment, the Director, PEO EIS, agreed with the recommendation.

B.3. We recommend that the Director, Program Executive Office Enterprise Information Systems contact the Defense Contract Audit Agency to audit contract line items that are not fixed-price.

Management Comments. The Director, PEO EIS, concurred with Recommendation B.3.

Audit Response. The Director, PEO EIS, response was adequate; however, the Director did not provide a date when this action will be completed. We request that the Director provide an action date in response to the final report.

C. Economic Analysis

The Army prepared an unrealistic economic analysis (EA) to justify the GFEBS program. Specifically:

- the Army used unsupported and incomplete life-cycle cost estimates to determine the \$1.4 billion in cost savings, and
- the Army used an inappropriate methodology to determine the estimated \$3.9 billion in benefits for implementing GFEBS.

The EA was not realistic because the Army did not follow DoD guidance for preparing it. In addition, the Army did not correct the EA to address the concerns of the Office of the Secretary of Defense (Program Analysis and Evaluation) (OSD [PA&E]). As a result, the Army did not provide sufficient economic justification for the GFEBS program and did not support its decision to invest more than \$556.2 million in GFEBS. The Army also does not have realistic baseline information needed to manage the GFEBS program and to defend priorities and resource allocations. We believe the Army could put the \$532.5 million budgeted for GFEBS contracts for FYs 2008 through 2013 to better use.

Economic Analysis Background

All major automated information systems¹⁰ have documentation requirements, including the preparation of an analysis of alternatives, a cost analysis requirements description (CARD), and an EA. The analysis of alternatives presents and analyzes several alternatives for meeting program objectives and recommends one for the DoD Component to pursue.

Cost Analysis Requirements Description. The CARD contains a description of the primary features of the program and the system being acquired. The CARD should be comprehensive enough to identify any area or issue that could significantly affect life-cycle costs. Life-cycle cost comprises total costs to the Government to acquire and own a system over the life of that system. The DoD Component uses the CARD as the basis for preparing program life-cycle cost estimates used in the EA.

Economic Analysis. The purpose of the EA is to give the DoD decision maker insight into economic factors affecting the program objectives. The EA should document estimated costs and benefits for each feasible alternative and illustrate whether the alternative satisfies the program objective.

Milestone Decision Authority. The milestone decision authority uses the analysis of alternatives, the CARD, and the EA when determining whether a program should proceed into the next phase of the acquisition process. The

¹⁰ A system qualifies as a major automated information system when estimated program costs exceed \$32 million in any single year, total program costs exceed \$126 million, or total life-cycle costs exceed \$378 million.

ASD (NII/CIO) was the initial milestone decision authority for GFEBS. However, in April 2006, the USD (AT&L) became the milestone decision authority for GFEBS.

Guidance

DoD Directive 5000.1, “The Defense Acquisition System,” May 12, 2003, provides general policies and procedures for managing all acquisition programs. In addition, there are DoD instructions and a guide that address specific procedures for preparing an EA. For example, DoD Instruction 7041.3, “Economic Analysis for Decision Making,” November 7, 1995, provides guidance concerning the evaluation of decisions about the acquisition of programs or projects. This guidance requires that the preparer document the results of the EA, including all calculations and sources of data—down to the most basic inputs—to provide an auditable and stand-alone document.

DoD organizations must support major automated information system decisions with an auditable analysis of estimated system costs and expected benefits over the life of the program. The Defense Acquisition Guidebook is guidance designed to complement other policy documents by providing the acquisition workforce with best practices that should be tailored to the needs of each program. The Defense Acquisition Guidebook states that the CARD should:

- stand alone as a readable document,
- make liberal use of references to the source documents, and
- make source documents readily available or provide them as an appendix to the CARD.

Estimated Cost Savings

The \$1.4 billion in life-cycle cost savings the Army reported in the EA were unsupported or incomplete. As shown in table 2, the Army prepared detailed estimates for two alternatives: the Status Quo¹¹ and the GFEBS implementation. The Status Quo involves no investment for system modernization.

¹¹“Status Quo” is the term used in the Army’s EA to refer to the current method of performing general fund accounting functions using existing systems.

| <u>Cost Item</u> | <u>Status Quo Cost Estimate</u> | <u>GFEBs Cost Estimate</u> | <u>Difference</u> |
|--|-------------------------------------|--------------------------------|-------------------|
| Investment costs ¹ | \$ 0.0 | \$ 0.5 | \$ 0.5 |
| System operations and support costs ² | 0.4 | 0.9 | 0.5 |
| Direct-billable-hours costs | 3.5 | 1.0 | (2.5) |
| Status Quo phase-out costs | <u>0.0</u> | <u>0.1</u> | <u>0.1</u> |
| Total | \$ 3.9 | \$ 2.5 | \$ (1.4) |

¹Includes costs for program management, development, procurement and implementation.

²Includes system management, hardware and software maintenance, and site operations.

The Army computed the cost estimate for a 14-year period ending FY 2018. However, the Army did not prepare a realistic EA as required by DoD Directive 5000.1, which states that the DoD Components must plan programs based on realistic cost projections. The estimated cost savings are unreliable because the Army:

- did not support the cost estimates in the EA, and
- did not prepare complete cost estimates.

Cost Estimate Support. The Army did not have adequate supporting documentation for \$3.5 billion of the estimated Status Quo costs and \$2.4 billion of the estimated GFEBs costs. Table 3 provides a breakout of unsupported and supported costs by alternative.

Table 3. Breakout of Unsupported and Supported Costs by Alternative

| | Status Quo Cost Estimate (in billions) | Percent | GFEBS Cost Estimate (in billions) | Percent |
|-------------------|--|--------------|---|--------------|
| Unsupported Costs | \$3.5 | 89.7 | \$2.4 | 96.0 |
| Supported Costs | <u>0.4</u> | <u>10.3</u> | <u>0.1</u> | <u>4.0</u> |
| Total | \$3.9 | 100.0 | \$2.5 | 100.0 |

The CARD is a key document that supports the EA. The CARD neither contained adequate documentation nor made adequate references to source documentation. According to the CARD, the Army based GFEBS software and hardware requirements on “several years’ worth of experience of technical networking for ERP implementation” and developed work force projections using a combination of analogy-based methods and engineering estimates. However, the Army did not cite source documents used to support the GFEBS software and hardware requirements in the CARD, and the Army and DFAS did not provide adequate support for the estimates as required by the Defense Acquisition Guidebook.

Status Quo Cost Estimate Support. The Army did not provide support for the estimated \$3.5 billion in Status Quo system costs reported in the EA. According to the Deputy Assistant Secretary of the Army (Financial Operations), the estimated \$3.5 billion represented direct-billable hour costs. According to the EA, the direct-billable hours related to “manual financial rework and . . . manual vendor payment processing” by DFAS. However, Army personnel did not provide adequate source documents to support the \$3.5 billion.

We were able to validate \$0.4 billion (10.3 percent) of the \$3.9 billion in Status Quo costs with the DFAS Headquarters Corporate Budget Office. The \$0.4 billion cost estimate represented support and operating costs for 6 of 77 existing systems that GFEBS will replace. However, as discussed above, the cost estimate for DFAS direct-billable hours was unsupported.

GFEBS Cost Estimate Support. The Army did not provide support for the estimated \$2.4 billion in projected GFEBS system costs reported in the EA. The \$2.4 billion in unsupported GFEBS cost estimates included \$1.4 billion for investment and system operation costs. The EA stated that the cost information was obtained from a variety of sources to include actual cost from contracts, hardware and software vendor quotes, as well as engineering estimates and analogies to comparable Federal ERP implementations. However, the Army did not provide detailed source documents or references to source documents to support these cost estimates. The remaining \$1 billion of the unsupported GFEBS cost estimate represented the estimated cost to sustain current DFAS processes for 4 years until GFEBS is fully implemented. However, the Army and DFAS did not provide adequate source documents to support the \$1 billion cost estimate.

The Army adequately supported \$0.1 billion of the GFEBS cost estimate. The estimate represented the phase-out cost for six existing systems GFEBS will replace. The six existing systems have to be maintained and kept operational during the first 4 years of the GFEBS life-cycle.

Cost Estimate Completeness. The Army did not include all costs in the estimates for the two alternatives. The Army has identified 208 systems with financial management relevance. Figure 2 shows the status of the 208 systems as of May 2006.

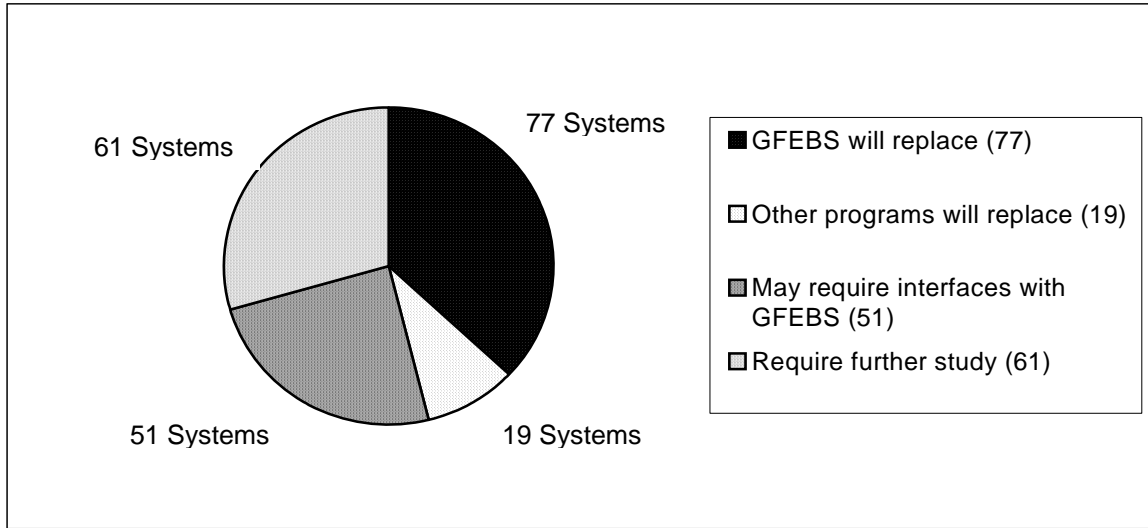


Figure 2. Status of Existing Systems

GFEBS will replace 77 of the 208 financial management systems. Programs other than GFEBS will replace an additional 19 of the 208 systems. The Army has not finalized action on the remaining 112 systems. Fifty-one may require interfaces with GFEBS, and 61 require further study. The EA should have reported the full costs for:

- replacing existing systems,
- interfacing with existing systems,
- compliance upgrades for existing systems, and
- converting and retaining data.

The Army did not include cost estimates for these systems because the Army did not include essential requirements information in the CARD. The CARD did not include complete quantitative comparisons between GFEBS and existing systems GFEBS will replace. As a result, the cost estimates used in the EA were incomplete. Although we were unable to find estimates for the missing EA costs, we believe the estimates would add substantially to the total cost estimate. Finding A contains additional information on system requirements and data conversion.

Replacement Cost Estimate Completeness. The Status Quo cost estimate in the EA is incomplete because the CARD only included baseline work

force, software, and hardware requirements for GFEBs. The EA did include workforce, software, and hardware costs for 6 of the 77 existing systems GFEBs will replace. However, the Army did not include in the EA the system operations, and support costs for system management, hardware and software maintenance, site operations, and work force requirements for 71 of the 77 systems. The Army included a cost estimate of \$0.4 billion for replacing only six financial management systems in its total Status Quo cost estimate of \$3.9 billion.

Interface Cost Estimate Completeness. The EA did not include any costs for interfacing 51 major systems with GFEBs because the CARD did not identify the systems. In addition, the Army had not made a decision on whether to interface, retain, or replace 61 other systems with financial management relevance to the GFEBs program.

Compliance Upgrade Cost Estimate Completeness. The EA did not include costs for ensuring that the 51 systems that may require interfaces with GFEBs and 61 systems that require further study comply with Federal system requirements. The only system costs in the EA are phase-out costs for six of the systems GFEBs will replace. The purpose of the Chief Financial Officers Act and the Federal Financial Management Improvement Act was to improve financial management and internal controls and to assure reliable financial information. Financial management systems must comply with Federal system requirements and U.S. Government Standard General Ledger at the transaction level. In the EA, the Army recognized that true Status Quo was not a viable option but did not provide a cost estimate to fix the deficiencies. For the systems GFEBs will not replace and that are not compliant, the Army should have included cost estimates to bring those systems into compliance with Federal system requirements in the EA.

Data Conversion and Retention Cost Estimate Completeness. The EA did not include cost estimates for data conversion and retention. The EA was incomplete because the Army did not provide complete information on system users and accounting transaction volumes in the CARD, and what the Army did provide had no audit trail. In addition, the Army neither identified the data conversion processes required for GFEBs implementation nor what data to convert. The Army will either transfer historical transactions into GFEBs or retain the transactions in existing systems, whereby the Army would incur the operating and support costs of the existing systems. Without identifying the specific data to convert, the Army cannot prepare reliable cost estimates. The volume of Army financial transactions is enormous. For example, in January 2006, the Business Enterprise Information Services¹² posted 12.7 million transactions from 5 financial management systems to the Army General Fund general ledger.

Confidence in Estimated Cost Savings. Personnel from the Office of the Secretary of Defense (Program Analysis and Evaluation) (OSD [PA&E]) expressed a lack of confidence in the EA cost estimates in an April 18, 2005, memorandum to ASD (NII/CIO). In the memorandum, OSD (PA&E) personnel concluded that they could not “state with any confidence that the cost estimate for the GFEBs program is reasonable.” To support this conclusion, OSD (PA&E) personnel cited the Army’s failure to use a traditional approach that compares

¹²The Business Enterprise Information Services is an information system that will build on existing infrastructure to provide timely, accurate, and reliable business information from across DoD.

actual costs among similar programs. Specifically, the Army did not demonstrate how its cost estimation approach related to specific aspects of the GFEBS acquisition. As a result, OSD (PA&E) could not assess whether the cost estimate was reasonable or determine which cost risks were incorporated in the estimate.

Estimated GFEBS Benefits

The Army used an inappropriate methodology to determine the estimated benefits of \$3.8 billion from implementing GFEBS. The Army used the results of a commercial study (the Study) to calculate the GFEBS benefits. However, the Army did not adequately document its rationale for using the Study in the EA. The Army's use of the Study results to calculate the GFEBS benefits was inappropriate. Specifically:

- the sample of business entities was not representative of the Army operations,
- the Army reported monetary benefit categories that were not related to GFEBS, and
- the GFEBS benefits were based on an inappropriate sales revenue multiplier.

Sample of Business Entities. The business entities surveyed in the Study were not representative of the Army. The Study reported the results of a survey of 204 business entities that had experience in ERP implementation. However, only 1 of the 204 business entities was a Federal Government organization. Only 34 out of 204 business entities reported monetary benefits from ERP implementation. The Study was heavily weighted towards the manufacturing industry—89 of 204 business entities were manufacturing entities. The Army has a significantly different mission and function than the 204 business entities surveyed. Most of the business entities were profit driven whereas the Army is mission driven. The Army's mission is to “develop ready and relevant land forces in support of the combat commanders and in joint force to sustain the full range of global commitments” and to “train and equip soldiers as warriors and growing adaptive leaders.” The business entities surveyed had little or no relationship to the Army mission and need for financial management information.

Benefit Categories. The Army inappropriately included eight benefit categories that were not GFEBS ERP benefits in the EA. Part of the Study discussed potential monetary benefits of ERP implementation. The Study reported 21 potential benefit categories. However, only 34 business entities reported monetary benefits from ERP implementation. Appendix D lists the 21 benefit categories, the number of business entities reporting the benefits, and the average annual monetary benefits for those entities. Instead, the Army chose to use multiple ERP solutions for various Army functions; however, the EA inappropriately reflected benefits related to other Army ERPs. For example, the Army has four major material supply and service management (logistics) ERPs: the U.S. Army Medical Research and Materiel Command's Revolution in Logistics, the Global Combat Support System, the Logistics Modernization Program, and the Product Lifecycle Management Plus. These four logistic ERPs

should claim benefits relating to inventory, distribution, purchasing, and the supply chain.¹³ The Army Working Capital Fund is a business fund that should realize benefits relating to cash flow, production, and sales. As a result, the Army overstated the \$3.8 billion in GFEBS benefits by \$1.8 billion, or 47.4 percent. Table 4 shows the breakout of the overstated benefits of \$1.8 billion.

| <u>Benefit Category</u> | <u>Functional Area</u> | <u>Monetary Benefit (in millions)</u> |
|-----------------------------------|------------------------|---|
| Improved cash flow | AWCF* | \$ 458.7 |
| Reduced production costs | AWCF* | 227.5 |
| Improved sales forecasting | AWCF* | 502.3 |
| Lower inventory | Logistics | 88.2 |
| Reduced distribution costs | Logistics | 170.6 |
| Increased purchasing discounts | Logistics | 90.0 |
| Improved supply chain performance | Logistics | 78.2 |
| Improved order processing | Logistics | <u>213.2</u> |
| Total | | \$1,828.7 |

*Army Working Capital Fund

Sales Revenue Multiplier. The Army estimated GFEBS benefits using an inappropriate sales revenue multiplier based on the ratio of Army funding to industry sales. Sales revenue was a primary metric in the Study. However, sales revenue is not the primary source of funding for the Army General Fund. The Army divided its FY 2004 funding of \$93.3 billion by the average sales revenue of \$1.4 billion cited in the Study to arrive at a revenue multiplier of 66.4. The Army used 15 of the 21 benefit categories in the GFEBS EA, multiplied the reported average annual monetary benefits for those 15 categories by the 66.4 sales revenue multiplier, and then reported the monetary benefits over a 12-year period to arrive at the total GFEBS benefits of \$3.8 billion.

We agree that the Study provides the types of benefits that GFEBS might provide; however, the monetary results cited in the Study should not be projected as monetary benefits. The Army might realize benefits such as improved financial information. DoD Instruction 7041.3 states, “Minimally, qualitative costs or

¹³The supply chain is a network of facilities and distribution options that performs the functions of procurement of materials, transformation of materials into intermediate and finished products, and distribution of these finished products to customers.

benefits should be discussed in narrative format.” The Army could have included benefits it might reasonably expect to achieve in qualitative terms in the EA.

OSD (PA&E) Conclusion on Estimated Benefits. OSD (PA&E) personnel also expressed a lack of confidence in the EA benefit estimates in the April 18, 2005, memorandum. In the memorandum, OSD (PA&E) personnel stated that the Army assumed that the benefits identified in the Study scaled linearly with the size of the organization implementing the ERP. OSD (PA&E) personnel concluded, “It is unlikely all those savings scale linearly, so the benefits estimate is likely inflated.” They added that “... without understanding the fundamental processes and change management implicit in those benefits, it is not possible to evaluate the accuracy of the estimate or whether the Army can reasonably expect to achieve the savings with GFEBs implementation.”

EA Review and Approval

The Army’s actions did not adequately correct the EA to address OSD (PA&E) concerns. The Army disputed the OSD (PA&E) concerns in a memorandum on April 29, 2005. The Army argued that the cost estimates were reasonable and that the Army accepted many of the benefits identified in the Study. However, the Army also acknowledged that this EA “by its nature contains higher level and broader estimates than subsequent updates.” Although the Army’s actions did not adequately address OSD (PA&E) concerns, ASD (NII/CIO) approved the EA on June 24, 2005, and provided approval to award the system integrator contract.

The Army has not delivered an updated EA. The Army’s response to OSD (PA&E) stated, “Future GFEBs business justifications will provide additional fidelity and follow the process outlined within DoD 5000.” When the Army updates the EA, the USD (AT&L) should provide documentation that indicates he has acknowledged and evaluated the cost and benefit data before the GFEBs project proceeds. In addition, the Army should retain the review documentation as part of the official project documentation.

Project Decision and Justification

Investment Cost. The Army plans to invest \$556.2 million in the development and deployment of GFEBs. This includes \$516.2 million for the integration contract and \$40 million for the program management contract. As of February 2007, the Army has paid \$76.6 million on the GFEBs system integrator and the program management support contracts. The Army did not economically justify its decision to invest in GFEBs development and deployment. According to OSD (PA&E), “the lack of confidence in the cost and benefits estimates makes the economic justification for the program suspect.” As a result, GFEBs may not be the most economical solution to obtain a clean audit opinion and improve Army financial information. Without reliable and supported cost and benefit estimates, the Army does not have realistic baseline information needed to defend priorities and resource allocations for GFEBs. The lack of realistic baseline information poses a significant risk that the Army will not be able to demonstrate adequately whether GFEBs is cost-effective until it has spent hundreds of millions of dollars or more on system design, development, integration, and

implementation. In addition, the Army will be unable to achieve cost containment and project control for the life-cycle costs, estimated at \$2.5 billion over 14 years. The EA should have included complete cost information on existing systems, and supported estimates for GFEBS costs and benefits.

Management Action. DoD Instruction 5000.2, “Operation of the Defense Acquisition System,” May 12, 2003, requires that the EA be updated at least once during the acquisition process. PEO EIS personnel have informed us that they plan to update the EA. The Army needs to update the EA based on realistic assumptions, costs, and benefits. Furthermore, DoD Instruction 7041.3 requires that the cost estimates should be auditable.

We acknowledge that the Army must implement a system that will allow for the production of auditable financial statements. However, the continuation of the system integrator and program management support contracts without adequately defined program requirements (see finding A) and an updated EA would not be a prudent use of Army funds. The Army should coordinate the updated EA with the OUSD (AT&L) and the Office of the Under Secretary of Defense (Comptroller) and a decision should be made whether to continue with the GFEBS program, modify the program, or discontinue the program. Because the USD (C)/CFO provided the authority to obligate funds in support of the GFEBS acquisition, she should be directly involved in the decision whether or not to continue the GFEBS contracts. By using the updated EA to make the decision whether to continue with the GFEBS program, modify the program, or discontinue the program, the Army could put to better use \$532.5 million currently budgeted for GFEBS contracts. The Army would achieve these benefits by implementing the GFEBS program based on fully defined program requirements and an updated, realistic, and supported EA. See Appendix E for the Statement of Potential Monetary Benefits.

Recommendations, Management Comments, and Audit Response

Deleted and Renumbered Recommendations. We have deleted Recommendation C.1.a. addressed to the USD (AT&L), the USD (C)/CFO, and the Assistant Secretary of the Army (Acquisition, Logistics, and Technology). The original recommendation was to place the GFEBS system integrator and program management support contracts on hold until the EA was updated and the cost and benefit data were validated. We deleted this recommendation because personnel from the Office of the Under Secretary of Defense (Comptroller), the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) and the GFEBS Project Management Office raised concerns that putting the contracts on hold would not allow the completion of the system design work. They stated that completion of design work would provide Army cost analysts responsible for preparing the EA with the most current validated information on business process and software changes required by GFEBS. They proposed having an updated EA within 90 days after the completion of the design work, which is scheduled for September 2007. Recommendation C.1.b. was renumbered to C.1.

C.1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics, the Under Secretary of Defense

(Comptroller)/Chief Financial Officer, and the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) make a decision to continue, modify, or discontinue the General Fund Enterprise Business System contracts based on the results of the updated economic analysis.

Management Comments. The Director, Defense Procurement and Acquisition Policy, OUSD (AT&L) partially concurred and the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) concurred with this recommendation. They stated that the Army is updating the EA in support of the upcoming Milestone B decision¹⁴ and the milestone decision authority will use the EA in the decision making process. The Director and Assistant Secretary stated that placing the contract on hold until Milestone B would increase the risk for schedule delays and increased costs. The Director also stated that the current oversight process, the Enterprise Risk Assessment Model, which is being applied by the Business Transformation Agency, would identify program risks and provide mitigating solutions.

Audit Response. The USD (C)/CFO did not comment on the recommendation. The Director, Defense Procurement and Acquisition Policy, OUSD (AT&L) and the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) comments were responsive. We agree with the Director, Defense Procurement and Acquisition Policy, OUSD (AT&L) and the Assistant Secretary of the Army to wait until the Milestone B decision because the GFEBS program cannot move forward until the EA is done and a decision is made to continue, modify, or discontinue the GFEBS contracts. By that time, PEO EIS should have requirements fully defined. We also plan to continue oversight of the GFEBS program by reviewing the updated EA and other key documents required to support decisions in the acquisition life cycle. We request that the USD (C)/CFO provide comments on renumbered Recommendation C.1. on the final report. We also request that management indicate concurrence or nonconcurrence with the \$532.5 million in potential monetary benefits.

C.2. We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology):

a. Develop and implement procedures to ensure that information provided to decision makers concerning the economic justification of system acquisitions is complete and supported in accordance with the Defense Acquisition Guidebook.

b. Update the cost analysis requirements description to:

(i) Ensure that evidential matter supports all information used in the cost analysis requirements description.

(ii) Identify the interface, upgrade, and operations and support requirements for all systems with financial management relevance to the General Fund Enterprise Business System program.

c. Update the economic analysis to:

¹⁴ Milestone B decision is the decision to approve the system development and demonstration of a major system by the DoD official designated to have the authority to make that decision.

(i) **Ensure that evidential matter supports all information used in the economic analysis.**

(ii) **Include all relevant costs and system requirements for each alternative in the economic analysis**

d. Retain documentation of the Under Secretary of the Defense for Acquisition, Technology, and Logistics review and validation of cost and benefit data as part of the official program documentation.

Management Comments. The Assistant Secretary of the Army (Acquisition, Logistics, and Technology) concurred with Recommendations C.2.a., C.2.b., and C.2.c.; however, he did not respond to Recommendation C.2.d. We request that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) provide comments on Recommendation C.2.d on the final report.

C.3. We recommend that the Director, Defense Finance and Accounting Service, develop and implement procedures to ensure that information provided to decision makers concerning the economic justification of system acquisitions is complete and supported in accordance with the Defense Acquisition Guidebook.

Management Comments. The Executive Director, DFAS Financial Management Center of Excellence, did not concur with the recommendation. The Executive Director proposed the recommendation be revised as follows: “We recommend Director, Defense Finance and Accounting Service retain documentation used to develop the economic analysis as part of the official program documentation in accordance with the Defense Acquisition Handbook.” In addition, the Executive Director stated that they have taken action to retrieve and retain documentation for the GFEBS EA.

Audit Response. The comments provided by the Executive Director, DFAS Financial Management Center of Excellence, were not responsive. The Executive Director stated that DFAS will retrieve and retain documentation for the initial GFEBS EA. However, DFAS has not formalized the retention requirements for EA supporting documentation to ensure that source documents will be readily available. There should be an audit trail for financial estimates that DFAS provides to other DoD system developers. We request that the Executive Director, DFAS Financial Management Center of Excellence, reconsider his position and include actions planned to ensure supporting documentation is retained in the future.

Appendix A. Scope and Methodology

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

We reviewed the General Fund Enterprise Business System (GFEBS) acquisition plan to determine whether the need for it was properly justified and whether system requirements were adequately defined. We also examined internal controls over the development of the GFEBS project.

We reviewed contract documentation related to the acquisition of GFEBS. We reviewed the blanket purchase agreement; the task order issued under the blanket purchase agreement; and the request for quotation, including the statement of objectives. We analyzed the acquisition documents to determine whether the contracting method was appropriate for the GFEBS acquisition. We discussed the acquisition planning and internal controls for GFEBS with the PEO EIS, acquisition planning personnel, and system integrator contractor personnel. We also discussed the GFEBS contract process with the contracting officer as well as personnel at the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Office of the Assistant Secretary of Defense (Networks and Information Integration); and the Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology).

We examined GFEBS documentation to determine whether GFEBS was economically justified. We reviewed the economic analysis (EA), the cost analysis requirements description, and the analysis of alternatives. We analyzed the numbers presented in the EA and attempted to validate the numbers by contacting the appropriate sources within the Army and the Defense Finance and Accounting Service (DFAS) for verification of the information. We reviewed a study which the Army used as a source for estimating GFEBS benefits reported in the EA.

We examined the requirements for GFEBS to determine whether they were complete, clear, and concise; whether they fully described the software functionality needed by the Army; and whether they were sufficiently identified to ensure compliance with applicable guidance. We discussed the GFEBS planning, the blanket purchase agreement contract, and EA preparation and review process with personnel from the:

- Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics;
- Office of the Assistant Secretary of Defense for Networks and Information Integration;
- Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology);

-
- Program Executive Office Enterprise Information Systems; and
 - DFAS.

We reviewed the GFEBS planning and acquisition processes for compliance with applicable laws and DoD policies. A list of laws and DoD guidance is listed in Appendix B.

We performed this audit from November 2005 through June 2007 in accordance with generally accepted government auditing standards. Our scope was limited in that the Army could not provide documentation to support the EA and did not adequately define GFEBS requirements. Specifically, the Army and DFAS Indianapolis Operations did not provide documentation for the cost estimates or adequate documentation for the monetary benefits cited in the EA. As a result, we were unable to verify the information in the EA. Finding C of the report discusses the details of the deficiency. In addition, we did not review the validation and analysis of seven of the nine alternatives discussed in the analysis of alternatives document because of the lack of verifiable information.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Use of Technical Assistance. The Technical Assessment Directorate, Office of the Assistant Inspector General for Audit Followup and Technical Support, provided technical assistance for this audit. Specifically, the Technical Assessment Directorate evaluated technical documents such as the request for quotation and the acquisition strategy to determine if the documents complied with the information assurance policies, rules, and regulations of DoD and the Federal Government.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the Business Systems Modernization high-risk area.

Prior Coverage

There has been no prior audit coverage of the GFEBS program in the last 5 years.

Appendix B. Acquisition and Contract Guidance

DoD Directive 5000.1, “The Defense Acquisition System.” DoD Directive 5000.1, “The Defense Acquisition System,” May 12, 2003, provides guidance to ensure DoD acquires quality products in a timely manner that satisfy user needs with measurable improvements to mission capability and operational support and at a fair and reasonable price.

DoD Instruction 5000.2, “Operation of The Defense Acquisition System.” DoD Instruction 5000.2, “Operation of The Defense Acquisition System,” May 12, 2003, establishes a simplified and flexible management framework for translating mission needs and technology opportunities into stable, affordable, and well-managed acquisition programs that include weapons systems and automated information systems.

DoD Instruction 7041.3, “Economic Analysis for Decisionmaking.” DoD Instruction 7041.3, “Economic Analysis for Decisionmaking,” November 7, 1995, provides guidance concerning the evaluation of decisions about the acquisition and operation of all covered programs or projects.

Defense Acquisition Guidebook. The Defense Acquisition Guidebook defines acquisition development in 3 phases with the Acquisition Management Framework:

- the Pre-Systems Acquisition Phase defines the requirements,
- the Systems Acquisition Phase selects a system and develops it, and
- the Sustainment Phase maintains the system.

GFEBs is currently in the Pre-Systems Acquisition Phase. The figure below illustrates each phase and the stages within each phase.

The Defense Acquisition Management Framework

| Pre-Systems Acquisition Phase | | Systems Acquisition Phase | | Sustainment Phase |
|-------------------------------|------------------------------|--|---------------------------------|------------------------------|
| Concept Refinement Stage | Technology Development Stage | System Development and Demonstration Stage | Production and Deployment Stage | Operations and Support Stage |

The Concept Refinement Stage portion of the Pre-Systems Acquisition Phase develops and refines the initial concept for the system. Documents prepared during the Concept Refinement Stage include the analysis of alternatives, which evaluates numerous conceptual solutions and identifies the most promising options.

The Technology Development Stage portion of the Pre-Systems Acquisition Phase reduces the technology risk and determines the appropriate set of technologies to be integrated into the new systems. Documents prepared in the Technology Development Stage include the preparation of the CARD and the EA.

The CARD describes the acquisition program in terms of concepts, material and manpower requirements, program risks, milestones and an acquisition plan. The EA determines the best acquisition alternative and assesses the net costs and benefits of the proposed alternative relative to the existing systems. In general, the best alternative will be the one that meets validated capability needs at the lowest life-cycle cost (measured in present value terms) and provides the most favorable return on investment.

Key emphasis during the Systems Development and Demonstration Stage of the Systems Acquisition Phase is to design, test, and demonstrate a prototype for system users.

During the Production and Deployment Stage portion of the Systems Acquisition Phase, the new system should achieve operational capability that satisfies mission needs.

The objective of the Operations and Support Stage of the Sustainment Phase is the execution of a support program that meets operational performance requirements and sustains the system in the most cost-effective manner over its total life cycle.

Federal Acquisition Regulation. The Federal Acquisition Regulation (FAR) is a regulatory document designed to provide rules and guidance on acquisition contracts by Federal agencies. The Defense Federal Acquisition Regulation Supplement is a supplement to the FAR designed specifically for DoD acquisition professionals and contractors.

- FAR Part 2.1 states, “a commercial item is customarily used for nongovernmental purposes, and has been sold or offered for sale, lease, or license to the public. Commercial items can also include items that have minor modifications that do not significantly alter the nongovernmental function or essential physical characteristics of an item or component or change the purpose of a process.” Commercial items include services “of a type offered and sold competitively in substantial quantities in the commercial marketplace based on established catalog or market prices for specific tasks performed or specific outcomes to be achieved and under standard commercial terms and conditions.”
- FAR Part 12.207 states, “agencies shall use firm-fixed-price contracts or fixed-price contracts with economic price adjustment for the acquisition of commercial items. Indefinite-delivery contracts may be used where the prices are established based on a firm-fixed-price or fixed-price with economic price adjustment. Use of any other contract type to acquire commercial items is prohibited.”
- FAR Part 12.208 states, “contracts for commercial items shall rely on contractors’ existing quality assurance systems as a substitute for Government inspection and testing before tender for acceptance unless customary market practices for the commercial item being acquired include in-process inspection. Any in-process inspection by the Government shall be conducted in a manner consistent with commercial practice.”

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- Defense Federal Acquisition Regulation Supplement Part 235.006 states, “Do not award a fixed-price type contract for a development program effort unless:
 - the level of program risk permits realistic pricing;
 - the use of a fixed-price type contract permits an equitable and sensible allocation of program risk between the Government and the contractor; and
 - a written determination that the criteria of this section have been met is executed by the Under Secretary of Defense for Acquisition, Technology, and Logistics for the development of a major system or subsystem thereof, if the contract is over \$25 million.”

DoD Regulation 7000.14-R, “DoD Financial Management Regulation.” DoD Financial Management Regulation governs financial management by establishing and enforcing requirements, principles, standards, systems, procedures, and practices necessary to comply with financial management statutory and regulatory requirements applicable to DoD. The DoD Financial Management Regulation directs financial management requirements, systems, and functions for all appropriated, nonappropriated, working capital, revolving, and trust fund activities. In addition, it directs statutory and regulatory financial reporting requirements.

The DoD Financial Management Regulation, volume 2A, chapter 1, paragraph 010209 provides that items purchased directly from a commercial source that can be used without alteration or modification are classified as “COTS” or “non-developmental” items. All COTS and non-developmental items should be funded in the procurement or operation and maintenance appropriations, as determined by the expense and investment criteria. If an end item requires design and development in order to accept the COTS or non-developmental item, then the entire effort is not a COTS or non-developmental item, and funding for that effort should be budgeted in the Research, Development, Test, and Evaluation appropriation. If a COTS or non-developmental item is required for Research, Development, Test, and Evaluation test purposes, the cost is funded with Research, Development, Test, and Evaluation appropriations.

Appendix C. System Analysis

The following systems were listed in the FINSRAC studies, but were not listed in the RFQ.

| <u>System</u> | <u>FINSRAC I</u> | <u>FINSRAC II</u> |
|--|------------------|-------------------|
| Army Banking Investment Fund System | X | X |
| Accpac | X | X |
| Cargo and Billing System | X | X |
| Cable Billing System | X | X |
| Corps of Engineers Enterprise Management Information System | X | X |
| Digital Switch Network Base Communications Utilization Ordering System | X | X |
| Intelligence and Information Systems | X | X |
| International Military Education and Training/Foreign Military Sales Student Business System | X | X |
| JUMPS Standard Terminal Input System | X | X |
| Local National Payroll Interface for STANFINS | | X |
| Paciolan | | X |

| <u>System</u> | <u>FINSRAC I</u> | <u>FINSRAC II</u> |
|--|-------------------------|--------------------------|
| Requirements Management System | | X |
| Telephone Billing System | X | X |
| Temporary Duty Travel Program | X | X |
| 218 Database | X | X |
| Automated Fund Control & Order System | X | X |
| AVKINPUT | X | X |
| Consolidated Financial Reporting System | X | X |
| Funds Allocation and Distribution System | X | X |
| Funds Control/SSF | | X |
| U.S. Armed Forces Command Execution Database System | X | X |
| U.S. Armed Forces Command Program & Budget Guidance System | X | X |
| Installations Management Agency Online | X | X |
| Microsoft Network Database | X | X |
| Performance Based Management System | X | X |

| <u>System</u> | <u>FINSRAC I</u> | <u>FINSRAC II</u> |
|--|-------------------------|--------------------------|
| Prior Year Funds Availability Database | X | X |
| Resource Management On-line (National Guard Bureau) | X | X |
| Resource Management On-line (United States Army Criminal Investigations Command) | X | X |
| Resource Management On-line (United States Army Pacific Command) | X | X |
| Training Support Information Management System | X | X |
| Accounts Payable Control System | X | X |
| Automated Schedule and Reporting System | X | X |
| Audit Trail | X | X |
| Army Workload and Performance System | X | X |
| Budget Build Database | X | X |
| Base Realignment and Closing Financial Module | X | X |
| Corporate Management System 2 | X | X |
| Customer Order Management System | X | X |
| DORENA | | X |

| <u>System</u> | <u>FINSRAC I</u> | <u>FINSRAC II</u> |
|--|-------------------------|--------------------------|
| Exhibit Automation System | X | X |
| Foreign Military Sales System | X | X |
| Financial Management Tactical Platform | | X |
| Finance Payment System Interface | X | X |
| Foreign Military Sales Pricing Utility | | X |
| Integrated Decision Support System | X | X |
| Medical Expense and Performance Reporting System | X | |
| Operating Table of Distribution and Allowances | X | X |
| Program Management Automated Data System | X | X |
| Planning, Programming, Budgeting and Execution Enterprise System | X | X |
| Resource Management On-line (Army Material Command)(Army Working Capital Fund) | X | X |
| Resource Management On-line HQA006 | X | X |
| Southern Command Financial Information Management System | | X |

| <u>System</u> | <u>FINSRAC I</u> | <u>FINSRAC II</u> |
|--|-------------------------|--------------------------|
| Southern Command Traditional Commanders Activities Information Management System | | X |
| SSN:LIN Automated Management and Integration System (G8) | X | X |
| Strategic Toolset Army Reserve Program Budget and Analysis | | X |
| U.S. Army Training and Doctrine Command Budget Guidance System | X | X |
| Training Readiness & Operations, Unit Planning, Execution & Resourcing System | X | X |
| Web-based Training and Doctrine Command Automated System | X | X |
| Air and Missile Defense Budget Execution System | | X |
| Automated Resource Management System | | X |
| Aviation Technical Test Center Management Information System | X | X |
| Business Information System | | X |
| Budget Resource Management System | X | X |
| Budget Reporting Informix | X | X |
| Cost Information Management System | X | X |

| <u>System</u> | <u>FINSRAC I</u> | <u>FINSRAC II</u> |
|--|-------------------------|--------------------------|
| Commitments Outstanding System | X | X |
| Cost Distribution System | | X |
| Cost Transfer System | X | X |
| Damage and Rehabilitation Tracking System | X | X |
| Direct Army Standard Operations and Maintenance Army Research and Development Input System | X | X |
| Daily Standard Operations and Maintenance Army Research and Development Reports | X | X |
| Command Operating Budget System | X | X |
| STA Directorate Information System | X | X |
| FSSE Financial Management and Accounting | X | X |
| Financial Information Retrieval System Team-up | X | X |
| Joint Review | X | X |
| Manage Civilian to Budget | X | X |
| Operating Agency Database | X | X |
| Natick Oracle Financial Database | X | X |

| <u>System</u> | <u>FINSRAC I</u> | <u>FINSRAC II</u> |
|---|-------------------------|--------------------------|
| Overhead Application | X | X |
| Other Procurement Army – Standard Operations and Maintenance Army Research and Development System | X | X |
| Other Procurement Army Database | X | X |
| Procurement Obligation Reporting System | X | X |
| Reimbursement In House Orders | X | X |
| Resource Management Online (Army Test and Evaluation Command) | X | X |
| Standard Operations and Maintenance Army Research and Development Financial Information Management System | | X |
| Unfinanced Requirements Database | X | X |
| Workload Information Management System | X | X |
| White Sands Management Information System | X | X |

Appendix D. Commercial Study Quantified Benefits

| Type of Benefit | Number of Business Entities Responding | Average Annual Benefit (in thousands) |
|------------------------------------|--|---------------------------------------|
| Corporate Revenue | | |
| Increased Revenue | 11 | \$1,923 |
| Cost Reduction | | |
| Lower inventory | 10 | \$1,330 |
| Improved cash flow | 15 | \$807 |
| Reduced production costs | 1 | \$400 |
| Reduced distribution costs | 1 | \$300 |
| Reduced personnel costs | 17 | \$1,424 |
| Reduced financial processing costs | 13 | \$433 |
| Improved Service | | |
| Improved product quality | 0 | \$0 |
| Improved customer service | 8 | \$444 |
| Increased Productivity | | |
| Enhanced business processes | 7 | \$205 |
| Increased purchasing discounts | 3 | \$158 |
| Improved supply chain | 2 | \$138 |
| Faster receivables collection | 8 | \$681 |
| Improved order processing | 2 | \$375 |
| Improved sales forecasting | 3 | \$883 |
| Improved manufacturing | 0 | \$0 |
| Improved analysis and reporting | 11 | \$400 |
| Enhanced IT Effectiveness | | |
| Attained single system image | 1 | \$500 |
| Improved customer service | 2 | \$750 |
| Lower technical support effort | 6 | \$477 |
| Enhanced customization facility | 0 | \$0 |

Appendix E. Summary of Potential Monetary Benefits

| Recommendation Reference | Type of Benefit | Amount of Benefit | Account |
|--------------------------|---|-------------------|---|
| C.1. | Economy and Efficiency. Funds could be used for efforts that have been economically justified and adequately supported. | \$532.5 million | \$107.6 million from Other Procurement, Army \$97.7 million from Research, Development, Test and Evaluation \$327.2 million from Operations and Maintenance, Army |

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Director, Acquisition Resources and Analysis
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense for Networks and Information Integration/Chief
Information Officer

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Business Transformation Agency
Director, Defense Finance and Accounting Service

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations

Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Governmental Affairs

House Committee on Appropriations

House Subcommittee on Defense, Committee on Appropriations

House Committee on Armed Services

House Committee on Oversight and Government Reform

House Subcommittee on Government Management, Organization, and Procurement,
Committee on Oversight and Government Reform

House Subcommittee on National Security and Foreign Affairs, Committee on Oversight
and Government Reform

Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics

Final Report
Reference



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

AUG 30 2007

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING
SERVICE, DODIG

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *WLB 8/30/07*

SUBJECT: Response to DoDIG Draft Report on the Management of the General Fund
Enterprise Business System (GFEBS) (Project No. D2006-D000F1-
0017.000)

As requested, I am providing responses to recommendations A.1., B.1., and C.1.
of the subject draft report.

DoDIG Recommendation #A.1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) coordinate with Office of Management and Budget (OMB) personnel to add the General Fund Enterprise Business System program to the High-Risk Information Technology Projects list.

AT&L Comments: Partially concur. This list was developed by OMB to identify high risk projects across the Federal Government. The Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer (ASD(NII/CIO)), not USD(AT&L), is responsible for the list within the Office of the Secretary of Defense. Except for the initial establishment of the list, OMB has not asked ASD(NII/CIO) for input prior to publication of its quarterly updates. If OMB does ask DoD for recommendations, ASD(NII/CIO) will evaluate the General Fund Enterprise Business System program at that time.

DoDIG Recommendation #B.1. We recommend that the USD(AT&L):

a. Discontinue use of the Enterprise Software Initiative (ESI) blanket purchase agreement (BPA) as the contract vehicle for future large and complex system implementations until system requirements are fully defined and approved and the use of Research, Development, Test, and Evaluation funding is no longer required.

Redirected

Revised and
renumbered
as Recom-
mendation
B.1.a and
B.1.b.



Renumbered
as Recommendation
B.1.C.

b. Provide written commercial determinations to justify that the item or service being procured using General Services Administration blanket purchase agreements meets the Federal Acquisition Regulation 2.101 definition of a commercial item for all acquisitions valued at over \$1 million.

AT&L Comments: Partially concur.

a. The DoD ESI systems integration BPA approach for acquiring commercial off the shelf (COTS) information technology products (particularly Enterprise Resource Planning products) and related integration services is one of the tools available when program requirements have been sufficiently (although not, perhaps, fully) defined to permit realistic fixed pricing of system integration contracts. The vehicles provide an ongoing competitive environment, discounted pricing with fixed prices, discounted labor rates, and performance-based contracting approaches to facilitate more efficient buying of systems integration services. Risk is mitigated by using mature COTS software, leveraging industry best practices for COTS system integration, and leveraging modular contracting/pricing to subdivide the effort into easily-defined task packages that can be discretely priced. The contractor completes initial requirements definition during the blueprint phase, where the detailed system design is developed, and further refinements are made during subsequent phases. The GFEBS program may not have performed sufficient upfront work prior to award, but it does not appear appropriate to draw a general conclusion concerning this type of contractual vehicle based on one program.

b. Contracting officers, in compliance with the March 2, 2007, memorandum issued by the Director, Defense Procurement and Acquisition Policy, must provide written commercial determinations to justify that the item or service being procured using General Services Administration BPAs meets the Federal Acquisition Regulation 2.101 definition of a commercial item for all acquisitions valued at over \$1 million.

DoDIG Recommendation #C.1. We recommend that the USD(AT&L), the Under Secretary of Defense (Comptroller)/Chief Financial Officer, and the Assistant Secretary of the Army (Acquisition, Logistics, and Technology):

a. Place the GFEBS integrator and program management support contracts on hold until the economic analysis is updated and the cost and benefit data are validated.

b. Make a decision to continue, modify, or discontinue the GFEBS contracts based on the result of the updated economic analysis.

AT&L Comments: Partially concur.

a. The Army currently is updating the economic analysis in support of the impending Milestone B (MS B) decision. Placing the contracts on hold until MS B would increase the risk for schedule delays and increased costs. However, there is a

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Renumbered
as Recommendation
C.1.

current oversight process, the Enterprise Risk Assessment Model, which is being applied to GFEBS by the Business Transformation Agency to improve business acquisition process outcomes by identifying program risks and providing mitigation solutions.

b. Both the economic analysis and cost and benefit data are subject to independent review and assessment by personnel within the Office of the Secretary of Defense. The assessment will be part of the information provided to the milestone decision authority at MS B, who will make a decision to continue, modify, or discontinue the GFEBS contracts.

Please contact Sandra Haberlin, (703) 695-4259, sandra.haberlin@osd.mil, if additional information is required.



Shay Assad
Director, Defense Procurement
and Acquisition Policy

Department of the Army

Final Report
Reference



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310

SAAL-SC4

OCT 05 2007

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL OF AUDITING, 8899
EAST 56TH STREET, INDIANAPOLIS, INDIANA 46249

SUBJECT: Response to the Office of the Inspector General, Department of Defense
(DoDIG) Draft of Proposed Report, Management of the General Fund
Business System (GFEBS) (Project No. D2006-D00F1-0017.000)

This memorandum responds to the DoDIG Draft of Proposed Report,
Management of the GFEBS. The GFEBS Project Office submitted comments back on
September 18, 2007, which I now certify as the official position of the Office of the
Assistant Secretary of the Army (Acquisition, Logistics and Technology).

DoDIG RECOMMENDATION:

C.1. Recommend that the Under Secretary of Defense for Acquisition,
Technology, and Logistics, the Under Secretary of Defense (Comptroller)/Chief
Financial Officer, and the Assistant Secretary of the Army (Acquisition, Logistics and
Technology):

- a. Place the GFEBS system integrator and program management support
contracts on hold until the economic analysis is updated and the cost and benefit data
are validated.
- b. Make a decision to continue, modify, or discontinue the GFEBS contracts
based on the result of the updated economic analysis.

ASA(ALT) POSITION:

C.1.a. Nonconcur. An updated Economic Analysis (EA) is currently being prepared for
the GFEBS Milestone (MS) B decision. Updated cost and benefit data will be provided
to decision makers upon completion. Placing the program on hold in the interim serves
no purpose and would significantly escalate program costs and overall program risks.

C.1.b. Concur. The MS B decision will utilize information contained within the
(updated) EA for its go-forward decision on GFEBS.

DoDIG RECOMMENDATION:

C.2. Recommend that the Assistant Secretary of the Army (Acquisition, Logistics
and Technology):

- a. Develop and implement procedures to ensure that information provided
to decision makers concerning the economic justification of system acquisitions is
complete and supported in accordance with the Defense Acquisition Guidebook.
- b. Update the cost analysis requirements description to:

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Renumbered
as Recom-
mendation
C.1.

(1) Ensure that evidential matter supports all information used in the cost analysis requirements description.

(2) Identify the interface, upgrade, and operations and support requirements for all systems with financial management relevance to the GFEBs program.

c. Update the EA to:

(1) Ensure that evidential matter supports all information used in the economic analysis.

(2) Include all relevant costs and system requirements for each alternative in the economic analysis

ASA(ALT) POSITION:

C.2.a. Concur as written.

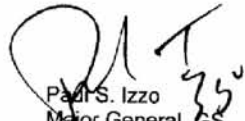
C.2.b.1. Concur. The MS B Cost Analysis Requirements Document will include this information.

C.2.b.2. Concur. The MS B Cost Analysis Requirements Document will include this information.

C.2.c.1. Concur. The MS B EA will include this information.

C.2.c.2. Concur. The MS B EA will include this information.

Should you have further questions, my point of contact is Mr. Mark Fornaro, (703) 604-7125 or e-mail: mark.fornaro@hqda.army.mil.


Paul S. Izzo
Major General, GS
Deputy for Acquisition and
Systems Management



REPLY TO
ATTENTION OF

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

SEP 18 2007

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE, OFFICE OF THE ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE, 8899 EAST 56TH STREET, INDIANAPOLIS, INDIANA 46249-7501

SUBJECT: Draft of a Proposed Report, Management of the General Fund Enterprise Business System (Project No. D2006-D00FI-0017.000)

1. Reference subject report dated July 3, 2007.
2. Our comments to DODIG Recommendation A.2 (a-d) are:

a. Withhold funding for systems whose owners do not provide the information concerning system functionality necessary to integrate the General Fund Enterprise Business System.

Concur. Information concerning system functionality has been provided by system owners and Government subject matter experts; therefore, the Army has not had to resort to this recommendation. The Army will retain this option, as required, as we go forward.

b. Identify subject matter experts for all potential system interfaces and commit personnel to the project for the duration of the project.

Concur. Army knew that government staff participation in solution design was going to be critical to General Fund Enterprise Business System success. Army executive leadership placed significant emphasis on securing subject matter expert participation from a wide range of organizations to ensure the necessary functionality would be integrated into General Fund Enterprise Business System.

NOTE: Number of government subject matter expert participants provided for Release 1.2 global blueprint – 249 (Total includes rotational resources; average concurrent subject matter expert support for blueprint workshops exceeds 100).

c. Prepare a detailed data conversion plan prior to completing the blueprint of the General Fund Enterprise Business System.

Concur. The Data Conversion plan will be completed within 30 days of the design blueprint. The data conversion plan is tied directly to the blueprinting process. A complete blueprint will dictate which conversion activities should be undertaken.



Revised

-2-

d. Evaluate current timeframes for the General Fund Enterprise Business System program and adjust to accomplish the actions in this recommendation.

Concur. We have evaluated our current timeframes and determined that our current schedule meets the intent of this recommendation.

3. If you have any questions, they should be directed to Krystal Ange at (703) 682-3550.



John J. Argodale
Deputy Assistant Secretary of the Army
(Financial Operations)

CF:
Army Audit Agency



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE PROGRAM EXECUTIVE OFFICER
ENTERPRISE INFORMATION SYSTEMS
(PEO EIS)
9350 HALL ROAD, SUITE 141
FORT BELVOIR, VIRGINIA 22060-5526

SFAE-PS

Mr. Craig W. Michaels
Project Manager, Army Financial Statements Division (Indianapolis)
Defense Financial Auditing Service (DFS)
Department of Defense Office of Inspector General
DFAS Indianapolis, Indiana

Dear Mr. Michaels:

The Program Executive Office Enterprise Information Systems (PEO EIS) and the General Fund Enterprise Business System (GFEBBS) would like to submit comments for your review and consideration regarding the Draft of A Proposed Report Management of the General Fund Enterprise Business System, Project No. D2006-D000FI-0017.000 dated July 3, 2007.

The comments are included in the Draft Report and reflect the circumstance and rationale for issues and concerns listed in your draft document.

If you have any questions or concerns, please feel free to contact my Deputy, Ms. Catherine Doolos at (703) 806-3336, Catherine.Doolos@us.army.mil, or Mr. Michael O'Brien at (703) 806-0691, Mike.O'Brien@us.army.mil

We do appreciate the effort and professionalism shown by your staff that performed this task.

Sincerely,

KEVIN CARROLL 
Program Executive Officer



DEPARTMENT OF THE ARMY
OFFICE OF THE GENERAL FUND ENTERPRISE BUSINESS SYSTEM (GFEBS)
6354 WALKER LANE, SUITE 350
ALEXANDRIA, VIRGINIA 22310

SFAE-PS-GFE

September 18, 2007

MEMORANDUM FOR Assistant Inspector General for Auditing, 8899 East 56th Street, Indianapolis, Indiana 46249-7501, Thru PEO, Enterprise Information Systems, 9350 Hall Road, Suite 141, Fort Belvoir, Virginia 22060-5526

SUBJECT: Project Office response to the Draft of Proposed Report, Management of the General Fund Business System, Project NO. D2006-D00F1-0017.000

The GFEBS Project Office comments with concurrence or nonconcurrence to the Inspector General's recommendations for subject report is attached.

Questions should be directed to Ken Bostelman at 703-682-3646 or email kenneth.bostelman@us.army.mil.


Cherie Smith
GFEBS Project Director

SFAE-PS-GFE

SUBJECT: Project Office response to the Draft of Proposed Report, Management of the General Fund Business System, Project NO. D2006-D00F1-0017.000

DOD IG Recommendations/GFEBS Responses

A.1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics coordinate with Office of Management and Budget personnel to add the General Fund Enterprise Business System program to the High-Risk Information Technology Projects list.

A.2. We recommend that the Assistant Secretary of the Army (Financial Management & Comptroller) provide support to the General Fund Enterprise Business System program through the following actions.

- a. Withhold funding for systems whose owners do not provide the information concerning system functionality necessary to integrate the General Fund Enterprise Business System.

GFEBS Response: Concur

Information concerning system functionality has been provided by system owners and Government SME throughout the analyze and design phases; therefore, the Army has not had to resort to this recommendation. The ASA (FM&C) should retain this option, as required, as we go forward.

- b. Identify subject matter experts for all potential system interfaces and commit personnel to the project for the duration of the project.

GFEBS Response: Partially Concur

The GFEBS program has more than adequately planned for government Subject Matter Experts (SMEs), including planning for the potential risk of not being able to provide SMEs as required by the systems integrator. Statements made in the RFQ regarding the potential of not having adequate numbers of SMEs represented a "worst case scenario" aimed at containing future risks subsequent to source selection and contract award. The need for risk containment stemmed from the realization that: 1) Other Army and DoD transformation programs could be competing for the same SME resources, 2) Wartime requirements existed for key personnel resource who might be SME candidates, and 3) Army financial expert resources had been incrementally reduced and consolidated to a smaller pool of staff operating at DFAS. Nevertheless, the Army knew that government staff participation in solution design was going to be critical to GFEBS success and Army executive leadership placed significant emphasis on securing SME participation from a wide range of organizations. As a result, government SME participation has *far exceeded* the system integrator's requirements. To wit, although the number of government SME participants required by system integrator for Release 1.2 global blueprint was merely 36 (minimum needed to support cost proposal; Source: Accenture proposal response), the number of government SME participants provided for Release 1.2 global blueprint is 249 (total includes rotational resources; average concurrent SME support for blueprint workshops exceeds 100).

Redirected

SFAE-PS-GFE

SUBJECT: Project Office response to the Draft of Proposed Report, Management of the General Fund Business System, Project NO. D2006-D00F1-0017.000

c. Prepare a detailed data conversion plan prior to completing the blueprint of the General Fund Enterprise Business System.

GFEBs Response: Non-Concur. The Data Conversion plan will be completed post blueprint. A data conversion plan is tied directly to the blueprinting process. A complete blueprint will dictate which conversion activities should be undertaken. A conversion plan prior to the completion of blueprinting could require a complete rework/rewrite of conversion designs.

d. Evaluate current timeframes for the General Fund Enterprise Business System program and adjust to accomplish the actions in this recommendation.

GFEBs Response: Partially Concur. Timeframes are evaluated on a continuing basis. It is our belief that the current schedules meets the intent of this recommendation

B.1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

a. Discontinue use of the Enterprise Software Initiative blanket purchase agreement as the contract vehicle for future large and complex system implementations until system requirements are fully defined and approved and the use of Research, Development, Test, and Evaluation funding is no longer required.

GFEBs Response: Concur

b. Provide written commercial determinations to justify that the item or service being procured using General Services Administration blanket purchase agreements meets the Federal Acquisition Regulation 2.101 definition of a commercial item for all acquisitions valued at over \$1 million.

GFEBs Response: Concur

B.2. We recommend that in the future the Under Secretary of Defense (Comptroller)/Chief Financial Officer not provide obligation authority to programs planning to use the Enterprise Software Initiative Blanket Purchase Agreement for large and complex system implementations until system requirements are fully defined and approved and the use of Research, Development, Test, and Evaluation funding is no longer required.

GFEBs Response: Concur

Revised

Revised and
renumbered
as Recommendation
B.1.a. and
B.1.b.

Renumbered
as Recommendation
B.1.c.

Revised

Final Report
Reference

SFAE-PS-GFE
SUBJECT: Project Office response to the Draft of Proposed Report, Management of the General Fund Business System, Project NO. D2006-D00F1-0017.000

B.3. We recommend that the Director, Program Executive Office, Enterprise Information Systems contact the Defense Contract Audit Agency to audit contract line items that are not fixed-price.

GFEBs Response: Concur

C.1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, and the Assistant Secretary of the Army (Acquisition, Logistics, and Technology):

- a. Place the General Fund Enterprise Business System system integrator and program management support contracts on hold until the economic analysis is updated and the cost and benefit data are validated.

GFEBs Response: Non Concur. An updated Economic Analysis is currently being prepared for the GFEBs Milestone B decision. Updated cost and benefit data will be provided decision makers upon completion. Placing the program on hold in the interim serves no purpose and would significantly escalate program costs and overall program risks.

- b. Make a decision to continue, modify, or discontinue the General Fund Enterprise Business System contracts based on the result of the updated economic analysis.

GFEBs Response: Partially Concur. The Milestone B decision will utilize information contained within the (Updated) Milestone B EA for its go forward decision on GFEBs. See item a. above.

C.2. We recommend that the Assistant Secretary of the Army (Acquisition, Logistics, and Technology):

- a. Develop and implement procedures to ensure that information provided to decision makers concerning the economic justification of system acquisitions is complete and supported in accordance with the Defense Acquisition Guidebook.

GFEBs Response: Concur

- b. Update the cost analysis requirements description to:

Deleted

Renumbered
as Recommendation
C.1.

SFAE-PS-GFE:

SUBJECT: Project Office response to the Draft of Proposed Report, Management of the General Fund Business System, Project NO. D2006-D00F1-0017.000

- i. Ensure that evidential matter supports all information used in the cost analysis requirements description.

GFEBs Response: Partially Concur. The Milestone B CARD will include this information

- ii. Identify the interface, upgrade, and operations and support requirements for all systems with financial management relevance to the General Fund Enterprise Business System program.

GFEBs Response: Partially Concur. The Milestone B CARD will include this information.

- c. Update the economic analysis to:

- i. Ensure that evidential matter supports all information used in the economic analysis.

GFEBs Response: Partially Concur. The Milestone B EA will include this information.

- ii. Include all relevant costs and system requirements for each alternative in the economic analysis

GFEBs Response: Partially Concur. The Milestone B EA will include this information.

- d. Retain documentation of the Under Secretary of the Defense for Acquisition, Technology, and Logistics review and validation of cost and benefit data as part of the official program documentation.

GFEBs Response: Concur

C.3. We recommend that the Director, Defense Finance and Accounting Service, develop and implement procedures to ensure that information provided to decision makers concerning the economic justification of system acquisitions is complete and supported in accordance with the Defense Acquisition Guidebook.

GFEBs Response: Concur

Defense Finance and Accounting Service



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56 TH STREET
INDIANAPOLIS, INDIANA 46249

DFAS-NR/IN

August 6, 2007

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: "Management of the General Fund Enterprise Business System"
Dated July 3, 2007 (Report no. D2006-D000F1-0017.000)

The Financial Management Center of Excellence is providing management comments to the following recommendation:

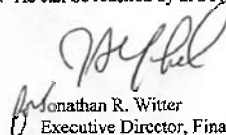
Recommendation C3: We recommend the Director, Defense Finance and Accounting Service, develop and implement procedures to ensure that information provided to decision makers concerning the economic justification of system acquisitions is complete and supported in accordance with the Defense Acquisition Guidebook.

Current Management Comments: Stakeholder: Ted Godzwa, 317-510-2557 Non-Concur.

Defense Finance and Accounting Service request Recommendation C3 be changed to read as follows: "We recommend Director, Defense Finance and Accounting Service retain documentation used to develop the economic analysis as part of the official program documentation in accordance with the Defense Acquisition Handbook."

Defense Finance and Accounting Service have taken action to ensure we maintain records of data provided to support the General Fund Enterprise Business System initiative and the new Economic Analysis.

My point of contact is Ted Godzwa. He can be reached by at 317-510-2557.


Jonathan R. Witter
Executive Director, Financial Management
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AUG 03 2007

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

Subject: Draft of a Proposed Report, Management of the General Fund Enterprise Business System, Project No. D2006-D000FI-0017.000 dated July 3, 2007

Enterprise Resource Planning (ERP) is an information technology-enabled discipline where the data and processes of an organization are pulled into a single, unified system. The Department of Defense (DoD) currently has at least seven large-scale ERP projects underway, with two more very near initiation. Operational efficiency is a major component of these projects' returns on investment, but they also have the potential to save the Department billions of dollars in direct costs over the long run. Their successful implementation is very important to the Department, and the implementation methodologies contained in the DoD Enterprise Software Initiative (DoD ESI) systems integration blanket purchase agreements (BPAs) were designed to help accomplish this goal.

The subject report is highly critical of the DoD ESI system integration BPAs used by the Army for their ERP project. The report seems to confuse the BPAs, which are indefinite quantity/indefinite delivery vehicles allowing for both fixed price (FP), and time and materials (T&M) methodologies, with "fixed-price contracts." Under the BPAs, the customer (in this case the Army) issued delivery orders which required use of both FP, including various incentives, and T&M.

Most importantly, recommendations B.1.a and B2 - if implemented - will have a definite "chilling effect" on the use of the systems integration BPAs. This would not be in the best interest of the Department in general, and would have negative consequences for two major ERP efforts which are just now trying to move forward with the DoD ESI systems integration BPAs. These recommendations should be re-worded, so as to not appear proscriptive, and allow Program Managers the flexibility they need to make large-scale ERP implementations work. Specifically, tying the BPAs' use to only those projects where "...systems requirements are fully defined..." will probably be interpreted too broadly, because all large-scale ERP implementation projects involve some degree of uncertainty. Major uncertainty is typically resolved in the general planning, or "blueprinting" phase, and further reduced during subsequent detailed planning modules. The DoD ESI systems integration BPAs are actually quite flexible, and are designed to be used from an ERP implementation project's beginning stages, all the way through to final completion. Suggestions for improvement are offered below:



Recommendation B.1.a:

Clarify when Research, Development, Test and Evaluation funding should be used for systems integration efforts, particularly for projects that are satisfied with commercial services, such as the services provided under the Enterprise Software Initiative systems integration BPAs.

Recommendation B.2:

We recommend that in the future, the Under Secretary of Defense (Comptroller)/Chief Financial Officer not allow obligation authority to be used by programs for implementation phases of large and complex system implementations until (a) requirements are fully defined for the phase to be acquired; and (b) the program office has made a determination whether any Research, Development, Test and Evaluation funding requested meets the criteria in guidance or regulations provided as a result of Recommendation B.1.a.


John G. Grimes

Business Transformation Agency

JUL 3 0 2007

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL
AUDITING SERVICE, DoDIG

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *Sheila Bahner
8/1/07*

SUBJECT: Response to DoDIG Draft Report on the Management of the General
Fund Enterprise Business System (Project No. D2006-D000FI-
0017.000)

Attached is Business Transformation Agency's comments to subject
report. My point of contact is Ms. Sheila Bahner, 703-602-4921, or via email at
sheila.bahner@bta.mil.



David M. Fisher
Director
Business Transformation Agency

Attachment:
As stated



BUSINESS TRANSFORMATION AGENCY
1851 SOUTH BELL STREET
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JUL 30 2007

Mr. Jack L. Armstrong
Program Director, Defense Financial Auditing Service
Department of Defense Inspector General
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

Dear Mr. Armstrong:

I would like to raise some specific concerns regarding DoDIG Draft Report on the Management of the General Fund Enterprise Business System (GFEBS). My concerns are not specific to the stated subject of the report (i.e., the Management of the GFEBS). Specifically, I have no comments on sections A or C. However, I have significant concerns about the recommendations made in Section B (Commercial Item Acquisition).

In this section, the report makes recommendations on the applicability and future use of the Enterprise Software Initiative (ESI) blanket purchase agreement (BPA) for system integration services. The report appears to conclude that based solely on the experience of the GFEBS program that the ESI BPA should no longer be used by the Department. I believe this broad conclusion is not supported by the evidence in the report in that the BPA has been used by several similar programs and there are no facts whatsoever presented as to the success, failure, or appropriateness of the vehicle in those programs (other than to recognize that it has been used elsewhere). In fact, my office has done extensive research on the use of the BPA across all of these large programs, and our fundamental conclusion is that the cases where the BPA has been less successful is typically for two reasons: (1) that the vehicle was simply not used properly and/or (2) that the program was unable to achieve sufficient management controls (typically in the area of requirements management) that were required for a successful implementation. In the latter case, these programs would have suffered *regardless* of the contract vehicle. Any program that had the program planning deficiencies as cited in your report on GFEBS would have struggled under *any* contract type.

The report focuses on the inappropriateness of the contract vehicle in large part because of the fixed price nature of the vehicle. But the vehicle does *not* require the entire implementation to be contracted under a fixed price structure. This has typically been the way the vehicle has been *used* but is by no means *required* by the vehicle itself. The nature of these Enterprise Resource Planning (ERP) programs is that there will always be a discovery phase in the early cycles of the implementation, and that conducting this portion of the program under fixed price parameters is highly problematic. However, the programs typically agree that when this phase is over, transitioning to a predominantly

fixed price methodology is perfectly appropriate (while maintaining some non-fixed price elements for small amounts of unanticipated periods of discovery as may be needed). The point is that, if used properly up front, the ESI BPA supports exactly this pricing model. GFEBBS suffered because it utilized predominantly fixed price from the very beginning of its program. That was a strategic mistake, and one that has been made by other similar programs across the Department. Our recommendation has been not to eliminate the good elements of the vehicle (for which your report provides no insight at all) simply because a number of programs in the Department haven't been utilizing the vehicle as effectively as they could. Rather, our recommendation has been to educate the stakeholder population on how to utilize the current vehicle but in the more flexible manner that is inherently already available.

My second concern is that the report apparently draws widespread conclusions about the BPA based solely on the experience of the GFEBBS program. The GFEBBS team has been by far the most outspoken critic of the BPA from the very beginning, so it is not surprising to see this report reflect such a negative opinion. Others who have also not used the vehicle effectively have had similar experiences. Your conclusions would be more supportable if those additional observations were included. However, a more expansive review of the vehicle would also highlight many of the positives available via the BPA and how it has been used by some programs, and that if the flexibility available within the vehicle is used more effectively by the program, then the problems encountered by GFEBBS will not necessarily appear.

There are additional elements of the report that also raise concerns. The ESI BPA is faulted for a \$3.6M fee to be paid to the General Services Administration (GSA) over the life of the contract. Is it the IG's position that the DoD should not use any GSA contracts? I see no other conclusion to be drawn from this criticism of the BPA, yet I did not see that as a recommendation in the report. If that is the position of the IG, then I believe it should be stated as such. If not, then there is clearly a cost of doing business with GSA (presumably because of the value added in services provided), and that these fees may in fact be perfectly appropriate. There is no discussion whatsoever of what those fees are for, and what fees would be incurred (either through internal labor or contract services) if a GSA vehicle were not utilized. Further, the BPA is criticized for the negotiated \$25,000 per year to the Navy for the administration of the vehicle. That seems like a bargain given the cost savings that the vehicle offers a program in terms of already completed market research, pre-competed preferred vendors, pre-competed methodologies, etc. There is no mention of the value a program receives for this fee, which could arguably be significantly greater than the fees mentioned here.

Finally, I am confused by recommendation B.1.a. that states, "Discontinue the use of the Enterprise Software Initiative blanket purchase agreement as the contract vehicle for future large and complex system implementations until system requirements are fully defined and approved and the use of Research, Development, Test, and Evaluation

funding is no longer required." First, I would agree that the fixed price element of the ESI BPA should not be used in these kinds of programs until such time that system requirements are fully defined. *However, this is absolutely achievable within the construct of the BPA.* The GFEBS program did not use it this way, but that was based on a decision that someone made, not based on the constraints of the vehicle. Second, even after requirements are fully defined, I believe it is still perfectly acceptable to use RDT&E funding for a significant portion of these implementations. Just because requirements are fully defined, does not alleviate the need for extensive development, testing, and evaluation. In fact, under the methodologies covered by the BPA, that is exactly what occurs, following highly repeatable methodologies that have been consistently demonstrated by the prime vendors on the BPA. That is the nature of this work and appears to be perfectly consistent with the purpose of RDT&E funding (as well as perfectly appropriate for use of a fixed price element of the contract once the initial discovery phase and requirements finalization have been completed). Both parts of this recommendation leave me at a loss.

In conclusion, I believe that the report, which finds significant faults in the management of the GFEBS program (the specific focus of the report), inappropriately reaches a conclusion that since GFEBS struggled with various aspects of the BPA then the BPA is inappropriate in all similar projects. This appears to be a far reach to me, along the lines of attempting to "throw the baby out with the bath water." That being said, the report does raise legitimate questions about the BPA, which are many of the same questions that have been brought to my attention by several of the programs. However, I believe the only prudent approach is to conduct an extensive review of the use of the BPA across all of these programs before reaching any dramatic conclusions (be they positive or negative). I believe that in such a review you will find some of the same problems encountered by GFEBS, but also find a number of other lessons learned and benefits that will enable future users of the BPA to use it in a much more effective manner. I strongly encourage holding off on the far reaching recommendations in section B of this report until such time as a more comprehensive review of the vehicle is made. I believe that my office, which has already independently performed a similar review, might be helpful in your fact finding, and we would be happy to participate in such a review.

Thank you for your consideration.

Regards,



David M. Fisher
Director
Business Transformation Agency

Team Members

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