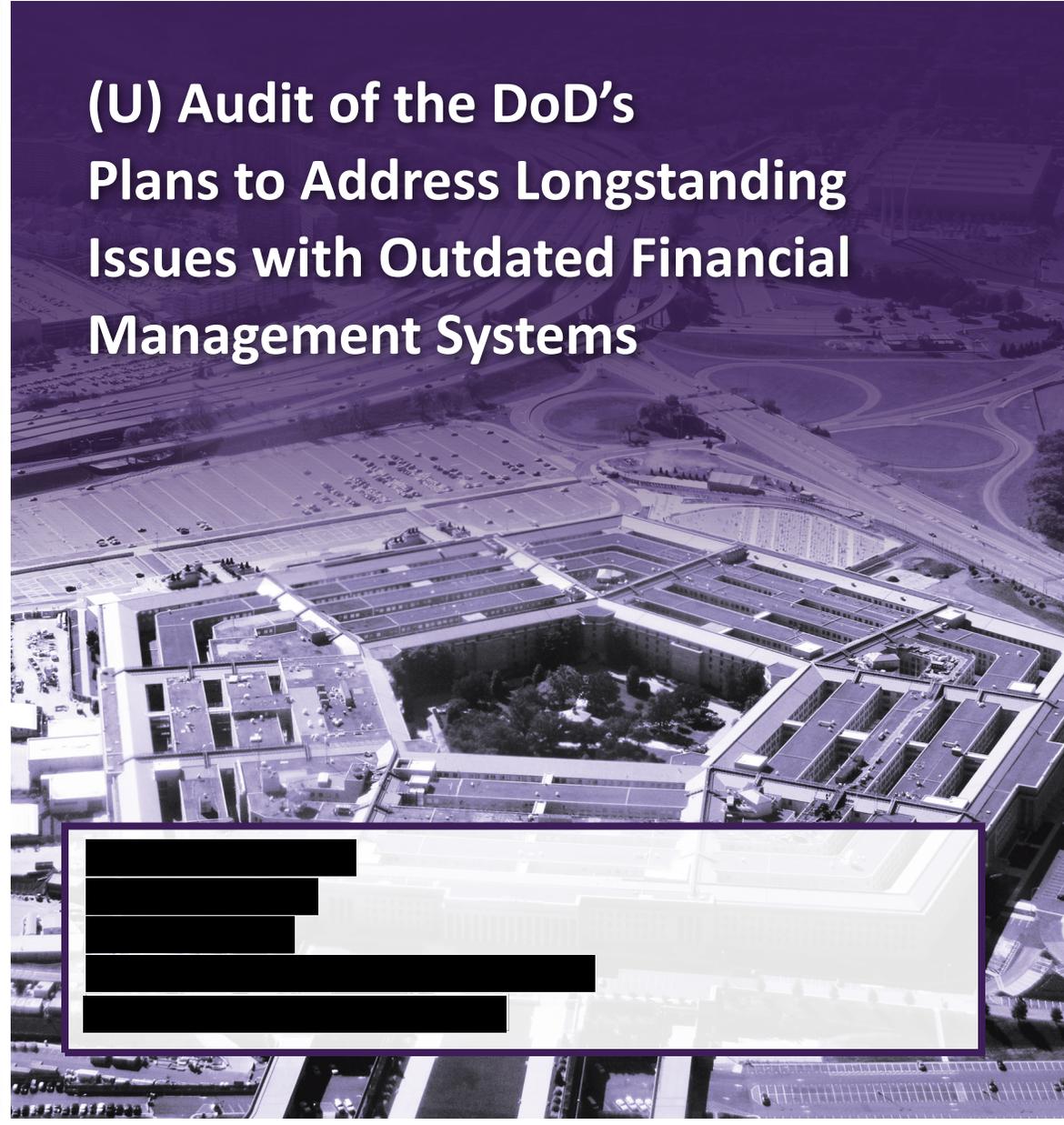




INSPECTOR GENERAL

U.S. Department of Defense

JANUARY 19, 2024



(U) Audit of the DoD's Plans to Address Longstanding Issues with Outdated Financial Management Systems

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





(U) Results in Brief

(U) Audit of the DoD's Plans to Address Longstanding Issues with Outdated Financial Management Systems

January 19, 2024

(U) Objective

(U) The objective of this audit was to determine the completeness and accuracy of the DoD's list of systems that are relevant to internal controls over financial reporting (ICOFR) and assess the DoD's plans to replace noncompliant financial management systems with systems that meet the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

(U) Background

(U) The DoD uses more than 4,500 systems, at least 232 of which are considered ICOFR-relevant by the DoD and are subject to the FFMIA, which requires that Federal financial management systems provide accurate, reliable, and timely financial management information. For the last 27 years, the Government Accountability Office has identified the DoD's business systems as being vulnerable to fraud, waste, abuse, and mismanagement, or needing transformation. Since these issues were first identified, the Government Accountability Office and DoD OIG have reported that the DoD's efforts to improve its system environment, modernize its outdated systems, and become auditable have been insufficient. As recently as the FY 2022 DoD Agency Financial Report, the DoD reported that it is targeting FY 2028 to become FFMIA compliant.

(U) Finding

(U) The DoD did not have a complete or accurate ICOFR-relevant list of systems, and the DoD's plans to become FFMIA compliant were not sufficient. Specifically:

- (U) the DoD's ICOFR-relevant list was not complete and did not contain accurate attribute values because the DoD had not fully documented its financial management business processes or did not have adequate controls over the creation and maintenance of the list;
- (U) the DoD's plans to modernize or replace noncompliant ICOFR-relevant systems were not complete because the DoD's formal plans were written at a high level, and the DoD's goal of its initial financial management systems review was only to understand a system's FFMIA compliance status, not to actually achieve compliance; and
- (U) the DoD's plans were not aggressive enough to ensure that the DoD's ICOFR-relevant systems were FFMIA compliant by the DoD's FY 2028 goal because the DoD's plans did not fully integrate or modernize the DoD's financial management system environment by using the DoD's enterprise resource planning systems and DoD-wide solutions to the fullest extent possible.

(U) As a result, instead of achieving its goal to create a simplified, integrated, and modern Information Technology systems environment, the DoD will continue to spend large sums of money on noncompliant, outdated systems that do not:

- (U) produce accurate, reliable, and timely financial management information or
- (U) achieve its goals of correcting FFMIA noncompliance, closing systems vulnerabilities, and receiving an unmodified audit opinion, which would reflect the DoD's fiscal responsibility.



(U) Results in Brief

(U) Audit of the DoD's Plans to Address Longstanding Issues with Outdated Financial Management Systems

(U) Finding (cont'd)

(U) Without compliant and modern systems, the DoD will remain at an increased risk of making poor enterprise-wide business decisions, which could have a direct impact on the DoD's mission to ensure the security of our Nation.

(U) Recommendations

(U) We made 31 recommendations to address the findings of this report. Among other recommendations, we recommend that the Deputy Secretary of Defense direct the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the DoD Chief Information Officer to identify a lead and the lead subsequently develops and implements a plan to:

- (U) create an ideal end-state document that identifies the financial management systems that the DoD will have when it achieves compliance with the FFMIA,
- (U) create a strategy for all DoD financial management systems to become FFMIA compliant or retire and replace in a timely manner,
- (U) obtain justification from the system owners for the continued use of each system in the Defense Business System Audit Remediation Plan, and
- (U) identify significant challenges preventing the DoD Components from simplifying the DoD system environment and implement DoD-wide solutions to address any identified challenges.

(U) We also recommend that the:

- (U) Deputy Secretary of Defense approve the continued use of each system in the Defense Business System Audit Remediation Plan and
- (U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, reevaluate the DoD's timeline for modernizing the DoD's financial systems in an effort to expedite the remediation of the DoD's noncompliance with the FFMIA.

(U) Management Comments and Our Response

(U) The Deputy Secretary of Defense agreed with the nine recommendations addressed to them. Eight of these recommendations are resolved but will remain open because the DoD has yet to implement the corrective actions, and one is closed.

(U) The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, agreed with the 12 recommendations addressed to them. However, the comments for one recommendation did not address all specifics of that recommendation. Therefore, it remains unresolved. The remaining 11 recommendations are resolved but open. We request that the Under Secretary provide additional comments on the unresolved recommendation within 30 days.

(U) The DoD Chief Information Officer agreed with the 10 recommendations addressed to them. Therefore, these recommendations are resolved but will remain open.

(U) Please see the Recommendations Table on the next page for the status of the recommendations.

(U) Recommendations Table

(U) Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Deputy Secretary of Defense	None	1.a.1-7, 1.b	1.c
Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD	2.f	2.a.1-5, 2.b-e, 2.g-h	None
DoD Chief Information Officer	None	3.a-d, 3.e.1-5, 3.f	None (U)

(U) Please provide Management Comments by February 18, 2024.

(U) Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **(U) Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **(U) Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **(U) Closed** – DoD OIG verified that the agreed upon corrective actions were implemented.





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OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

January 19, 2024

MEMORANDUM FOR DEPUTY SECRETARY OF DEFENSE
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
CHIEF INFORMATION OFFICER OF THE DEPARTMENT
OF DEFENSE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
AUDITOR GENERAL, DEPARTMENT OF THE NAVY
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: (U) Audit of the DoD's Plans to Address Longstanding Issues with Outdated
Financial Management Systems (Report No. DODIG-2024-047)

(U) This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

(U) This report contains one recommendation that is considered unresolved because the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, did not fully address the recommendation. Therefore, the recommendation remains open. We will track this recommendation until management has agreed to take actions that we determine to be sufficient to meet the intent of the recommendations and management officials submit adequate documentation showing that all agreed-upon actions are completed.

(U) This report contains 29 recommendations that are considered resolved and open. Therefore, we will close the recommendations when you provide us documentation showing that all agreed-upon actions to implement the recommendations are completed.

(U) Management comments and associated actions addressed one recommendation in this report. Therefore, we consider that recommendation closed.

(U) DoD Instruction 7650.03 requires that recommendations be resolved promptly. Therefore, please provide us within 30 days your response concerning specific actions in process or alternative corrective actions proposed on the unresolved recommendation. Please provide us within 90 days your response concerning specific actions in process or completed on the resolved recommendations. Send your responses to audfmr@dodig.mil.

[REDACTED]

(U) If you have any questions please contact me at [REDACTED].

FOR THE INSPECTOR GENERAL:

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

(U) Contents

(U) Introduction

(U) Objective.....	1
(U) Background.....	1

(U) Finding. The DoD’s Plans Will Not Ensure the DoD’s Compliance with the FFMIA..... 8

(U) The DoD Did Not Maintain a Complete ICOFR-Relevant List with Accurate Attributes.....	9
(U) The DoD Has Not Documented End-to-End Processes, and DoD Management Did Not Have Controls Over the ICOFR-Relevant List.....	11
(U) The DoD’s FFMIA Compliance Plans Were Not Complete.....	13
(U) The DoD’s Systems Review Goal is Not to Achieve FFMIA Compliance or Simplify Its System Environment.....	19
(U) The DoD’s Plans Will Not Remediate the DoD’s FFMIA Noncompliance by FY 2028.....	20
(U) DoD Management Has Not Held Itself Accountable for Integrating and Modernizing Financial Management Systems.....	28
(U) The DoD Will Not Become FFMIA Compliant by FY 2028.....	29
(U) Management Comments on Potential Monetary Benefits.....	30
(U) Recommendations, Management Comments, and Our Response.....	31

(U) Appendixes

(U) Appendix A. Scope and Methodology.....	45
(U) Internal Control Assessment and Compliance.....	46
(U) Use of Computer-Processed Data.....	46
(U) Prior Coverage.....	47
(U) Appendix B. Systems That the OUSD(C)/CFO Identified as “Can and Should” Retire but Will Not Until After FY 2026.....	49
(U) Appendix C. Potential Monetary Benefits.....	50



(U) Contents (cont'd)

(U) Management Comments

(U) Deputy Secretary of Defense.....	52
(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD.....	53
(U) DoD Chief Information Officer.....	58

(U) Acronyms and Abbreviations.....	62
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(U) Introduction

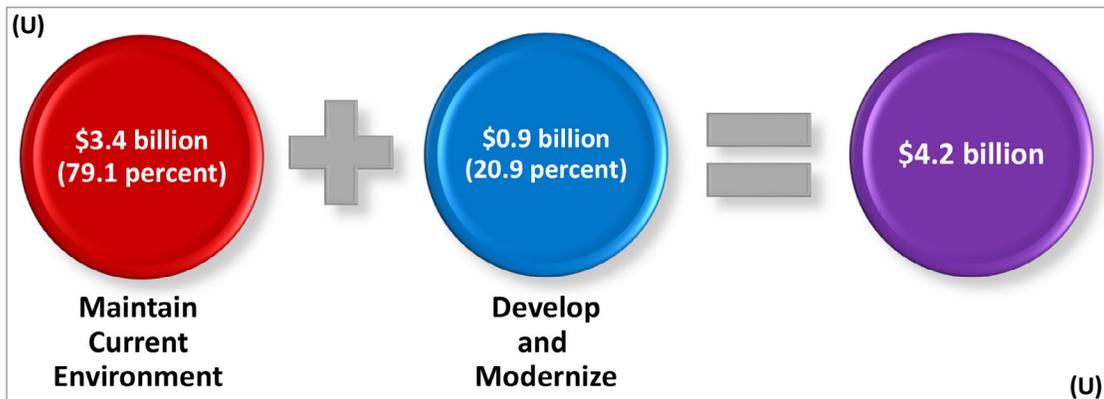
(U) Objective

(U) The objective of this audit was to determine the completeness and accuracy of the DoD's list of systems that are relevant to internal controls over financial reporting (ICOFR) and assess the DoD's plans to replace noncompliant financial management systems with systems that meet the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).¹ See Appendix A for a discussion of our scope and methodology and prior coverage related to the audit.

(U) Background

(U) Due to its complexity and size, the DoD uses more than 4,500 unclassified information technology (IT) systems. Of those systems, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (OUSD[C]/CFO) reported to Congress that 232 were ICOFR-relevant in their January 2023 Defense Business Systems (DBS) Audit Remediation Plan. As shown in Figure 1, the DoD will spend more than \$4.2 billion to maintain these systems in FY 2023, 79.1 percent of which is used to maintain its current systems environment and 20.9 percent of which is used to develop and modernize.

(U) *Figure 1. Breakdown of the DoD's FY 2023 Spending on Systems Included in the DBS Audit Remediation Plan*



(U) Note: Totals do not equal the actual sum because of rounding.

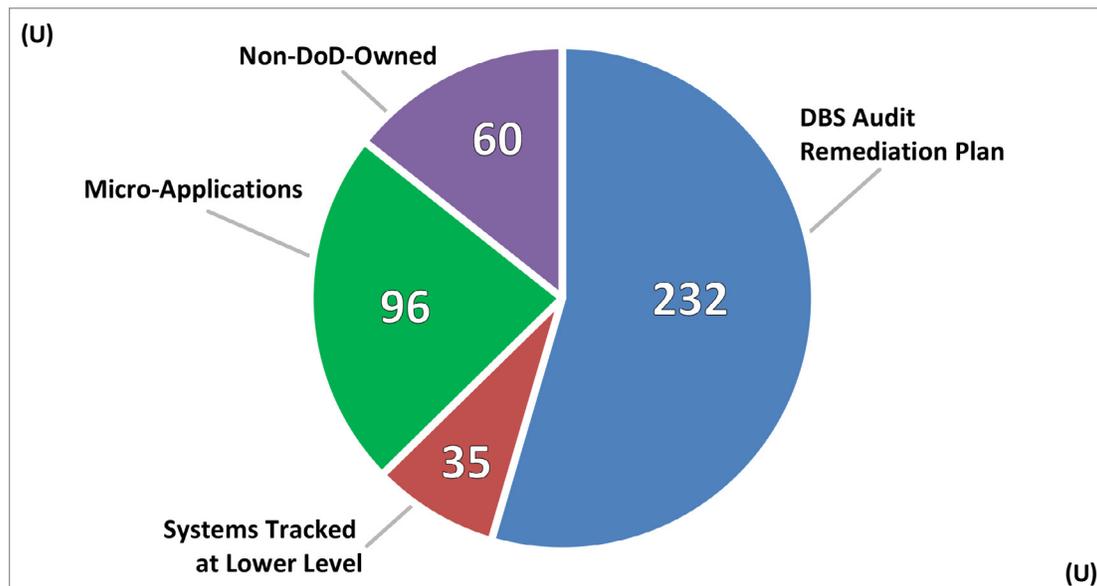
(U) Source: The DoD OIG, based on information provided by the OUSD(C)/CFO.

¹ (U) ICOFR are controls that are essential for ensuring that information reported in a reporting entity's financial statements is accurate and does not contain material misstatements. Public Law 104-208, "Omnibus Consolidated Appropriations Act, 1997," Title VIII, "Federal Financial Management Improvement Act of 1996," September 30, 1996, which is codified in section 3512, title 31, United States Code, "Executive agency accounting and other financial management reports and plans."

(U) To support the DoD Agency-Wide financial statement audit, the OUSD(C)/CFO provided an ICOFR-relevant system list, which contained 423 systems and micro-applications as of February 2023.² We refer to this as the ICOFR-relevant list. The DoD populates this list from a variety of sources, including the Financial Improvement and Audit Remediation Systems Database (FSD), DoD IT Portfolio Repository (DITPR), and Advanced Analytics (ADVANA).³

(U) Unlike the list provided to Congress in January 2023, the ICOFR-relevant list included non-DoD-owned systems without a system identifier, systems tracked at a more granular level, and micro-applications.⁴ Figure 2 provides a reconciliation between the 423 systems and micro-applications in the ICOFR-relevant list and the 232 systems reported in the DBS Audit Remediation Plan.

(U) Figure 2. Reconciliation Between the ICOFR-Relevant List and January 2023 DBS Audit Remediation Plan



(U) Note: The OUSD(C)/CFO provided contradictory system information between the January 2023 DBS Audit Remediation Plan and the February 2023 ICOFR-relevant list. This report identifies inaccuracies in both lists.

(U) Source: The DoD OIG, based on information provided by the OUSD(C)/CFO.

² (U) A systems list is a list of financial and non-financial systems for which a DoD Component has transactions that flow through. ICOFR-relevant micro-applications are end-user computing tools that have a discrete function for a specific purpose, such as perform reconciliations or develop calculations, and are significant to financial reporting.

³ (U) ADVANA, which includes the notices of findings and recommendations database, is the DoD's central repository for financial management data and is used to reconcile data within the ICOFR-relevant list. The DITPR maintains information about all DBS in the DoD's inventory. The FSD tracks those DoD systems and micro-applications that are ICOFR relevant.

⁴ [REDACTED] An example of a type of system tracked at a more granular level is the [REDACTED], which is identified as 4 systems in the list provided to Congress and 18 systems in the ICOFR-relevant list, one for each DoD Component that uses it.

(U) Applicable System Criteria

(U) The DoD uses the ICOFR-relevant list to track each ICOFR-relevant system's FFMIA compliance, among other things. The purpose of the FFMIA is to ensure that Federal financial management systems provide accurate, reliable, and timely financial management information. The FFMIA requires Executive Branch agencies that prepare financial statements to implement and maintain financial management systems that comply substantially with the Federal systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level.⁵

- **(U) Federal Financial Management System Requirements** – Requires specific system functions to be maintained within a business process. For example, to meet this element of the FFMIA, systems must be able to trace transactions to the source of those transactions.
- **(U) Federal Accounting Standards** – Requires that systems maintain accounting data to permit reporting in accordance with Generally Accepted Accounting Principles, as promulgated by the Federal Accounting Standards Advisory Board. For example, to meet this element of the FFMIA, systems must be able to produce an accurate Fund Balance with Treasury (FBWT) balance and record expenses in the period when the benefit was received.⁶
- **(U) USSGL at the Transaction Level** – Requires that each time an approved transaction is recorded in a financial system that the transaction complies with the USSGL, as established by the Treasury Department. For example, to meet this element of the FFMIA, systems must fully use the accounts created by the USSGL and post transactions to those accounts in a manner consistent with USSGL guidance.

(U) A History of Compliance and Modernization Challenges

(U) For the last 27 years, the Government Accountability Office (GAO) has identified the DoD's business systems on its "High-Risk List," which is a list of Federal programs and operations that are vulnerable to fraud, waste, abuse, and mismanagement, or that need transformation. Since the DoD was placed on the List, the DoD OIG and GAO have reported multiple findings related to the DoD's

⁵ (U) Public Law 101-576, "Chief Financial Officers Act of 1990," November 15, 1990. The USSGL, which is a program of the Bureau of the Fiscal Service at the Treasury Department, provides a uniform chart of accounts and technical guidance for standardizing Federal agency accounting.

⁶ (U) FBWT is composed of accounts maintained by the Treasury Department that reflect the funds available for the DoD to spend. The DoD's FBWT account balance increases with collections and decreases with payments, much like a personal checking account. The DoD is required to reconcile its FBWT accounting records to the records maintained by the Treasury Department.

(U) ongoing efforts to improve its system environment, modernize its outdated systems, and become auditable.⁷ Most recently, in Report No. GAO-23-104539, the GAO reported that the DoD has:

- (U) undergone several changes in responsibility assigned to help modernize its business and financial management systems;
- (U) not taken a strategic approach to managing the human capital needed for its systems; and
- (U) not ensured data collected on financial system compliance was reliable.

(U) In the FY 2022 DoD Agency Financial Report, the DoD reported that it was not compliant with the FFMIA, stating that it first identified this noncompliance in FY 2001, and that its FY 2022 target correction date is FY 2028. Additionally, in FY 2022, the DoD OIG reported that the DoD had six material weaknesses related to its IT and financial management systems that did not comply with the FFMIA.⁸ The material weaknesses and use of noncompliant systems continued to impede the DoD's ability to achieve an unmodified audit opinion. During the FY 2022 DoD Agency-Wide Financial Statement Audit, auditors issued 1,036 notices of findings and recommendations identifying deficiencies in those financial management systems.⁹ The DoD OIG has reported that IT material weaknesses are longstanding, scope-limiting, and therefore significant, roadblocks to the DoD's auditability goals.¹⁰ Those weaknesses also prevent the DoD from establishing an efficient and effective financial management environment.

(U) The DoD's Plans to Create Modern, Compliant Systems

(U) The DoD has established four formal plans that discuss its goals to modernize and correct its noncompliant systems. Each of these plans addresses various aspects of the DoD's goals to modernize or retire and replace noncompliant systems and achieve FFMIA compliance from a different perspective. Figure 3 provides a description of each of those plans.

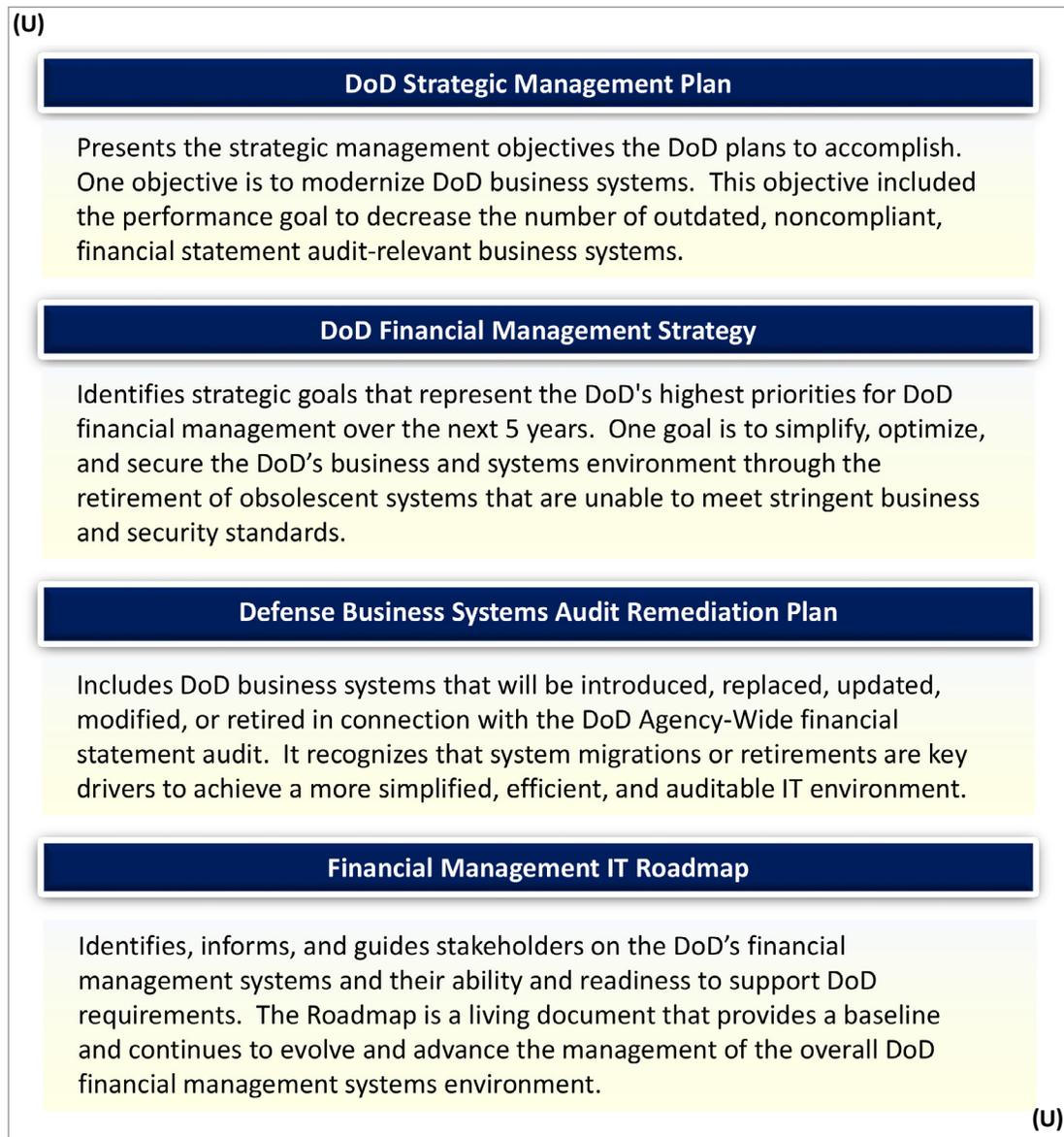
⁷ (U) Recent examples of reports include: Report No. DODIG-2023-031, "Independent Auditor's Reports on the DoD FY 2022 and FY 2021 Financial Statements," November 15, 2022; Report No. GAO-23-104539, "DoD Needs to Improve System Oversight," March 7, 2023; and Report No. GAO-20-252, "DoD Needs to Implement Comprehensive Plans to Improve Its Systems Environment, September 30, 2020."

⁸ (U) A material weakness is a deficiency, or a combination of deficiencies, in ICOFR, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. In FY 2022, the DoD OIG reported the following material weaknesses related to IT: Financial Management Systems Modernization, Configuration Management and Security Management, Access Controls, Segregation of Duties, Interface Controls, and Service Organizations.

⁹ (U) Auditors issue notices of findings and recommendations to identify deficiencies in internal controls found during the financial statement audit.

¹⁰ (U) A scope-limiting material weakness prevents auditors from performing the necessary procedures to draw a conclusion on the financial statements.

(U) Figure 3. The DoD's Formal Plans for Its Systems Related to Financial Management



(U) Source: The DoD OIG.

(U) In the January 2023 DBS Audit Remediation Plan, the Secretary of Defense cited a financial management systems review process to improve the DoD's data quality and security, as well as improve the management of financial information at the DoD level. To execute this effort, the DoD established a 3-year implementation plan for its annual financial management systems review process, which reviews the compliance of DoD financial management systems with the FFMIA. As part of the initial systems review process, the DoD developed financial management dashboards in ADVANA and multiple tools for OUSD(C)/CFO management and system owners to track system retirements and compliance

(U) with the FFMIA. The development of these tools began in FY 2022, and the first complete systems review is scheduled to be completed at the end of FY 2024. We will refer to these efforts as OUSD(C)/CFO management's systems review process throughout this report.

(U) Roles and Responsibilities

(U) The following officials and organizations have roles and responsibilities related to systems that may affect the DoD's financial reporting.

- **(U) Deputy Secretary of Defense (DSD)** – The principal civilian deputy to the Secretary of Defense. While the DSD is responsible for the DoD's day-to-day business, they direct the Office of the DoD Chief Information Officer (CIO) and OUSD(C)/CFO to oversee the DoD Components in their system investment decisions. The Director of Administration and Management is the principal assistant to the Secretary of Defense and DSD for organizational and management matters, and is responsible for issuing the DoD Strategic Management Plan.¹¹
- **(U) Office of the DoD CIO** – The principal advisor to the Secretary of Defense for IT (including defense business systems), information resources management, and efficiencies. Additionally, section 2222, title 10, United States Code (10 U.S.C. § 2222) outlines the DoD CIO's responsibilities for DBS, including:
 - (U) ensuring that DoD processes are reviewed and revised to achieve streamlined and efficient business processes and eliminate or reduce the need to tailor commercial systems to meet the DoD's needs,
 - (U) developing policy requiring the periodic review of systems that the DoD currently uses to ensure that investments in the systems are appropriate, and
 - (U) ensuring that systems are in compliance with the DoD's auditability requirements.¹²
- **(U) OUSD(C)/CFO** – The principal advisor to the Secretary of Defense for budgetary and fiscal matters, including financial management, accounting policy and systems, and managers' internal control systems, as outlined in the Chief Financial Officers Act of 1990. The OUSD(C)/CFO is responsible for issuing the DoD Financial Management Strategy, DBS Audit Remediation Plan, and the Financial Management IT Roadmap.¹³

¹¹ (U) DoD Strategic Management Plan, Fiscal Years 2022-2026.

¹² (U) 10 U.S.C. § 2222, "Defense Business Systems."

¹³ (U) DoD Financial Management Strategy, Fiscal Years 2022-2026; DBS Audit Remediation Plan, June 2023; and Enterprise Financial Management IT Systems Roadmap, Fiscal Years 2022-2026, March 2023.

- **(U) DoD Components** – They are subordinate to the Secretary of Defense and DSD and responsible for implementing the policies and requirements prescribed by the DoD, including policies and requirements for how they implement the systems they own.

(U) Finding

(U) The DoD's Plans Will Not Ensure the DoD's Compliance with the FFMIA

(U) The DoD did not have a complete and accurate ICOFR-relevant list, and the DoD's plans to become FFMIA compliant were not sufficient. Specifically:

- (U) The DoD's ICOFR-relevant list was not complete and did not contain accurate attribute values. This occurred because the DoD has not fully documented its end-to-end processes, which prevents OUSD(C)/CFO management from producing a complete ICOFR-relevant list, and the OUSD(C)/CFO does not have adequate controls over the creation and maintenance of the ICOFR-relevant list.
- (U) The DoD's plans to modernize or replace noncompliant ICOFR-relevant systems to meet FFMIA requirements were not complete. This occurred because the DoD's formal plans were written at a high level, and the goal of the OUSD(C)/CFO's initial financial management systems review, which the DoD is scheduled to complete at the end of FY 2024, was only to understand a system's FFMIA compliance status, not to achieve compliance.
- (U) The DoD's plans were not aggressive enough to ensure that the DoD's ICOFR-relevant systems are FFMIA compliant by the DoD's FY 2028 target remediation date. This occurred because the DoD's plans did not integrate and modernize the DoD's financial management system environment by using the DoD's enterprise resource planning (ERP) systems and DoD-wide solutions to the fullest extent possible, and DoD management has not held itself accountable for fully integrating and modernizing its system environment.

(U) As a result, instead of the DoD achieving its goal to create a simplified, integrated, and modern IT systems environment, the DoD will continue to spend large sums of money on noncompliant, outdated systems that do not:

- (U) produce accurate, reliable, and timely financial management information or
- (U) achieve its goals of correcting FFMIA noncompliance, closing systems vulnerabilities, and receiving an unmodified audit opinion, which would reflect the DoD's fiscal responsibility.

(U) Without compliant and modern systems, the DoD will remain at an increased risk of making poor enterprise-wide business decisions, which could have a direct impact on Service members and the DoD's mission to ensure the security of our Nation.

(U) The DoD Did Not Maintain a Complete ICOFR-Relevant List with Accurate Attributes

(U) The DoD did not maintain a complete ICOFR-relevant list with accurate attributes values. DoD personnel identify whether a system or micro-application is included on the ICOFR-relevant list by evaluating it against four DoD-developed criteria and reviewing the results of DoD Component financial statement audits. According to the DoD ICOFR Guide, a system or micro-application is considered ICOFR-relevant if it meets one or more of the following criteria.

- (U) Contains system controls that are identified as key in the internal controls assessment (such as automated edit checking)
- (U) Generates or stores original key supporting documentation
- (U) Performs material calculations (such as computing payroll)
- (U) Produces reports or data that support key controls

(U) During this audit, we identified that the ICOFR-relevant list did not include robotic process automation and machine learning (RPA/ML) software, even though some of that software meets the DoD's definition of being ICOFR relevant.¹⁴ As of March 2023, the DoD has deployed more than 600 instances of RPA/ML software, of which more than 300 relate to financial management and may affect key controls. An example of RPA/ML software that affects key controls is called Humanless Unmatched Transactions, or HUnT.

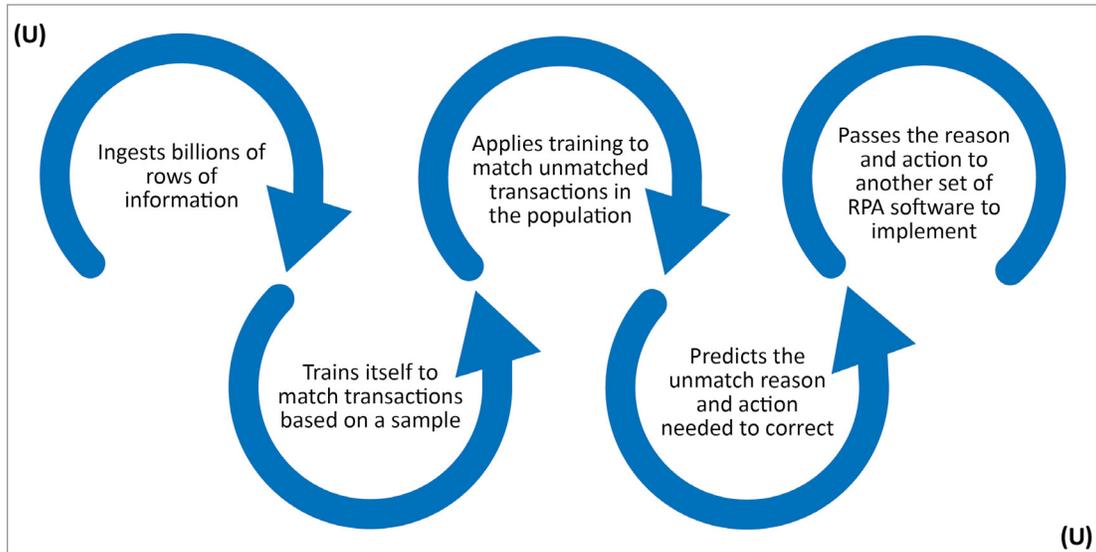
(U) The DoD has deployed more than 600 instances of RPA/ML software, of which more than 300 relate to financial management and may affect key controls.

This software trains itself from a sample of unmatched transactions and then applies that training to the population to identify the reason for an unmatched transaction.¹⁵ Figure 4 summarizes the steps that HUnT takes to match unmatched transactions.

¹⁴ (U) RPA software refers to automated processes that execute manual, rule-driven, and repetitive user activities without requiring intervention or assistance. ML software refers to automated process areas involving human judgement and interaction leveraging algorithms, computer vision technologies, and virtual agents.

¹⁵ (U) An unmatched transaction is typically a transaction that is caused by an invoice that has been paid but not reconciled with underlying purchase order and delivery documents.

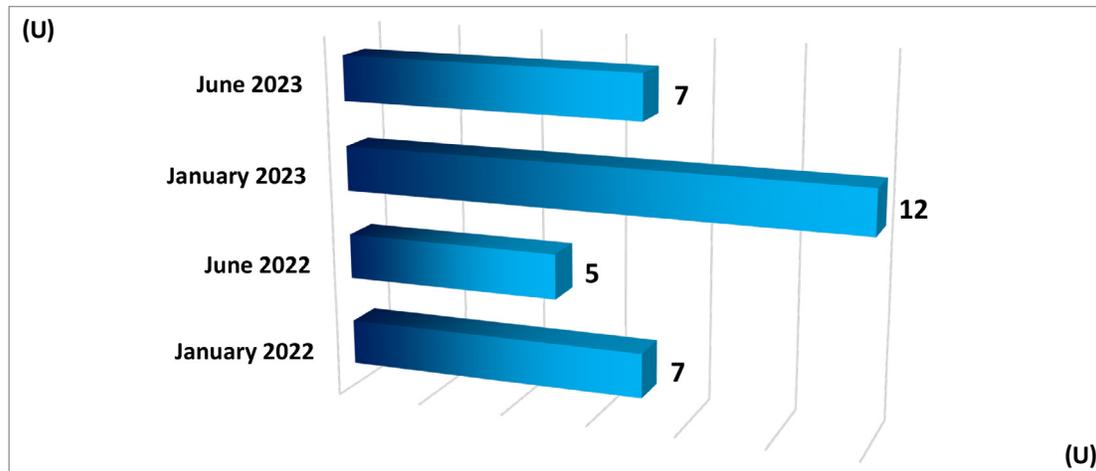
(U) Figure 4. HUnT's Process for Matching Unmatched Transactions



(U) Source: The DoD OIG, based on information provided by the OUSD(C)/CFO.

(U) In addition, the Secretary of Defense’s DBS Audit Remediation Plan identified an additional 19 existing systems since June 2022, meaning that 19 existing systems were added to the inventory of the DoD’s ICOFR-relevant list due to their identification by the OUSD(C)/CFO, DoD Component financial statement auditors, the DoD OIG, or DoD Components. Figure 5 shows that the DoD has consistently added existing systems to the DBS Audit Remediation Plan. For example, existing systems were added because they were identified as part of system reconciliations or as part of other efforts to remediate DoD financial management deficiencies. While we acknowledge that the DoD’s systems environment is complex and changing and the ICOFR list is a living list, the addition of existing systems indicates that more controls are needed to ensure that the DBS Audit Remediation Plan is complete.

(U) Figure 5. Number of Existing Systems Added Between DBS Audit Remediation Plans



(U) Source: The DoD OIG, based on information provided by the OUSD(C)/CFO.

(U) The Secretary’s plan also acknowledged that increases in inventory counts highlight the DoD’s ongoing efforts to identify all systems that may impact its financial statement audit progress.

(U) The ICOFR-relevant list also tracks system attributes, including whether a system is a major system or a micro-application, the DoD Components that use each system, the anticipated retirement date, and the system’s FFMIA compliance status. During this audit, we identified that the ICOFR-relevant list did not include accurate system attribute values. Examples of those inaccuracies include:

- (U) 13 systems on the list that should have had retirement dates did not have one listed,
- (U) 4 systems that were incorrectly identified as micro-applications instead of major systems,¹⁶ and
- (U) 5 systems that were included in the system list although the DoD considered them inactive.¹⁷

(U) OUSD(C)/CFO personnel acknowledged that the data they provided contained inaccuracies. The DoD OIG and GAO have issued findings regarding the accuracy of the system list and the system attributes that are populated by FSD and DITPR data, which are maintained by the OUSD(C)/CFO and DoD CIO, respectively. While the DoD has remediation efforts in place, gaps still remain.

(U) The DoD Has Not Documented End-to-End Processes, and DoD Management Did Not Have Controls Over the ICOFR-Relevant List

(U) The DoD has not fully documented its end-to-end processes, which prevents OUSD(C)/CFO management from producing a complete ICOFR-relevant list, and the OUSD(C)/CFO does not have adequate controls over the creation and maintenance of the ICOFR-relevant list. Specifically, DoD Components identify the systems included in the ICOFR-relevant list. However, the DoD has not fully documented the end-to-end processes of how those systems are used. This documentation is imperative to determine all of the

⋮ *(U) The DoD has not fully documented the end-to-end processes of how systems are used.*

¹⁶ (U) The field that identifies whether a system is a micro-application or a major application was entered manually in the ICOFR-relevant list. Consequently, this error reflects an error in the list, not necessarily an error with the underlying system data.

¹⁷ (U) An inactive system is a system that is no longer in use because it was terminated or replaced or that was entered into the DITPR erroneously.

(U) systems that should be included on the ICOFR-relevant list.¹⁸ Therefore, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (USD[C]/CFO) should coordinate with the DoD CIO to:

- (U) develop and implement policies and procedures that require the DoD Components to document all end-to-end processes relevant to financial transactions with sufficient detail to identify how systems are used and oversee and monitor the documentation of those processes,
- (U) review all DoD Components end-to-end processes to compile a complete list of ICOFR-relevant systems and micro-applications, and
- (U) develop and implement controls to ensure the completeness of the DoD's ICOFR-relevant list.

(U) While OUSD(C)/CFO management performed a reconciliation with other data sources in an attempt to determine the accuracy of ICOFR-relevant list, management did not assert to the list's accuracy. To address the data quality concerns identified in prior sections of this report, the DoD should have a single authoritative, automated source for developing the ICOFR-relevant list, which currently does not exist. In FY 2021, the OUSD(C)/CFO began implementing a plan to migrate data from the FSD to the DITPR, which is maintained by the DoD CIO, in an effort to create a single authoritative, automated source. The migration was scheduled to be completed in February 2022; however, this date slipped to July 2023. Ultimately, in August 2023, OUSD(C)/CFO personnel communicated that they no longer planned to migrate data from the FSD into the DITPR. As a result, the OUSD(C)/CFO does not currently have a plan to create a single authoritative, automated source to produce the ICOFR-relevant list. This increases the risk that the ICOFR-relevant list may include incomplete or incorrect data attributes, which could negatively affect the DoD's ability to make informed decisions regarding its overall financial management systems environment. Therefore:

- (U) the USD(C)/CFO should coordinate with the DoD CIO to develop and implement a plan to consolidate all relevant data necessary to track the ICOFR-relevant list, leverage authoritative sources, and minimize data discrepancies;
- (U) based on their oversight and monitoring of the DoD Components, the DoD CIO should develop and implement controls to ensure the accuracy of DITPR data, to support the accuracy of the DoD's ICOFR-relevant list; and
- (U) the USD(C)/CFO should develop and implement controls to ensure the accuracy of the data tracked in the ICOFR-relevant list.

¹⁸ (U) Documentation of end-to-end processes is essential to financial statement audits because the documentation shows a process from start to finish and includes the controls necessary to execute a transaction. For example, the Procure to Pay process starts with executing procurement requirements and ultimately results in payment and financial reporting requirements.

(U) In addition, the DoD inconsistently uses the term “legacy” in a manner that does not align with the commonly applied definition. Specifically, the Office of the DoD CIO defines a system as legacy when the DoD determines a system is scheduled to be retired in the next three years. On the other hand, many system owners informally refer to a system as legacy when the owner considers the system to be outdated. Based on the Office of the DoD CIO’s definition, the Standard Army Finance Information System (STANFINS), a non-USSGL-compliant financial management system developed in 1970 with no modernization plans, would not be considered legacy because it is not scheduled to retire until the end of FY 2031.¹⁹ Appendix B provides a list of 23 DoD-owned, ICOFR-relevant systems that OUSD(C)/CFO personnel said “can and should” be retired but are not considered legacy systems under the Office of the DoD CIO definition because they are not scheduled to be retired in the next three years. By limiting the systems that are categorized as legacy to those retiring in three years, DoD management is failing to fully identify the magnitude of the legacy system issue and may be failing to correct deficiencies in or prioritize the retirement of ICOFR-relevant systems used by multiple DoD Components. In addition, the DoD may be unable to fully assess its financial management systems environment, as a whole, which could result in the development of duplicative systems and impede the DoD’s progress towards its goals of a more simplified systems environment. The DoD CIO should reconsider the definition of a legacy system to ensure that it encompasses a system that is outdated and needs to be modernized or retired, regardless of when the DoD chooses to retire it.

(U) DoD management is failing to fully identify the magnitude of the legacy system issue and may be failing to correct deficiencies in or prioritize the retirement of systems.

(U) The DoD’s FFMIA Compliance Plans Were Not Complete

(U) The DoD’s plans to modernize or replace noncompliant, ICOFR-relevant systems to meet FFMIA requirements were not complete and will not allow the DoD to meet its goals of a more simplified, efficient, and auditable IT systems environment. Specifically, the DoD’s plans were incomplete because they did not include:

- (U) a determination of whether each system should be replaced or be updated to become FFMIA compliant;
- (U) estimated timelines and costs for each system to become FFMIA compliant;

¹⁹ (U) STANFINS is used by the Army and 11 other DoD Components.

- (U) discussions on all non-DoD-owned systems, micro-applications, and RPA/ML software that is ICOFR relevant; and
- (U) discussions on the responsibility for oversight of system retirements.

(U) The DoD's Plans Did Not Include an Accurate Determination of the DoD's Replace or Update Decision

(U) The DoD's plans did not include an accurate determination of which systems should be replaced and which should be updated to become FFMIA compliant. Historically, system owners have determined FFMIA compliance, and OUSD(C)/CFO personnel have not performed assessments to validate that determination. In FY 2022, the OUSD(C)/CFO began the 3-year implementation of its annual financial management systems review process to assess the FFMIA compliance of DoD systems from the perspectives of the system owners and auditors.

When asked about the compliance status of each DoD-owned system, OUSD(C)/CFO personnel did not categorize any systems as FFMIA compliant; rather they categorized 186 systems as "plan to become compliant." This included General Accounting Financial System Reengineered (GAFS-R), STANFINS, and the [REDACTED], as systems

that will become compliant; however, the system owner identified that these three systems were already FFMIA compliant.²⁰ Meanwhile, DoD personnel also represented that they will not implement the Standard Financial Information Structure within these three systems because they are outdated systems that the DoD plans to retire and replace. Because the Standard Financial Information Structure is the DoD's implementation of the USSGL, and the USSGL is one of the requirements to be FFMIA compliant, these general ledger (GL) systems cannot become FFMIA compliant without implementing the Standard Financial Information Structure.²¹ This example highlights the DoD's inconsistency in its determination of whether a system is FFMIA compliant and, if not, whether it will be retired and replaced or become FFMIA compliant through system updates. Without consistent data that can be relied upon, the DoD will not achieve its goal of decreasing the number of outdated, noncompliant, ICOFR-relevant systems. While the OUSD(C)/CFO is implementing a financial

(U) Without consistent data that can be relied upon, the DoD will not achieve its goal of decreasing the number of outdated, noncompliant, ICOFR-relevant systems.

²⁰ [REDACTED] GAFS-R is an accounting system used by the Air Force and 35 other DoD Components; [REDACTED] is an accounting and reporting system used by the Navy.

²¹ (U) A general ledger system processes and records transaction-level details, which are in turn used to create financial statements.

management system review to determine the FFMIA compliance status of each system through its financial management systems review, the USD(C)/CFO should coordinate with the DoD CIO to develop and implement a process to:

- (U) validate the status of each system’s compliance with the FFMIA and
- (U) maintain an accurate list of how each ICOFR-relevant system will become compliant, whether through system updates or retirement and replacement.

(U) The DoD’s Plans Did Not Include Established Timelines and Cost Estimates

(U) The DoD’s plans did not include estimated timelines and costs for each system to become FFMIA compliant. As a part of the DoD’s financial management systems review process, the DoD is working to better identify where each system listed in the DBS Audit Remediation Plan stands as it relates to FFMIA compliance. However, the DoD’s financial management systems review process does not include timelines as to when the DoD systems will achieve or substantially achieve FFMIA compliance. Based on the corrective action timelines established and published by the DoD in its FY 2022 Agency Financial Report, the DoD believes it will become FFMIA compliant by FY 2028. If this timeline does not slip, the DoD would represent to its auditors for the first time that it is compliant with the FFMIA during the FY 2029 audit. This timeline could directly impact the DoD’s financial management and its ability to achieve an unmodified audit opinion. In order to achieve the DoD’s goals to decrease the number of noncompliant systems and secure the DoD’s systems environment, the USD(C)/CFO should:

- (U) reevaluate the DoD’s timeline for modernizing its financial management systems in an effort to expedite the remediation of the DoD’s noncompliance with the FFMIA and
- (U) establish measurable and achievable timelines associated with the DoD-wide financial management system review for compliance with the FFMIA.

In addition, DoD personnel were not able to determine the costs necessary to retire and replace or modernize the DoD’s noncompliant systems. While DoD personnel were unable to provide the future costs necessary to retire and replace or modernize systems, they were able to provide limited historical information. For example, the Standard Accounting and Reporting System (STARS) was

(U) DoD personnel were not able to determine the costs necessary to retire and replace or modernize the DoD’s noncompliant systems.

retired in December 2022 and migrated to three different systems.²² The Navy spent more than \$137.7 million on the retirement and migration of STARS to [REDACTED].²³ Because the DoD must budget for system upgrades or retirement years in advance, budget planning is vital to improving the DoD's system environment. Without the DoD having an understanding and planning for the future funding necessary to modernize these systems, they will remain noncompliant, and the DoD will be unable to meet its goals of a more simplified and optimized financial management systems environment. Therefore, the DoD CIO should coordinate with the USD(C)/CFO to obtain from each system owner an estimate of the total cost associated with each DoD system retiring or becoming FFMIA compliant through modernization and identify where in the DoD's budget the funds to do so are located.

(U) The DoD's Plans Did Not Address All Pieces of the ICOFR-relevant Systems Environment

(U) The DoD's plans did not include discussions on all non-DoD-owned ICOFR-relevant systems, micro-applications, and RPA/ML software, which are significant to the DoD Components and are used to support the preparation of the financial statements. In some instances, the DoD uses non-DoD-owned systems to perform certain financial transactions. For example, the DoD uses Treasury Department systems to report financial data to support the government-wide financial statements. Additionally, the DoD uses micro-applications as an inexpensive way to fill gaps in its system environment instead of establishing the capability within a modern ERP system or ADVANA.²⁴ For example, instead of integrating an accrual calculation or reconciliation into the DoD's modern ERP systems or ADVANA, the DoD uses micro-applications. Those micro-applications are often based on spreadsheets and databases outside of the DoD's systems environment, which are then used as support for modifying the data within the DoD's GL systems.

(U) The DoD uses micro-applications as an inexpensive way to fill gaps in its system environment instead of establishing the capability within a modern ERP system or ADVANA.

(U) The DoD's plans must consider all pieces of the DoD's ICOFR-relevant environment to be complete. Without doing so, the DoD may not be capturing the full set of requirements for financial management system modernization or

²² (U) Before its retirement, STARS was an accounting and reporting systems used by 32 Components.

²³ (U) The Navy was unable to calculate the full cost of retiring STARS.

²⁴ (U) A modern ERP system is a system that is capable of running all of the core business processes, such as finance, human resources, supply chain, contracting, and procurement, in one integrated system. ADVANA is the DoD's central repository for financial management data and is used to produce various reconciliations that assist multiple DoD Components and the OUSD(C)/CFO in the preparation of the DoD Agency-Wide financial statements.

(U) retirement and replacement efforts, resulting in the continued use of manual and often inefficient processes that are not integrated into the DoD's GL systems. To present a complete picture of the DoD's financial systems environment to Congress and for the DoD's planning and budgetary purposes, the USD(C)/CFO should:

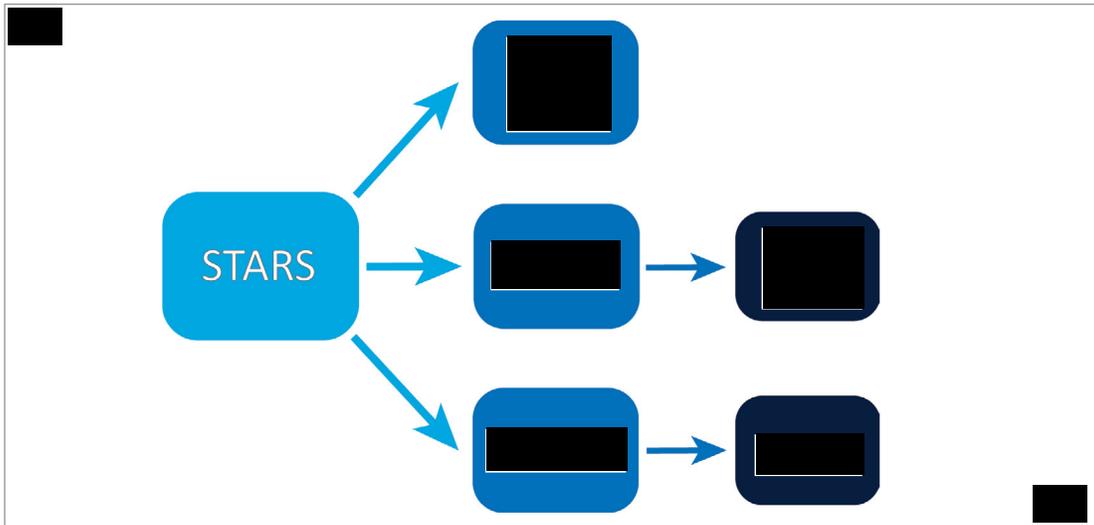
- (U) update the DoD's plans to discuss the use of non-DoD-owned systems, micro-applications, and RPA/ML software and
- (U) develop and implement a plan to limit the use of micro-applications used to produce the DoD Agency-Wide financial statements by using to the fullest extent possible the DoD's modern ERP systems or ADVANA.

(U) The DoD's Plans Did Not Discuss Responsibility for Oversight of System Retirements

While the DoD's plans emphasize the importance of retiring noncompliant systems, they did not include discussions related to who is responsible for the oversight of system retirements. During our audit, we found that OUSD(C)/CFO management receives anticipated retirement dates from system owners; however, OUSD(C)/CFO management relies on the system owner to meet the retirement dates and is not involved in data migration or system retirement processes. The lack of involvement from the OUSD(C)/CFO leads to disjointed and overcomplicated migrations that may not be beneficial to the DoD as a whole. For example, in December 2022, the DoD retired STARS, a noncompliant, outdated system that was used by multiple DoD Components. As shown in Figure 6, data from STARS migrated into three systems. OUSD(C)/CFO personnel identified [REDACTED] as a system that "can and should" be retired. Additionally, the Army has identified that the [REDACTED] is a system that needs to be retired.²⁵ As a result, data that were migrated into these systems will need to be migrated again. While the DoD Components have established plans to migrate these data, these migrations could take years.

²⁵ [REDACTED] is a financial management, asset management, and accounting system used by 15 Components.

(U) Figure 6. STARS Migration



Note: [redacted] stands for [redacted].

(U) Source: The DoD OIG, based on information provided by the OUSD(C)/CFO and DoD Components.

(U) In addition, the DoD incurs costs related to the data migration from one system to another. Therefore, the DoD is incurring unnecessary costs by migrating data twice. Migrating data from one outdated system to another directly contradicts the DoD’s goals of modernizing and optimizing the DoD’s financial systems environment, and it will increase the effort and time required for the DoD to become FFMIA compliant. Section 2222, title 10, United States Code, which took effect in December 2022, outlines the DoD CIO’s responsibility for a review of current DBS systems. However, the DoD’s plans did not discuss the DoD CIO’s involvement in the retirement decisions for financial management systems. We acknowledge that two of the DoD’s plans were issued before 10 U.S.C. § 2222 took effect; however, future iterations of these plans should identify who is responsible for overseeing the retirements of financial management systems. As a result:

(U) Migrating data from one outdated system to another directly contradicts the DoD’s goals of modernizing and optimizing the DoD’s financial systems environment.

- (U) the USD(C)/CFO should identify in their plans that the DoD CIO is responsible for overseeing all system decisions (including retirement) and
- (U) the DoD CIO should develop and implement procedures to oversee system decisions (including retirement) made by the DoD Components to ensure that they are consistent with the DoD’s published goals related to its compliance with the FFMIA and system environment modernization.

(U) The DoD's Systems Review Goal is Not to Achieve FFMIA Compliance or Simplify Its System Environment

(U) The DoD's FFMIA compliance plans were not complete because the DoD's four formal plans were written at a high level, and the goal of OUSD(C)/CFO management's financial management systems review was only to gain a better understanding of a system's compliance status, not to actually achieve FFMIA compliance or make DoD-wide decisions that simplify the systems environment in a meaningful way. While the DoD has been required to make its systems FFMIA compliant for more than 27 years, OUSD(C)/CFO management has historically allowed the DoD Components to self-certify FFMIA compliance, without the OUSD(C)/CFO validating that compliance. However, in FY 2022, the DoD began an effort to gather and review system compliance from the DoD Components, with the goal of gaining a better understanding of a system's FFMIA compliance status.

(U) OUSD(C)/CFO management has historically allowed the DoD Components to self-certify FFMIA compliance, without the OUSD(C)/CFO validating that compliance.

(U) At the end of FY 2024, and after the OUSD(C)/CFO has completed the implementation of its system review, the DoD will have reviewed non-waivered systems and determined their FFMIA compliance.²⁶ While we acknowledge that the DoD needs to gather information about its systems to determine which should be retired and replaced or updated, it is imperative that the DoD:

- (U) determine the design of its ideal financial management systems environment end-state;
- (U) create a multi-year, aggressive plan to achieve that end-state; and
- (U) oversee and monitor the implementation of that plan, from a DoD-wide perspective, to ensure that system decisions are made with the DoD's goals in mind.

(U) The consequences of not preparing a plan at the DoD-wide level could lead to individualized, uncoordinated, and duplicative efforts across the DoD Components. This would delay the DoD's progress toward its goals of becoming FFMIA compliant by FY 2028 and producing a more simplified, secure, and modernized systems

²⁶ (U) Since the first year of the OUSD(C)/CFO systems review, the OUSD(C)/CFO has required Component improvement plans from the systems within the scope of the review that were identified as deficient, which included information on FFMIA compliance. However, the DoD could not provide when each system would become compliant. In addition, the OUSD(C)/CFO's review excluded a significant number of systems within the DoD financial management systems environment.

(U) environment. In order for the DoD to meet its goals, the DSD should direct the USD(C)/CFO and the DoD CIO to identify a lead responsible for developing and implementing a plan to:

- (U) create an ideal end-state document that identifies the financial management systems that the DoD will have when it achieves compliance with the FFMIA and
- (U) create a strategy for all DoD financial management systems to either become compliant with the FFMIA or be retired and replaced in a timely manner.

(U) The DoD's Plans Will Not Remediate the DoD's FFMIA Noncompliance by FY 2028

(U) The DoD's plans were not aggressive enough to ensure that the DoD's ICOFR-relevant systems are FFMIA compliant by the DoD's FY 2028 target date. Specifically, the plans allow for the DoD to maintain too many outdated and noncompliant systems for too long and do not address the fundamental system challenges facing the DoD, such as an overly complex systems environment that relies on hundreds of systems, more than 2,000 interfaces, manual processes, and outdated material systems that the DoD never intends to make FFMIA compliant.²⁷

(U) The plans allow for the DoD to maintain an overly complex systems environment that relies on hundreds of systems, more than 2,000 interfaces, manual processes, and outdated material systems.

While the IT Roadmap stated that the DoD will retire 50 ICOFR-relevant systems in the next 3 fiscal years, this is not aggressive enough for the DoD to show substantial changes and improvement to its financial management systems environment and meet its goals related to its systems environment. Specifically, at least 33 of the systems that the DoD plans to retire in the next 3 years will affect only one or two DoD Components, and the DoD also intends to deploy an additional 8 new systems in the next 3 years. Furthermore, retiring 50 systems over the next 3 years is likely unrealistic given the DoD's history of retirement slippages. For example, in the FY 2021 ICOFR-relevant list, the [REDACTED], or [REDACTED], was scheduled to retire by September 30, 2021. In the FY 2022 list, that date had slipped to December 31, 2027, and in the FY 2023 list, the DoD indicated that it no longer

²⁷ (U) Interfaces are connections between two systems. Therefore, interface controls are necessary to provide reasonable assurance that data being processed on an ongoing basis between systems are accurate and completed in a timely manner. The number of interfaces (2,000) is also extremely conservative because it excludes any manual or automated interfaces with systems not in the DBS Audit Remediation Plan, such as non-DoD-owned systems and micro-applications.

planned to retire that system. As another example, in FY 2005, the DoD began a selection process to retire STANFINS into [REDACTED], but the current estimated retirement date for STANFINS is now not until FY 2031. While slippages will occur in a system environment as large and complex as the DoD's, it is important that the DoD identify and seize every opportunity to modernize its systems. Specifically, the DoD did not seize opportunities to retire and replace:

- (U) outdated GL systems,
- (U) feeder systems that could be replaced by modern ERP systems or DoD-wide solutions, and
- (U) systems that perform similar functions as Treasury Department systems implemented throughout the Government that are intended to improve and consolidate the financial management of the Government.

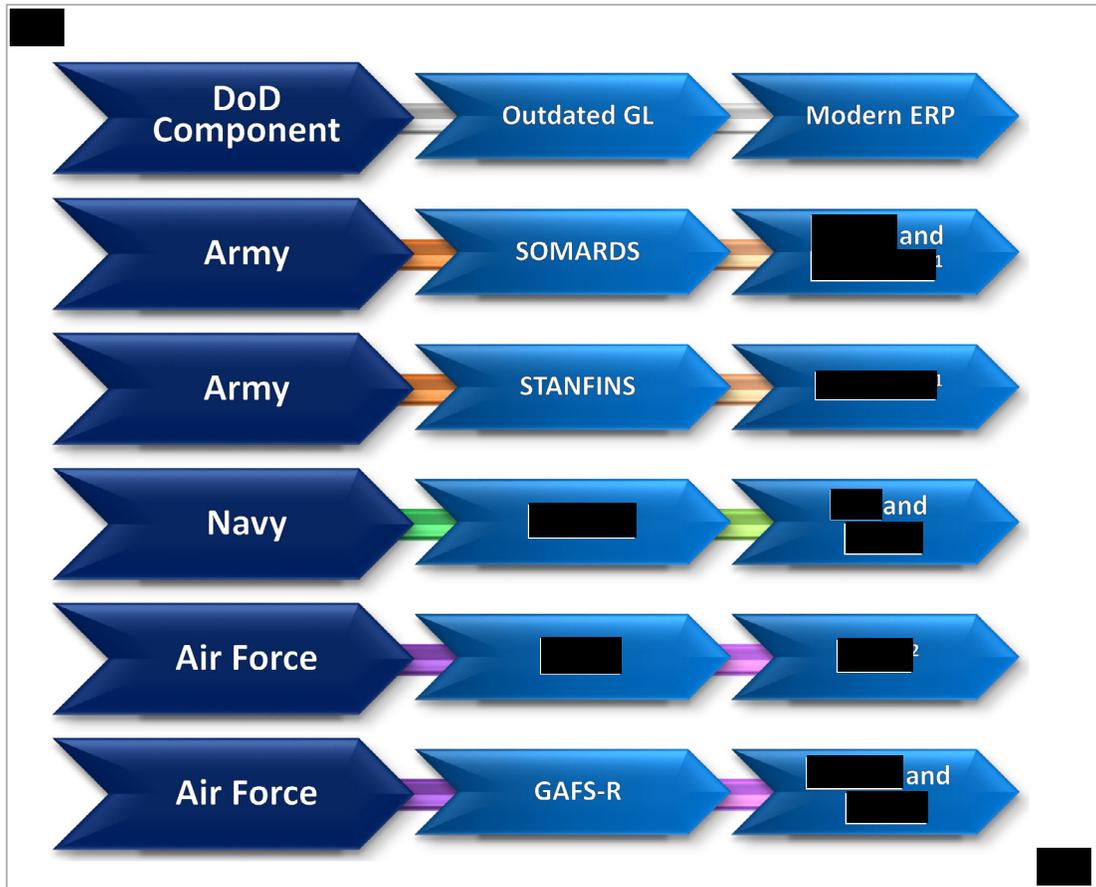
(U) The DoD's Plans Did Not Retire the DoD's Outdated General Ledger Systems in a Timely Manner

(U) The DoD's plans did not seize opportunities to retire and replace its outdated GL systems. Doing so would reduce the number of systems in the DoD financial management system environment. It would also increase the DoD's ability to become FFMIA compliant, as the outdated GL systems do not produce complete USSGL transactions and the modern ERP systems do. The GL systems, whether an outdated GL system or modern ERP system, are the backbone of the DoD's financial management environment, as they are used to record the DoD's financial activity for each DoD Component. When those systems are not compliant with the FFMIA, the DoD must perform crosswalks, adjustments, and reconciliations in an effort to adjust or correct the data before the data are used to populate the financial statements.²⁸ Figure 7 shows the active outdated, noncompliant GL systems and the modern ERP systems intended to replace them.

(U) GL Systems are the backbone of the DoD's financial management environment, as they record the DoD's financial activity.

²⁸ (U) Crosswalks are used to correct or adjust data from one system before the data go into another system. Reconciliations are used to ensure that data from a system match another source; for example, the DoD must reconcile its FBWT balance to U.S. Treasury. Lastly, adjustments are often used when reconciliations produce variances that cannot be corrected or explained.

(U) Figure 7. Outdated GL Systems and the Modern ERP Systems Intended to Replace Them



¹ [redacted] While [redacted] was the modern ERP system intended to replace both SOMARDS and STANFINS when it began development in the mid-2000s, the Army now has plans to retire [redacted], although [redacted] retirement is not planned to be completed until FY 2032.

² [redacted] [redacted] is not currently in the ICOFR-relevant list because the Air Force is not yet using it, as it is still in development.

(U) LEGEND

[redacted] [redacted]

(U) GAFS-R General Accounting Financial System Reengineered

[redacted] [redacted]

(U) SOMARDS Standard Operations Maintenance Research and Development System

(U) STANFINS Standard Army Finance Information System

(U) Source: The DoD OIG, based on information provided by the OUSD(C)/CFO.

(U) Each of these GL systems is considered outdated because they only produce transactions that track the status of funds and do not post to all the accounts with all the necessary attributes. As a result, these systems can never be substantially

(U) compliant with FFMIA because the systems cannot implement the USSGL at the transaction level. Therefore, the DoD reports negative account balances within certain systems, and must ensure that the funding is also reported within another system. The partial use of USSGL also:

- (U) creates the need for crosswalks in an effort to make the USSGL compliant and adjustments to ensure that amounts reconcile completely.
- (U) leads to inefficiencies because two systems are maintaining different parts of the funding process, as one system receives the funds and another spends them, which creates an environment that requires reconciliations and adjustments and is heavily prone to error.

(U) Table 1 shows the significance of the magnitude of these systems.

(U) Table 1. Outdated GL System’s Magnitude and When Each System Plans to Retire

System	FBWT Balance as of March 2023 (in billions) ¹	Total Number of Transactions in March 2023	Anticipated Retirement Date
█ ²	Not Provided	Not Provided	September 30, 2031
GAFS-R	\$222.7	5,326,910	September 30, 2031
█	- \$380.3	95,392,089	September 30, 2027
SOMARDS	- \$16.6	18,290	September 30, 2025
STANFINS	- \$57.2	2,058,106	September 30, 2031

¹ (U) As of March 2023, the DoD Agency-Wide FBWT balance was \$1.2 trillion. According to DoD personnel, negative amounts represent instances where total disbursements (decreases to FBWT) were greater than total funding available (increases in FBWT) in a given system. These outdated systems record disbursements, or the spending of money; however, they do not record the funding received, or the inflow of money to spend. This is why the FBWT balances are negative.

² █ DoD personnel did not provide █ data due to the data’s poor quality.

(U) Source: The DoD OIG, based on information provided by the OUSD(C)/CFO.

(U) Until these systems are modernized or retired and replaced, they will continue to prevent the DoD’s system environment from becoming FFMIA compliant and will prohibit the DoD from meeting its goals related to optimizing the DoD’s systems environment. Therefore, the DoD CIO should coordinate with the system owners to develop a plan and identify the funding necessary to retire the following systems as soon as possible and replace them with ERP systems that exist or are in development, which will allow for the DoD to put \$134.1 million in future funding to better use.

- █ █
- (U) GAFS-R
- █ █

- (U) SOMARDS
- (U) STANFINS

(U) In addition to the systems identified above, the DoD maintains 19 additional systems that OUSD(C)/CFO management has stated “can and should” be retired but will not be retired until after FY 2026. The DoD CIO should coordinate with the system owners of these 19 systems to develop and implement a plan to expedite system retirement, which will allow for the DoD to put \$593.8 million in future funding to better use.

(U) The DoD’s Plans Did Not Integrate the DoD’s Feeder Systems Functionalities into Its Modern Enterprise Resource Planning Systems

(U) The DoD’s plans did not include the integration of its feeder systems into its modern ERP systems. In the mid-2000s, the DoD’s modern ERP systems started to become fully operational. These systems were commercial-off-the-shelf systems, which are ready-made software packages sold to the DoD, similar to those systems sold in the commercial marketplace. An ERP system is capable of running all of the core business processes, such as finance, human resources, supply chain, contracting, and procurement, in one integrated system. ERP systems tie together a multitude of business processes and enable the flow of data between them. If the DoD had fully implemented these commercial-off-the-shelf systems, it could have reduced the number of feeder systems needed. However, the DoD consistently chose to implement only portions of these commercial-off-the-shelf systems and continue to use the DoD’s feeder systems to process other data. In doing so, the DoD did not use the modern ERP systems as intended, overcomplicating business processes, which may significantly increase the number of inaccuracies in its financial data. These choices prevented the DoD from simplifying its systems environment, a goal it has established in both the DoD Financial Management Strategy and the DBS Audit Remediation Plan. The DoD currently relies on at least 405 systems and micro-applications outside the DoD’s GL systems and more than 2,000 interfaces between systems.

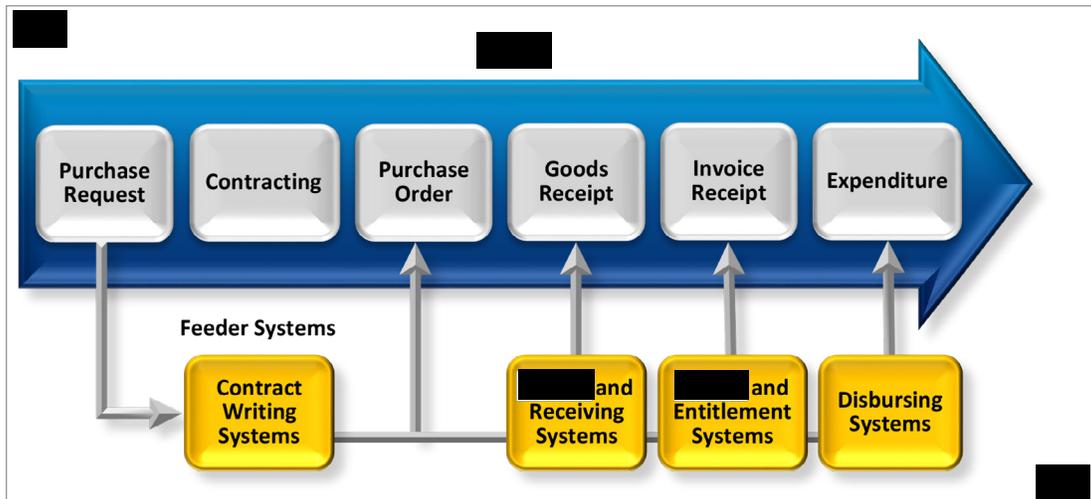
(U) The DoD consistently chose to implement only portions of commercial-off-the-shelf systems and continue to use the DoD’s feeder systems to process other data.

(U) As part of DoD’s Financial Management Strategy, the DoD began an initiative to have transactions start in and stay in the DoD’s modern ERP systems, which is essentially using the full capability of the commercial-off-the-shelf packages. While the DoD has this initiative, the DoD Components are not implementing it to its full extent, as at least 109 DoD-identified feeder systems are scheduled to remain after

(U) FY 2028 or do not have a retirement date. By adopting this strategy of keeping transactions within the DoD’s modern ERP systems, the DoD could retire many of those 109 feeder systems, and put the \$1.4 billion or more per year that the DoD spends on those systems to better use.²⁹ Specifically, the DoD will continue to pay to maintain these 109 feeder systems, while it could be spending this funding on systems that need to be modernized to become FFMI compliant. The achievement of this initiative would result in a positive shift in the DoD’s way of conducting business, allowing for more controls over its business processes and a simplified financial management systems environment that is more secure, auditable, affordable, and agile. Figure 8 shows how fully using the functionalities of the ERP systems that the DoD owns or is developing would simplify the procure-to-pay process, as the systems in the boxes outside of the blue arrow would no longer be necessary.

(U) By keeping transactions within the DoD’s modern ERP systems, the DoD could retire many of those 109 feeder systems, and put the \$1.4 billion or more per year that the DoD spends on those systems to better use.

Figure 8. The Procure-to-Pay Process Flowchart for [REDACTED] Showing Those Systems Used Outside of It



Note: [REDACTED] (or [REDACTED]) is a secure, Internet-based system for electronic invoicing, receipt and acceptance. The communication between the contract writing systems and [REDACTED] occurs by way of the vendor sending an invoice to [REDACTED]

(U) Source: The DoD OIG, based on information provided by the U.S. Marine Corps.

²⁹ (U) The \$1.4 billion per year was the average amount budgeted between FYs 2023 and 2027 for the feeder systems for which OUSD(C)/CFO personnel were able to provide documentation.

As shown in Figure 8, immediately after a purchase request occurs in the procure-to-pay process, the request leaves [REDACTED] and enters a contract writing system. Once the contract is written, the contract information follows two separate tracks: (1) it is reported to [REDACTED] and (2) it flows through the outdated invoicing, receiving, entitling, and disbursing systems that then report back to [REDACTED]. An example of a system that the DoD uses over its modern ERP systems in FY 2023 for contracting, entitlement, and disbursing is the [REDACTED]

[REDACTED], or [REDACTED], which was launched in 1958. Over the years, the DoD has made efforts to upgrade [REDACTED] and work around its limitations. When the U.S. Marine Corps relied more heavily on [REDACTED] to entitle transactions, as opposed to systems like [REDACTED], the U.S. Marine Corps reduced the

(U) When the U.S. Marine Corps relied more heavily on modern ERPs, they reduced the amount of unmatched disbursements by “tens of millions of dollars” and increased FBWT accuracy.

amount of unmatched disbursements by “tens of millions of dollars” and increased FBWT accuracy. In addition, none of the DoD Components use or have plans to use their modern ERP systems to write contracts, meaning that there are no plans for transactions to actually stay in the ERP for the procure-to-pay process, which is one of the DoD’s most significant processes. Aligning with the DoD’s goal for transactions to start and stay in the modern ERP systems and given that ERP systems are intended to address all business functions, as opposed to addressing only accounting, the DSD should direct the USD(C)/CFO and the DoD CIO to identify a lead responsible for developing and implementing a plan to:

- (U) obtain justification from the system owners for the continued use of each of the 214 systems included in the January 2023 DBS Audit Remediation Plan that the DoD Components use outside of the 18 GL systems and
- (U) create a deliberate and systematic process of adopting the functionalities already available in the ERP systems or other DoD-wide solutions to replace those functionalities not approved by the DSD.

(U) Additionally, the DSD should approve the continued use of each of the 214 systems included in the January 2023 DBS Audit Remediation Plan that the DoD Components use outside of the 18 GL systems.

As the DSD determines which feeder systems to allow the DoD Components to maintain outside the modern ERP systems, they should consider the number of systems that serve similar functions in the DoD’s system inventory. For example, of the 32 acquisition and purchasing systems used by the DoD, 3 are the Military Departments’ ERP systems ([REDACTED], [REDACTED], and [REDACTED]) and 1 is the ERP system

used by various DoD Components (). Therefore, the DoD should assess why it needs the other 28 acquisition and purchasing systems that it currently uses. Table 2 shows additional examples of process areas across the DoD that have at least 19 systems serving similar functions.

(U) Table 2. Business Processes That Use Systems with Similar Functionalities Across the DoD

(U)	Process Area	Number of Systems
	Acquisition and Purchasing Systems	32
	Asset Management and Reporting Systems	20
	Billing Systems	20
	Contract Writing and Administration Systems	21
	Customer Management Systems	19
	Entitlement Systems	37
	Fund Balance with Treasury Systems	23
	General Ledger and Accounting Systems	25
	Material and Inventory Control Systems	26
	Order Management Systems	23

(U) Note: This chart presents 10 business processes with the largest number of systems that have similar functionalities as of June 14, 2022. When we requested updated information from OUSD(C)/CFO personnel, they responded that they did not have updated information as of July 25, 2023.

(U) Source: The DoD OIG, based on information provided by the OUSD(C)/CFO.

(U) To significantly reduce the number of systems in the DoD's systems inventory, the DSD direct the USD(C)/CFO and the DoD CIO to identify a lead responsible for developing and implementing a plan to identify opportunities for DoD-wide solutions to simplify the DoD's financial management system environment.

(U) The DoD's Plans Did Not Use Treasury Department-Developed Financial Management Programs to the Fullest Extent

(U) The DoD plans did not use to the fullest extent possible the Treasury Department programs intended to improve financial management in the Government and consolidate Government-wide financial management system functions at the Treasury Department. For example, the Treasury Department has a program to perform disbursements for all Federal agencies. In FY 2017, the OUSD(C)/CFO issued policy requiring all DoD Components to convert to Treasury Direct Disbursing by September 30, 2019, except for existing systems used for contingency disbursing.³⁰ As of FY 2022, the DoD had

³⁰ (U) For FY 2022 funding, the DoD was appropriated approximately \$22.4 billion in contingency funding. According to OUSD(C)/CFO Policy, "Treasury Disbursing and Collections Initiative: Standard Processes, Systems Identification, and Data Standardization," August 29, 2017, this would be the maximum amount not subject to the transition to Treasury Direct Disbursing for FY 2022.

(U) converted only 21.4 percent of its disbursements to Treasury Direct Disbursing.³¹ Based on the DoD's Treasury Direct Disbursing plans, which are through FY 2026, the DoD plans to convert only 48.7 percent of its FY 2022 funding to Treasury Direct Disbursing by FY 2026 and still maintain disbursing functionalities in at least nine different systems at that time.³² However, if the DoD were to fully use this program, it would have more compliant systems and processes, as Treasury Direct Disbursing is a proven process that prevents FBWT differences between the DoD and the Treasury Department. This would have a positive impact on the DoD's longstanding issues related to FBWT, which revolve around the DoD's inability to reconcile its FBWT balance to U.S. Treasury. Furthermore, the Treasury Direct Disbursing service is free to Federal entities. Therefore, the DoD could put the funds spent on maintaining its disbursing functionality to better use elsewhere, and the Government could potentially realize monetary benefits through the economies of scale by having more agencies use the service. To improve the DoD's FFMIA compliance and save money, the DSD should:

(U) If the DoD were to fully use the Treasury Direct Disbursing program, the DoD would have more compliant systems and processes and the program is free.

- (U) direct the DoD Components to use Treasury Department programs to the maximum extent possible and
- (U) direct the USD(C)/CFO and the DoD CIO to identify a lead responsible for developing and implementing a plan to create a single DoD-wide solution for the remaining activity for which the DoD is unable to use Treasury Department programs.

(U) DoD Management Has Not Held Itself Accountable for Integrating and Modernizing Financial Management Systems

(U) The DoD's plans did not integrate and modernize the DoD's financial management system environment by the DoD's ERP systems to the fullest extent possible, and DoD management has not held itself accountable for not doing so. Specifically, the DoD had initiatives beginning in the mid-2000s to retire its outdated GL systems and feeder systems by moving to modern ERP systems, yet 5 outdated GL systems and at least 138 DoD-identified feeder systems remained in FY 2023. The DoD also had initiatives in the 2010s to implement Treasury Department financial management programs, which would have reduced its reliance on FFMIA systems

³¹ (U) The 21.4 percent was calculated by dividing the total amount of FY 2022 funding the DoD converted to Treasury Direct Disbursing in FY 2022 (\$187 billion) divided by the total FY 2022 funding the DoD received (\$872.1 billion), according to the OUSD(C)/CFO.

³² (U) The 48.7 percent was calculated by dividing the total amount of FY 2022 funding the DoD plan convert to Treasury Direct Disbursing by FY 2026 (\$424.8 billion) divided by the total FY 2022 funding the DoD received (\$872.1 billion), according to the OUSD(C)/CFO.

(U) that are not compliant, yet those initiatives remain mostly unimplemented. While the DoD Financial Management Strategy for FYs 2022 through 2026 includes renewed efforts to complete these initiatives, the DoD’s financial management plans do not align with those efforts. The plans and its actions to date allow for outdated GL systems and feeder systems, along with systems that the DoD could replace with Treasury Department programs, to remain well beyond FY 2026. To achieve its stated goals to decrease the number of outdated, noncompliant systems and simplify, optimize, and create a more efficient and auditable financial management systems environment, the DoD must identify and address significant challenges related to the implementation and modernization of its financial systems, including accounting for classified transactions, transitioning to DoD-wide systems, and converting legacy data. Therefore, the DSD should direct the USD(C)/CFO and the DoD CIO to identify a lead responsible for developing and implementing a plan to identify significant challenges preventing the DoD Components from simplifying the DoD’s system environment and implement DoD-wide solutions to address any identified challenges.

(U) The DoD Will Not Become FFMIA Compliant by FY 2028

(U) Without having comprehensive plans to swiftly retire or modernize its outdated, noncompliant systems, the DoD will not become FFMIA compliant by its target date of FY 2028. Table 3 shows the effect of the DoD continuing with its current plans, along with an example of the DoD’s current system environment challenges.

(U) Table 3. The Effects of the DoD Lacking an Aggressive Plan to Become FFMIA Compliant

(U) Current System Environment Challenge	The DoD will continue to...
The DoD’s system environment contains 423 systems and micro-applications in the ICOFR-relevant list and has more than 2,000 interfaces that the DoD needs to document how it uses.	... struggle to develop end-to-end process documentation and explain its business processes.
The DoD has outdated GL systems that it never intends to make FFMIA compliant but does not plan to retire and replace until FY 2031.	... maintain noncompliant systems and not meet its target date (FY 2028) to become FFMIA compliant.
The DoD plans to spend \$727.9 million between FYs 2024 and 2027 on 24 systems that OUSD(C)/CFO management has stated “can and should” retire, which means that the DoD does not plan to modernize those systems or it plans to modernize systems that should be retired.	... waste taxpayer dollars to maintain systems that will never become FFMIA compliant.
The DoD has performed more than \$222 billion in unsupported adjustments to the DoD’s financial information in the last two quarters of FY 2022.	... produce unreliable financial management information for use by program managers, Congress, and the public. (U)

(U) Table 3. The Effects of the DoD Lacking an Aggressive Plan to Become FFMIA Compliant (cont'd)

(U) Current System Environment Challenge	The DoD will continue to...
The DoD has developed hundreds of corrective action plans to address system deficiencies and will continue to require multiple corrective actions as requirements evolve.	...lack the agility necessary to meet current, or adapt to changing, system requirements.
The DoD Components need to address more than 200 deficiencies identified in notices of findings and recommendations related to the security management of their systems as part of the FY 2022 financial statement audits.	...have a large number of security vulnerabilities in its systems.
The 24 systems that OUSD(C)/CFO management has stated “can and should” retire and are not required to become FFMIA compliant had more than 140 notices of findings and recommendations against them in FY 2022.	...waste audit resources on systems that will never become FFMIA compliant.
The DoD’s system environment is not compliant with the FFMIA, which contributes to many of its auditor identified material weaknesses.	...receive audit opinions that are not unmodified. (U)

(U) Note: See Appendix C for a list and explanation of the potential monetary benefit (PMB) amount found during our work on this audit report.

(U) Source: The DoD OIG.

(U) Management Comments on Potential Monetary Benefits

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

█ The USD(C)/CFO stated that █ should be removed from Appendixes B and C because the system is not slated to retire. The USD(C)/CFO stated that they were able to reconcile and confirm the amounts in Appendix C, with █ excluded. The USD(C)/CFO stated that with the removal of █ from Appendixes B and C, the total referenced in Table 5 should change from \$2.6 billion to \$594 million for the 19 remaining systems.³³

³³ (U) The difference between \$594 million in the USD(C)/CFO’s comments and the \$593.8 million in Appendix C is due to rounding.

(U) DoD Chief Information Officer Comments

(U) The DoD CIO did not comment on the potential monetary benefits (PMB) amount, stating that the amount was calculated based upon information provided by the USD(C)/CFO to the DoD OIG. Therefore, the DoD CIO does not have insight into the basis or viability of the PMB as stated in the recommendation.

(U) Our Response

Based on comments from the USD(C)/CFO and supporting documentation their office provided, we agree that [REDACTED] should not have been included in the OUSD(C)/CFO's list of systems that "can and should" retire and should be removed. Therefore, we updated Recommendation 3.f and Appendixes B and C to correct the OUSD(C)/CFO's list of systems and the corresponding dollar values. In addition, we updated the number of systems throughout the report, as appropriate.

(U) Recommendations, Management Comments, and Our Response

(U) Recommendation 1

(U) We recommend that the Deputy Secretary of Defense:

- a. **(U) Direct the Under Secretary of Defense(Comptroller)/Chief Financial Officer, DoD, and the DoD Chief Information Officer to identify a lead and the lead subsequently develops and implements plans to:**
 1. **(U) Create an ideal end-state document that identifies the financial management systems that the DoD will have when it achieves compliance with the Federal Financial Management Improvement Act of 1996.**
 2. **(U) Create a strategy for all DoD financial management systems to either become compliant with the Federal Financial Management Improvement Act of 1996 or be retired and replaced in a timely manner.**
 3. **(U) Obtain justification from the system owners for continued use of each of the 214 systems included in the January 2023 Defense Business Systems Audit Remediation Plan that the DoD Components use outside of the 18 general ledger systems.**
 4. **(U) Create a deliberate and systematic process of adopting the functionalities already available in the enterprise resource planning systems or other DoD-wide solution to replace those functionalities not approved by the Deputy Secretary of Defense.**

5. (U) Identify opportunities for DoD-wide solutions to simplify the DoD's financial management system environment.
6. (U) Create a single DoD-wide solution for the remaining activity for which the DoD is unable to use Treasury Department programs.
7. (U) Identify significant challenges preventing the DoD Components from simplifying the DoD's system environment and implement DoD-wide solutions to address any identified challenges.³⁴

(U) Deputy Secretary of Defense Comments

(U) The DSD agreed with the recommendations and stated that they will issue a memorandum to formally identify the Principal Staff Assistant responsible for each recommendation. The DSD issued the memorandum to establish the Principal Staff Assistants responsible for the recommendations on December 21, 2023.

(U) Our Response

(U) Comments from the DSD addressed all specifics of the recommendations; therefore, the recommendations are resolved but will remain open. The DSD's memorandum addresses the recommendations and we will close them once we receive documentation and verify that the responsible Principal Staff Assistant has:

- (U) created an ideal end-state document to become FFMIA compliant.
- (U) created a strategy for all DoD financial management systems to either become compliant with the FFMIA or be retired and replaced.
- (U) obtained justification from the system owners for continued use systems outside of the GL systems.
- (U) created a deliberate and systematic process of adopting the functionalities already available to the DoD within the ERPs or other DoD-wide solutions.
- (U) identified opportunities for DoD-wide solutions to simplify the DoD's financial management system environment.
- (U) created a single DoD-wide solution for activity where the DoD is unable to use Treasury Department programs after implementing the Secretary of Defense directive to use Treasury programs to the maximum extent possible.
- (U) identified significant challenges preventing the DoD Components from simplifying the DoD's system environment and implement DoD-wide solutions to address identified challenges.

³⁴ (U) We will close Recommendations 1.a.1 through 1.a.7 after a directive is issued and the responsible office develops and implements a plan to address each recommendation.

- b. **(U) Approve the continued use of each of the 214 DoD-owned systems included in the January 2023 Defense Business Systems Audit Remediation Plan that the DoD Components use outside of the 18 general ledger systems.**

(U) Deputy Secretary of Defense Comments

(U) The DSD agreed with the recommendation and stated that they will direct the USD(C)/CFO to approve the continued use of feeder systems. The DSD provided an estimated completion date of third quarter FY 2024.

(U) Our Response

(U) Comments from the DSD addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we receive documentation and verify that the USD(C)/CFO approved the continued use of each system included in the DBS Audit Remediation Plan, outside of the GL systems.

- c. **(U) Direct the DoD Components to use Treasury Department programs to the maximum extent possible.**

(U) Deputy Secretary of Defense Comments

(U) The DSD agreed with the recommendation and referenced the Secretary of Defense's memorandum, "Expectations for Supporting Department of Defense Financial Statement Audits," dated October 13, 2023, directing the DoD Components to maximize the use of Treasury Department programs.

(U) Our Response

(U) Comments from the DSD addressed all specifics of the recommendation. Because the Secretary of Defense's memorandum included an expectation for the DoD Components to maximize the use of Treasury Department programs; the recommendation is closed, and no further comments or actions are required.

(U) Recommendation 2

(U) We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. **(U) Coordinate with the DoD Chief Information Officer to:**
 - 1. **(U) Develop and implement policies and procedures that require the DoD Components to document all end-to-end processes relevant to financial transactions with sufficient detail to identify how systems are used and oversee and monitor the documentation of those processes.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

(U) The USD(C)/CFO agreed with the recommendation and stated that they will partner with the DoD CIO to develop and implement a plan to ensure that the DoD Components assert to the operational activities that they perform and document recurring oversight and monitoring procedures. The USD(C)/CFO provided an estimated completion date of October 2024.

(U) DoD Chief Information Officer Comments

(U) Although not required to comment, the DoD CIO agreed with the recommendation and stated that they will coordinate with the USD(C)/CFO to document the end-to-end processes for defense business systems.

(U) Our Response

(U) Comments from the USD(C)/CFO and DoD CIO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we receive documentation and verify that the USD(C)/CFO developed and implemented policies and procedures that require the DoD Components to document all end-to-end processes relevant to financial transactions with sufficient detail to identify how the DoD uses its systems and to oversee and monitor the documentation of those processes.

2. **(U) Review all DoD Component end-to-end processes to compile a complete list of internal controls over financial reporting-relevant systems and micro-applications.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

(U) The USD(C)/CFO agreed with the recommendation and stated that they will provide guidance to the DoD Components in the FY 2024 Statement of Assurance Handbook and task the DoD Components with validating and updating the list of ICOFR-relevant systems. The USD(C)/CFO stated that they will monitor the DoD Components through governance forums and the OUSD(C)/CFO will rely on the DoD Components to validate the current inventory and report any additional ICOFR-relevant systems and micro-applications. The USD(C)/CFO provided an estimated completion date of November 2025.

(U) DoD Chief Information Officer Comments

(U) Although not required to comment, the DoD CIO agreed with the recommendation and stated that they will coordinate with the USD(C)/CFO to document the end-to-end processes for defense business systems.

(U) Our Response

(U) Comments from the USD(C)/CFO and DoD CIO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we receive documentation and verify that the USD(C)/CFO created and implemented an oversight and monitoring process to review all DoD Component end-to-end processes to compile a complete list of ICOFR-relevant systems and micro-applications.

3. **(U) Develop and implement a plan to consolidate all relevant data necessary to track the internal controls over financial reporting-relevant list, leverage authoritative sources, and minimize data discrepancies.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

(U) The USD(C)/CFO agreed with the recommendation and stated that they will develop a plan to leverage ADVANA capabilities to automate and improve ICOFR-relevant data. The USD(C)/CFO provided an estimated completion date of January 2025.

(U) DoD Chief Information Officer Comments

(U) Although not required to comment, the DoD CIO agreed with the recommendation and stated that they will support the USD(C)/CFO and their plan to consolidate the tracking of the ICOFR-relevant list.

(U) Our Response

(U) Comments from the USD(C)/CFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we receive documentation and verify that the USD(C)/CFO implemented a plan to consolidate all relevant data necessary to track the ICOFR-relevant list, leverage authoritative sources, and minimize data discrepancies.

4. **(U) Develop and implement a process to validate the status of each system's compliance with the Federal Financial Management Improvement Act of 1996.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

(U) The USD(C)/CFO agreed with the recommendation and stated that they will partner with the DoD CIO and DoD Components to develop a collective snapshot of overall system compliance within ADVANA to improve DoD-level oversight

(U) and visibility of each system's compliance with the FFMIA. Additionally, they will publish the FY 2024 Financial Management Information Technology Portfolio Management Guidance to provide standard instructions for the DoD Components to assess FFMIA requirements and report these requirements in DITPR. The USD(C)/CFO provided an estimated completion date of January 2025.

(U) DoD Chief Information Officer Comments

(U) Although not required to comment, the DoD CIO agreed with the recommendation and stated that they will support the USD(C)/CFO, where appropriate, in establishing a process to validate FFMIA compliance.

(U) Our Response

(U) Comments from the USD(C)/CFO and DoD CIO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we receive documentation and verify that the USD(C)/CFO implemented a process to validate the status of each system's compliance with the FFMIA.

5. **(U) Develop and implement a process to maintain an accurate list of how each internal controls over financial reporting-relevant system will become compliant, whether through system updates or retirement and replacement.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD

(U) The USD(C)/CFO agreed with the recommendation and stated that they will work with the DoD Components to develop and implement a process to obtain corrective action plans that address FFMIA noncompliance, including planned system retirement and replacement activities. The USD(C)/CFO provided an estimated completion date of January 2025.

(U) DoD Chief Information Officer Comments

(U) Although not required to comment, the DoD CIO stated that they agreed with the recommendation and stated that they will support the USD(C)/CFO in accurately tracking ICOFR-relevant systems and their plan to become FFMIA compliant.

(U) Our Response

(U) Comments from the USD(C)/CFO and DoD CIO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we receive documentation and verify that the USD(C)/CFO developed and implemented a process to maintain an accurate list of how ICOFR-relevant systems will become compliant, whether through system updates or retirement and replacement.

- b. (U) Develop and implement controls to ensure the completeness of the DoD's internal control over financial reporting-relevant list.**
- c. (U) Develop and implement controls to ensure the accuracy of the data tracked in the internal controls over financial reporting-relevant list.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

(U) The USD(C)/CFO agreed with the recommendations and stated that they will update the DoD ICOFR Guide, which will include enterprise oversight responsibilities and will specify the required internal controls over the processes described in Recommendations 2.a.2 and 2.a.3 to ensure that the ICOFR system inventory list is reasonably complete. The USD(C)/CFO provided an estimated completion date for the recommendations of January 2025.

(U) Our Response

(U) Comments from the USD(C)/CFO addressed all specifics of the recommendations; therefore, the recommendations are resolved but will remain open. We will close the recommendations once we receive documentation and verify that the USD(C)/CFO developed and implemented controls to ensure the completeness and accuracy of the DoD's ICOFR-relevant list.

- d. (U) Reevaluate the DoD's timeline for modernizing its financial management systems in an effort to expedite the remediation of the DoD's noncompliance with the Federal Financial Management Improvement Act of 1996.**
- e. (U) Establish measurable and achievable timelines associated with the DoD-wide financial management system review for compliance with the Federal Financial Management Improvement Act of 1996.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

(U) The USD(C)/CFO agreed with the recommendations and stated that they require all DoD Components that are undergoing stand-alone audits to submit audit roadmaps. The USD(C)/CFO stated that they will leverage those audit roadmaps to evaluate system investments and timelines necessary to modernize our financial management systems, and partner with the DoD CIO to build a schedule that reflects the results, to include measures of progress or lack thereof, of Recommendation 2.d. The USD(C)/CFO provided an estimated completion date of March and May 2025 for the respective recommendations.

(U) Our Response

(U) Comments from the USD(C)/CFO addressed all specifics of the recommendations; therefore, the recommendations are resolved but will remain open. We will close the recommendations once we receive documentation and verify that the USD(C)/CFO:

- (U) evaluated system investments and timelines necessary to modernize financial management systems in an effort to expedite the remediation of the DoD's noncompliance with the FFMIA.
 - (U) established measureable and achievable timelines associated with the DoD-wide financial management system review for compliance with the FFMIA.
- f. **(U) Update the DoD's plans to discuss the use of non-DoD-owned systems, micro-applications, and robotic process automation and machine learning software.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

(U) The USD(C)/CFO agreed with the recommendation and stated that they will update the IT Roadmap and DBS Audit Remediation Plan to discuss and clarify that the scopes within are focused on DBS and exclude non-DoD owned systems, micro-applications, and software usage. The USD(C)/CFO provided an estimated completion date of July 2024.

(U) Our Response

(U) Comments from the USD(C)/CFO did not address specifics of the recommendation; therefore, the recommendation is unresolved. Our recommendation was intended to increase transparency within the DoD's plans to include all aspects of its IT environment, as the DoD's plans do not currently

(U) discuss the use of non-DoD-owned systems, micro-applications, and robotic process automation and machine learning software. Therefore, we request that the USD(C)/CFO provide additional comments within 30 days of the final report describing the actions they plan to take to provide more transparency within their plans regarding the DoD's use of non-DoD-owned systems, micro-applications, and robotic process automation and machine learning software.

- g. (U) Develop and implement a plan to limit the use of micro-applications used to produce the DoD Agency-Wide financial statements by using to the fullest extent possible the DoD's modern general ledger systems or Advanced Analytics.**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

(U) The USD(C)/CFO agreed with the recommendation and stated that they will partner with the appropriate Defense agencies to determine the feasibility of limiting and reducing the use of micro-applications that support the production of the DoD Agency-Wide financial statements. The USD(C)/CFO stated that they will assess cost, time, and benefit of migrating functionality of micro-applications into GL systems or ADVANA. The USD(C)/CFO did not provide an estimated completion date for the recommendation.

(U) Our Response

(U) Comments from the USD(C)/CFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. While we understand the need to prioritize changes based on cost, time, and benefit, the cost to use micro-applications may be low. However, we encourage the USD(C)/CFO to limit the use of micro-applications to the fullest extent possible to achieve their goal of simplifying their financial management systems environment. We will close the recommendation once we receive documentation and verify that the USD(C)/CFO developed and implemented a plan to limit the use of micro-applications used to produce the DoD Agency-Wide financial statements by using the DoD's modern GL systems or ADVANA.

- h. (U) Identify in their plans that the DoD Chief Information Officer is responsible for overseeing all system decisions (including retirement).**

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

(U) The USD(C)/CFO agreed with the recommendation and stated that the DoD CIO chairs the Defense Business Council, which is the primary governance body for DBS between the Principal Staff Assistants and DoD Components. However, the DoD CIO

(U) is not responsible for overseeing all system decisions, as that would be beyond the scope of 10 U.S.C. § 2222 and current DoD policy. The USD(C)/CFO stated that the DoD CIO is updating the Defense Business Council charter to clarify roles and responsibilities between the Principal Staff Assistants and DoD Components. As a result, the USD(C)/CFO will update their plans as appropriate. The USD(C)/CFO provided an estimated completion date of July 2024.

(U) DoD Chief Information Officer Comments

(U) Although not required to comment, the DoD CIO agreed with the recommendation and stated that they will support the USD(C)/CFO in updating the DBS Audit Remediation Plan and IT Roadmap to include clarification of the roles and responsibilities between the DoD CIO and DoD Components regarding system decisions.

(U) Our Response

(U) Comments from the USD(C)/CFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we receive documentation and verify that the USD(C)/CFO updated their plans to identify the DoD CIO's role and responsibility in regard to system decisions and retirements.

(U) Recommendation 3

(U) We recommend that the DoD Chief Information Officer:

- a. **(U) Develop and implement controls to ensure the accuracy of DoD Information Technology Portfolio Repository data, based on their oversight and monitoring of the DoD Components, to support the accuracy of the DoD's internal controls over financial reporting-relevant list.**

(U) DoD Chief Information Officer Comments

(U) The DoD CIO agreed with the recommendation and stated that they will coordinate with the USD(C)/CFO to ensure controls are in place to ensure the accuracy of DITPR data. The DoD CIO stated that this effort is dependent on the USD(C)/CFO coordinating with the DoD CIO to develop the appropriate controls, as the DoD CIO does not have insight into the ICOFR-relevant list. The DoD CIO provided an estimated completion date of fourth quarter FY 2024.

(U) Our Response

(U) Comments from the DoD CIO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we receive documentation and verify that the DoD CIO has developed and implemented controls to ensure the accuracy of DITPR data, to support the accuracy of the ICOFR-relevant list.

- b. (U) Reconsider the definition of a legacy system to ensure that it encompasses a system that is outdated and needs to be modernized or retired, regardless of when the DoD chooses to retire it.**

(U) DoD Chief Information Officer Comments

(U) The DoD CIO agreed with the recommendation and stated that they will review the legacy system definition, and if changes are needed to the definition to ensure clarity in the application, they will revise or issue DoD-wide guidance. The DoD CIO provided an estimated completion date of third quarter FY 2024.

(U) Our Response

(U) Comments from the DoD CIO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. Because the definition of a legacy system is not driven by when the DoD chooses to retire it, we will close the recommendation once we receive documentation and verify that the DoD CIO's legacy system definition encompasses a system that is outdated and needs to be modernized or retired.

- c. (U) Coordinate with the Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD, to obtain from each system owner an estimate of the total cost associated with each DoD system retiring or becoming compliant with the Federal Financial Management Improvement Act of 1996 through modernization and identify where in the DoD's budget the funds to do so are located.**

(U) DoD Chief Information Officer Comments

(U) The DoD CIO agreed with the recommendation and stated that, once the USD(C)/CFO determines a system's FFMIA compliance status, the DoD CIO will coordinate with USD(C)/CFO to obtain an estimated total cost of each DoD financial system retiring or becoming compliant with the FFMIA through modernization. The DoD CIO provided an estimated completion date of fourth quarter FY 2024.

(U) Our Response

(U) Comments from the DoD CIO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we receive documentation and verify that the DoD CIO obtained an estimate of the total cost associated with each DoD system retiring or becoming compliant with the FFMIA through modernization and identify where in the DoD's budget the funds to do so are located.

- d. **(U) Develop and implement procedures to oversee system decisions (including retirement) made by the DoD Components to ensure that they are consistent with the DoD's published goals related to its compliance with the Federal Financial Management Improvement Act of 1996 and system environment modernization.**

(U) DoD Chief Information Officer Comments

(U) The DoD CIO agreed with the recommendation and stated that they will coordinate with the USD(C)/CFO and the DoD Components to develop and implement procedures to oversee DoD Components' system decisions. The DoD CIO provided an estimated completion date of second quarter FY 2025.

(U) Our Response

(U) Comments from the DoD CIO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we receive documentation and verify that the DoD CIO developed and implemented procedures to oversee system decisions made by the DoD Components to ensure that they are consistent with the DoD's published goals related to its compliance with the FFMIA and system environment modernization.

- e. **(U) Coordinate with the system owners to develop a plan and identify the funding necessary to retire the following systems as soon as possible and replace them with enterprise resource planning systems that exist or are in development and allow for the DoD to put \$134.1 million in future funding to better use.**

1. [REDACTED]

2. **(U) General Accounting Financial System Reengineered**

3. [REDACTED]

4. **(U) Standard Operations and Maintenance Army Research and Development System**

5. **(U) Standard Army Finance Information System**

(U) DoD Chief Information Officer Comments

(U) The DoD CIO agreed with the recommendations and stated that they will coordinate with system owners to retire the systems identified. The DoD CIO stated that they could not provide details regarding the PMB in the recommendation because the monetary benefits are based upon information provided by the USD(C)/CFO. The DoD CIO provided an estimated completion date of first quarter FY 2025, and then annually thereafter.

(U) Our Response

(U) Comments from the DoD CIO addressed all specifics of the recommendations; therefore, the recommendations are resolved but will remain open. We agree that the USD(C)/CFO provided the PMB data. In the USD(C)/CFO response, they confirmed that they were able to reconcile the PMB amounts listed in Appendix C. We will close the recommendations once we receive documentation and verify that the DoD CIO has coordinated with system owners to develop a plan, identify the necessary funding, and replace those systems with ERP systems that exist or are in development.

- f. **(U) Coordinate with the system owners of 19 additional systems that according to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, “can and should” be retired, to develop and implement a plan to expedite their retirement and allow for the DoD to put \$593.8 million in future funding to better use.**

(U) DoD Chief Information Officer Comments

(U) The DoD CIO agreed with the recommendation and stated that they will coordinate with the USD(C)/CFO and system owners to develop and implement a plan to expedite the retirement of those systems. The DoD CIO stated that they could not provide details regarding the PMB in the recommendation because the monetary benefits are based upon information provided by the USD(C)/CFO. The DoD CIO provided an estimated completion date of third quarter FY 2024.

(U) Our Response

(U) Comments from the DoD CIO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We agree that the USD(C)/CFO provided the PMB data. In the USD(C)/CFO response, they confirmed that they were able to reconcile the PMB amounts listed in Appendix C. We will close the recommendation once we receive documentation and verify that the DoD CIO has coordinated with system owners of the systems that the OUSD(C)/CFO believes “can and should” be retired to develop a plan and expedite their retirement.

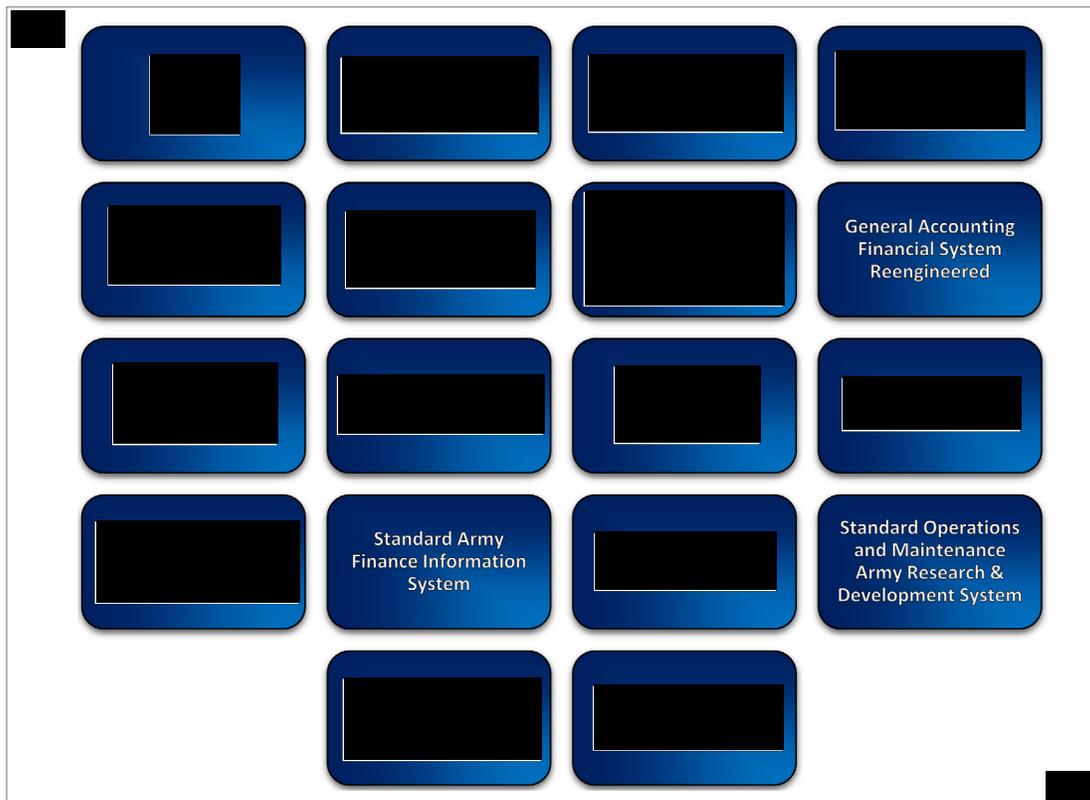
(U) Appendix A

(U) Scope and Methodology

(U) We conducted this performance audit from February 2023 through November 2023 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

(U) The scope of our audit included all 423 systems and micro-applications in the ICOFR-relevant list and the DoD's plan to achieve FFMIA compliance for all those systems. We performed more in-depth audit procedures on those 18 systems with GL functionality that interface with the Defense Departmental Reporting System to produce the DoD Agency-Wide financial statements.³⁵ Figure 9 identifies those 18 GL systems.

(U) Figure 9. Systems with General Ledger Functionality That Interface With Defense Departmental Reporting System



(U) Source: The DoD OIG.

³⁵ (U) The Defense Departmental Reporting System standardizes the DoD departmental reporting process and produces monthly, quarterly, and annual departmental reports based on the USSGL.

(U) To address our audit objective, we obtained an understanding of how the DoD created the list of ICOFR-relevant systems and micro-applications. We also obtained an understanding of the FFMIA and the DoD's various plans to improve its outdated systems for them to become FFMIA compliant, including the:

- (U) DoD Strategic Management Plan,
- (U) DoD Financial Management Strategy,
- (U) DBS Audit Remediation Plan, and
- (U) Financial Management IT Roadmap.

(U) To obtain an understanding of the DoD's ICOFR-relevant list and the DoD's plans to achieve FFMIA compliance, we interviewed and obtained documentation from the OUSD(C)/CFO, Office of the DoD CIO, and the DoD Components.

(U) Internal Control Assessment and Compliance

(U) We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed internal controls related to the DoD's efforts to ensure the completeness and accuracy of the ICOFR-relevant list and to implement the plan to become compliant with FFMIA requirements. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

(U) Use of Computer-Processed Data

(U) We used computer-processed data from the FSD and DITPR to perform this audit. We also used a customized report of the ICOFR-relevant list produced by OUSD(C)/CFO personnel. To test data reliability, we examined the logic used to create the report, and we determined that the logic primarily involved automatically returning data from the FSD. However, the report did include 12 fields that personnel had to include manually. To further test the reliability of the report against what the DoD has reported to Congress, we reconciled the number of unique, active, DoD-owned systems from the ICOFR-relevant list against the January 2023 DBS Audit Remediation Plan.

(U) We also asked OUSD(C)/CFO personnel about the data quality of the FSD and DITPR. OUSD(C)/CFO personnel acknowledged that the FSD has data quality issues, and DoD management could not assert to the accuracy and completeness of DITPR data. Although FSD and DITPR data quality issues influenced our decision to not test a sample of systems, the portion of our audit objective that relies on the computer-processed data relates directly addresses those data quality concerns. Therefore, we determined that the data were sufficiently reliable for our purposes.

(U) Prior Coverage

(U) During the last 5 years, the GAO and the DoD OIG issued six reports discussing the DoD's ICOFR-relevant systems and their compliance with the FFMIA.

Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

(U) GAO

(U) Report No. GAO-23-106203, "High Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas," April 20, 2023

(U) The GAO determined that the high-risk area of DoD Business System Modernization declined in progress since 2021. Specifically, the GAO determined that in the past 2 years this high-risk area has regressed in its overall and segment ratings against GAO criteria for removal from the High-Risk List because the DoD's efforts to produce action plans to address this high-risk area have stalled.

(U) Report No. GAO-23-104539, "DoD Needs to Improve System Oversight," March 7, 2023

(U) The GAO determined that the DoD has established a process for overseeing its financial systems but lacks fully developed guidance and reliable data. As a result, the DoD does not have the guidance and information it needs to help ensure that it is developing systems that can support its efforts to achieve a clean audit opinion.

(U) Report No. GAO-20-252, "DoD Needs to Implement Comprehensive Plans to Improve Its Systems Environment," September 30, 2020

(U) The GAO determined that the DoD had not developed an enterprise road map, did not have sufficient plans for migrating legacy systems, and did not know how much it spends on systems that support the financial statements.

(U) Report No. GAO-19-471, "Agencies Need to Develop Modernization Plans for Critical Legacy Systems," June 11, 2019

(U) The GAO determined that the DoD has one of the most critical Federal legacy systems in need of modernization.

(U) DoD OIG

(U) Report No. DODIG-2023-070, “Understanding the Results of the Audit of the FY 2022 DoD Financial Statements,” May 16, 2023

(U) The DoD OIG determined that the DoD lacked effective IT internal controls which limited the auditors’ ability to rely on information from financial systems. Therefore, auditors could not perform sufficient procedures to conclude on the financial statement balances.

(U) Report No. DODIG-2023-031, “Independent Auditor’s Reports on the DoD FY 2022 and FY 2021 Financial Statements,” November 15, 2022

(U) The DoD OIG determined that Financial Management Systems Modernization is a material weakness for the DoD and determined that the DoD’s use of financial management systems that do not comply with the FFMIA will continue to impede the DoD and its ability to achieve a clean audit opinion. Additionally, the DoD OIG determined that there are five additional material weaknesses related to the DoD’s systems environment.

(U) Appendix B

(U) Systems That the OUSD(C)/CFO Identified as “Can and Should” Retire but Will Not Until After FY 2026

System	Acronym	Planned Fiscal Year Retirement (as of February 2023)
[REDACTED]	[REDACTED]	2028
[REDACTED]	[REDACTED]	2032
[REDACTED]	[REDACTED]	2029
[REDACTED]	[REDACTED]	2028
[REDACTED]	[REDACTED]	2030
[REDACTED]	[REDACTED]	2027
[REDACTED]	[REDACTED]	2027
[REDACTED]	[REDACTED]	2031
General Accounting Financial System Reengineered	GAFS-R	2031
[REDACTED]	[REDACTED]	2031
[REDACTED]	[REDACTED]	2027
[REDACTED]	[REDACTED]	2028
[REDACTED]	[REDACTED]	2030
[REDACTED]	[REDACTED]	2030
[REDACTED]	[REDACTED]	2027
[REDACTED]	[REDACTED]	2027
[REDACTED]	[REDACTED]	2027
Standard Army Finance Information System	STANFINS	2031 [REDACTED]

(U) Source: The DoD OIG, based on information provided by the OUSD(C)/CFO.

(U) Appendix C

(U) Potential Monetary Benefits

(U) Table 5 identifies the estimated amount of funds that could be put to better use on a simplified systems environment that produces higher quality data if the DoD were to expedite the retirement of those 23 systems that OUSD(C)/CFO management believes “can and should retire” but are not doing so until after FY 2026, along with SOMARDS.³⁶ The DoD plans to retire these systems between FYs 2027 and 2031. Therefore, the DoD will continue to spend large amounts of money on outdated, noncompliant systems that will never become compliant, unless the DoD takes aggressive action to retire systems.

(U) The PMB in Table 5 are estimated based on budget estimates for funding between FYs 2024 and 2027, as the OUSD(C)/CFO was able to provide budget estimates through only FY 2027. While the DoD cannot stop using these systems immediately, these amounts are conservative estimates of the PMB for the following reasons.

- (U) The amount of funds includes costs directly attributable to the noncompliant systems. It may not include any indirect costs, as they could be funded through other channels, such as the cost of auditing and identifying deficiencies in those 24 systems. Specifically, those systems directly resulted in more than 140 notices of findings and recommendations for which the cost may not be included in the PMB amount. It also does not include the costs to modernize the systems to become FFMIA compliant for at least 14 systems, because there are no plans for them to do so.
- (U) All but 7 of those 24 systems will continue to be used beyond FY 2027, and those costs were not included in the PMB.
- (U) Those 24 systems did not include many of the 214 feeder systems and support systems, many of which perform similar functionalities, which we recommended the DSD assess to determine whether they can be incorporated into an ERP system.
- [REDACTED] The PMB amounts do not include waste of past dollars spent on any given system. For example, the DoD had a selection process in FY 2005 for [REDACTED] to replace STANFINS, but [REDACTED] and STANFINS both still remain. None of the funds spent on STANFINS between FYs 2005 and 2023 were included in those amounts. It also does not include the cost of modifying commercial-off-the-shelf ERP systems.

³⁶ (U) The PMB dollar amount also includes funding for the continued use of SOMARDS; however, it is scheduled to retire in FY 2025.

(U) According to the DoD Audit Manual, funds put to better use could be used more efficiently when management takes action to implement and complete the recommendations made by the audit organization; in this case, by not incurring costs through implementing recommended improvements related to the operations of the program.³⁷

(U) Table 5. Potential Monetary Benefits

(U)	Recommendation	Type of Benefit	Amount of Benefit (in millions)
	3.e.1-5	Funds Put to Better Use	\$134.1
	3.f	Funds Put to Better Use	\$593.8 (U)

(U) Source: The DoD OIG.

³⁷ (U) DoD Manual 7600.07, "DoD Audit Manual," August 3, 2015.

(U) Management Comments

(U) Deputy Secretary of Defense



DEPUTY SECRETARY OF DEFENSE
1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

DEC - 4 2023

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Response to Department of Defense Office of Inspector General DRAFT Report:
Audit of the DoD Plans to Address Long-Standing Issues with Outdated Financial
Management Systems, Project No. D2023-D000FV-0087.000

Thank you for the opportunity to respond to "Audit of the DoD Plans to Address Long-Standing Issues with Outdated Financial Management Systems." Simplifying and improving the DoD Defense Business Systems environment in compliance with applicable law and regulation is critical to DoD achieving our auditability goals. As requested, I am responding to the recommendations contained in the subject report.

In reference to Recommendation 1a, I concur and will issue a memo to formally identify a Principal Staff Assistant responsible for developing and implementing plans for each of the recommendations by January 2024.

In reference to Recommendation 1b, I concur and will direct the Under Secretary of Defense (Comptroller) to lead this effort to assess and approve the continued use of select feeder systems by the third quarter of FY 2024.

In reference to Recommendation 1c, the Secretary of Defense issued a memorandum, Subject: "Expectations for Supporting Department of Defense Financial Statement Audits," dated October 13, 2023, directing Components to maximize the use of U.S. Department of Treasury programs, such as Treasury Direct Disbursing.

A handwritten signature in black ink, reading "Kathleen H. Hoch", is positioned in the lower right area of the memorandum.



(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1 100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1 100

DEC 06 2023

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL MANAGEMENT AND REPORTING, DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Response to Department of Defense Office of Inspector General DRAFT Report: "Audit of the DoD's Plans to Address Longstanding Issues with Outdated Financial Management Systems," Project No. D2023-D000FV-0087.000

Reference: Office of Inspector General DRAFT Report: "Audit of the DoD's Plans to Address Longstanding Issues with Outdated Financial Management Systems," November 3, 2023

Thank you for the opportunity to respond to this draft audit report. I have reviewed your concerns and agree simplifying and improving the compliance of DoD Defense Business Systems (DBS) environment with applicable law and regulation is critical to DoD achieving auditability goals. As requested, I am providing responses to the recommendations contained in the subject report.

Draft Report Recommendation 2:

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

2.a. Coordinate with the DoD Chief Information Officer to:

1. Develop and implement policies and procedures that require the DoD Components to document all end-to-end processes relevant to financial transactions with sufficient detail to identify how systems are used and oversee and monitor the documentation of those processes.

Response to Recommendation 2.a.1: Concur. The DoD's end-to-end processes relevant to financial transactions are documented within the DoD's Business Enterprise Architecture. Systems are required to annually assert to the operational activities the system performs within these end-to-ends. OUSD(C), in partnership with DoD CIO, will develop and implement a plan to ensure Components are asserting to the operational activities they perform (at the appropriate levels) and document recurring oversight and monitoring procedures. Estimated Date of Completion: October 2024

2. Review all DoD Component end-to-end processes to compile a complete list of internal controls over financial reporting-relevant systems and micro-applications.

USC000854-23

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (cont'd)

Response to Recommendation 2.a.2: Concur. Leveraging the DoD's Business Enterprise Architecture and Component system alignment assertions and other sources (consistent with recommendation 2.a.1), OUSD(C) will provide guidance to Components in the FY 2024 Statement of Assurance Handbook and task Components to validate, and update as appropriate, the complete list of internal controls over financial reporting-relevant (ICFOR) relevant systems. Monitoring will be reported in the governance forums. As micro-applications are not formally tracked at the DoD level, Components will be relied upon to validate the current inventory and/or report any additional ICOFR relevant micro-applications. Estimated Date of Completion: November 2025

3. Develop and implement a plan to consolidate all relevant data necessary to track the internal controls over financial reporting-relevant list, leverage authoritative sources, and minimize data discrepancies.

Response to Recommendation 2.a.3: Concur. OUSD(C) is developing a plan to leverage capability in Advana to automate and improve the consolidation of the data maintained for the internal controls over financial reporting-relevant list. Once implemented, these changes will minimize data discrepancies and timing issues with authoritative sources, such as DITPR and Universe of Transactions system inventory. Estimated Date of Completion: January 2025

4. Develop and implement a process to validate the status of each system's compliance with the Federal Financial Management Improvement Act of 1996.

Response to Recommendation 2.a.4: Concur. While Components and system owners have the ultimate responsibility for assessing and validating FFMIA compliance, OUSD(C) is partnering with Components and CIO to develop a collective snapshot of overall system compliance within Advana to improve OSD level oversight and visibility of each system's compliance with FFMIA from three perspectives: Component reported, Auditor reported, and Objective data. As part of the annual investment review of DBS that impact financial reporting, OUSD(C) will publish FY24 Financial Management Information Technology Portfolio Management Guidance providing standard instructions for DoD Components to assess all three FFMIA requirements and report the 3 requirements in DITPR. While Component and Auditor reported perspectives are anticipated to be complete by September 2024, the inclusion of Objective data is expected to take longer. Estimated Date for Overall Completion: January 2025

5. Develop and implement a process to maintain an accurate list of how each internal controls over financial reporting-relevant system will become compliant, whether through system updates or retirement and replacement.

Response to Recommendation 2.a.5: Concur. OUSD(C) work with Component oversight managers to develop and implement a process to obtain Component's systems corrective action plans that address FFMIA non-compliance, which may

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (cont'd)

include planned system retirement or replacement activities. Estimated Date of Completion: January 2025

2.b. Develop and implement controls to ensure the completeness of the DoD's internal controls over financial reporting-relevant list.

Response to Recommendation 2.b: Concur. OUSD(C) is currently drafting an update to the DoD Internal Control Over Financial Reporting (ICOFR) Guide, which will include enterprise oversight responsibilities and will specify the processes and internal controls (automated and manual) that are to be implemented over the processes described in Recommendations 2.a.2 and 2.a.3 that reasonably ensure the completeness of the ICOFR system inventory. Estimated Date of Completion: January 2025

2.c. Develop and implement controls to ensure the accuracy of the data tracked in the internal controls over financial reporting-relevant list.

Response to Recommendation 2.c: Concur. OUSD(C) is currently drafting an update to the DoD Internal Control Over Financial Reporting (ICOFR) Guide, which will include enterprise oversight responsibilities and will specify the processes and internal controls (automated and manual) that are to be implemented over the processes described in Recommendations 2.a.2 and 2.a.3 that reasonably ensure the accuracy of the data associated tracked in the ICOFR system inventory. Estimated Date of Completion: January 2025

2.d. Reevaluate the DoD's timeline for modernizing its financial management systems in an effort to expedite the remediation of the DoD's noncompliance with the Federal Financial Management Improvement Act of 1996.

Response to Recommendation 2.d: Concur. In FY 2024, all Components undergoing separate stand-alone audits regardless of opinion are required to submit audit roadmaps that include:

- Targeted remediation timelines for all material weaknesses, significant deficiencies, and instances of non-compliance to include those cited in the most current Annual Financial Report (AFR); and
- Consultation with their IPAs to determine the reasonableness and realism of audit roadmap targets and lead time for downgrading of weaknesses and identifying internal and external dependencies to the Component.

Leveraging the audit roadmaps and the efforts described in Recommendations 2.a.4 and 2.a.5, OUSD(C) will evaluate system investments and timelines necessary to modernize our financial management systems. Estimated Date of Completion: March 2025

2.e. Establish measurable and achievable timelines associated with the DoD-wide financial management system review for compliance with the Federal Financial Management Improvement Act of 1996.

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (cont'd)

Response to Recommendation 2.e: Concur. In FY 2024, all Components undergoing separate stand-alone audits regardless of opinion are required to submit audit roadmaps that include:

- Targeted remediation timelines for all material weaknesses, significant deficiencies, and instances of non-compliance to include those cited in the most current AFR; and
- Consulting with their IPAs to determine the reasonableness and realism of audit roadmap targets and lead time for downgrading of weaknesses and identifying internal and external dependencies to the Component.

Leveraging the audit roadmaps, OUSD(C) in conjunction with the CIO and the Components will build a schedule that reflects the results of recommendation 2.d above that includes measures of progress or lack thereof. Estimated Date of Completion: May 2025

2.f. Update the DoD's plans to discuss the use of non-DoD-owned systems, micro-applications, and robotic process automation and machine learning software.

Response to Recommendation 2.f: Concur. OUSD(C) will update our Enterprise FM IT Roadmap and DBS Audit Remediation Plan to discuss and clarify that the scopes within each are focused on DBS and exclude non-DoD owned systems, micro-applications, and software usage. Estimated Date of Completion: July 2024

2.g. Develop and implement a plan to limit the use of micro-applications used to produce the DoD Agency-Wide financial statements by using to the fullest extent possible the DoD's modern general ledger systems or Advanced Analytics.

Response to Recommendation 2.g: Concur. Micro-applications perform important actions when key systems are unable to perform all the functions necessary for financial statement reporting, therefore OUSD(C) believes micro-applications are important to DoD's overall IT environment. OUSD(C) will partner with the appropriate defense agencies to determine the feasibility of limiting and reducing the use of micro-applications that support the production of the DoD Agency-wide financial statements. This will include assessing the cost, time, and benefit of migrating functionality into official DBS, such as general ledgers or Advana. Estimated Date of Completion: TBD

2.h. Identify in their plans that the DoD Chief Information Officer is responsible for overseeing all system decisions (including retirement).

Response to Recommendation 2.h: Concur. DoD CIO is responsible for DBS decisions for Initial Approval and Annual Certification for Priority and Covered DBS in accordance with 10 U.S.C. §2222. In addition, DoD CIO is responsible for Solutions Analysis and Functional Requirements decisions for the Business Capability Acquisition Cycle in accordance with DoDI 5000.75, "Business Systems Requirements and Acquisition." Accordingly, DoD CIO is not responsible for overseeing all system decisions as that would be beyond the scope of 10 U.S.C. §2222 and current DoD

(U) Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (cont'd)

[REDACTED]

policy. The DoD CIO chairs the Defense Business Council (DBC) which is the primary governance body for DBS between the Principal Staff Assistants (PSAs) and Components. The DoD CIO is currently working on an updated DBC charter that will clarify roles and responsibilities between PSAs, Components, and DoD CIO. Accordingly, OUSD(C) will update the DBS Audit Remediation Plan and other plans as appropriate. Estimated Date of Completion: July 2024

Appendix B and C Comments:

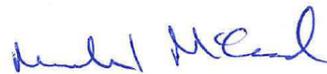
Due to an incorrect entry, the Defense Health Agency (DHA) owned [REDACTED] should be removed from Appendix B and C. [REDACTED] is a target, enduring environment that is not slated to retire.

Excluding [REDACTED], OUSD(C) was able to reconcile and confirm the amounts referenced within Appendix C using system cost data from Select and Native Programming - Information Technology (SNaP-IT). With the removal of [REDACTED] from Appendix B and C, the total referenced in Table 5 should change from \$2.6 Billion to \$594 Million for the nineteen remaining systems.

The security review to verify Controlled Unclassified Information (CUI) markings in the report has been completed. [REDACTED]

Additional security recommendations have been identified and highlighted in yellow within the draft report.

Please direct any questions or requests for additional information to my point of contact for this effort, [REDACTED].



Michael McCord

(U) DoD Chief Information Officer



CHIEF INFORMATION OFFICER

DEPARTMENT OF DEFENSE
8000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-6000

DEC 6 2023

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Review and Comment of DoD Inspector General "Audit of the DoD's Plans to Address Longstanding Issues with Outdated Financial Management Systems" (D2023-D000FV-0087.000) Draft Report

(U) This is the Department of Defense Chief Information Officer (DoD CIO) response to the DoD Inspector General Report, Audit of the DoD's Plans to Address Longstanding Issues with Outdated Financial Management Systems" (D2023-D000FV-0087.000) draft report.

(U) DoD IG RECOMMENDATION 2(a)(1): Develop and implement policies and procedures that require the DoD Components to document all end-to-end processes relevant to financial transactions with sufficient detail to identify how systems are used and oversee and monitor the documentation of those processes.

(U) DoD CIO RESPONSE: DoD CIO agrees with the DoD IG recommendation. DoD CIO will coordinate with the Chief Financial Officer (CFO) to document the end-to-end processes for Defense Business Systems (DBS) and establish a federated Business Enterprise Architecture (BEA).

(U) DoD IG RECOMMENDATION 2(a)(2): Review all DoD Component end-to-end processes to compile a complete list of internal controls over financial reporting-relevant systems and micro-applications.

(U) DoD CIO RESPONSE: DoD CIO agrees with the DoD IG recommendation. DoD CIO will coordinate with the Chief Financial Officer (CFO) to document the end-to-end processes for Defense Business Systems (DBS) and establish a federated Business Enterprise Architecture (BEA).

(U) DoD IG RECOMMENDATION 2(a)(3): Develop and implement a plan to consolidate all relevant data necessary to track the internal controls over financial reporting relevant list, leverage authoritative sources, and minimize data discrepancies.

(U) DoD CIO RESPONSE: DoD CIO agrees with the DoD IG recommendation. The DoD CIO will support the Under Secretary of Defense, Comptroller and Chief Financial Officer (USD(C)/CFO) with establishing a plan to consolidate the tracking of the financial relevant list.

(U) DoD Chief Information Officer (cont'd)

(U) DoD IG RECOMMENDATION 2(a)(4): Develop and implement a process to validate the status of each system's compliance with the Federal Financial Management Improvement Act of 1996.

(U) DoD CIO RESPONSE: DoD CIO agrees with the DoD IG recommendation. The DoD CIO will support, where appropriate, the Under Secretary of Defense, Comptroller and Chief Financial Officer (USD(C)/CFO) in establishing a process to validate FFMIA compliance.

(U) DoD IG RECOMMENDATION 2(a)(5): Develop and implement a process to maintain an accurate list of how each internal controls over financial reporting-relevant system will become compliant, whether through system updates or retirement and replacement.

(U) DoD CIO RESPONSE: DoD CIO agrees with the DoD IG recommendation. The DoD CIO will support the Under Secretary of Defense, Comptroller and Chief Financial Officer (USD(C)/CFO) in accurately tracking financial reporting-relevant systems and their plan to become compliant.

(U) DoD IG RECOMMENDATION 2(h): The Under Secretary of Defense (Comptroller)/Chief Financial Officer, in coordination with the DoD CIO identify in their plans that the DoD CIO is responsible for overseeing all system decisions (including retirement).

(U) DoD CIO RESPONSE: DoD CIO agrees with the DoD IG recommendation. DoD CIO will support OUSD(C) in updating the Defense Business System (DBS) Audit Remediation Plan and Enterprise FM IT Roadmap to include clarification of the roles and responsibilities between Components and DoD CIO regarding system decisions. DoD CIO will support where its responsibilities align for DBS decisions, i.e., Initial Approval and Annual Certification for Priority and Covered DBS in accordance with 10 U.S.C. §2222. In addition, DoD CIO is responsible for Solutions Analysis and Functional Requirements decisions for the Business Capability Acquisition Cycle in accordance with DoDI 5000.75, "Business Systems Requirements and Acquisition." DoD CIO recommends that DoD IG provide additional clarity with respect to the term "responsible for overseeing all system decisions (including retirement)". DoD CIO is not the Milestone Decision Authority or the Functional Sponsor, and does not have the role to direct actions for all system decisions. Accordingly, DoD CIO is not responsible for overseeing all system decisions as that would be beyond the scope of 10 U.S.C. §2222 and current DoD policy and recommends DoD IG provide clarification what overseeing system decisions entails.

(U) DoD IG RECOMMENDATION 3(a): The Department of Defense Chief Information Officer (DoD CIO) develop and implement controls to ensure the accuracy of DoD Information Technology Portfolio Repository data, based on their oversight and monitoring of the DoD Components, to support the accuracy of the DoD's internal controls over financial reporting-relevant list.

(U) DoD Chief Information Officer (cont'd)

[REDACTED]

(U) DoD CIO RESPONSE: DoD CIO agrees with the DoD IG recommendation. The DoD CIO, in coordination with the Under Secretary of Defense, Comptroller and Chief Financial Officer (USD(C)/CFO), will ensure controls are in place to ensure the accuracy of DoD systems data in the DoD Information Technology Portfolio Repository. This effort is dependent upon USD(C)/CFO developing, in coordination with DoD CIO, the appropriate controls as DoD CIO does not have insight into the internal controls over financial reporting relevant list. ECD: Q4FY24.

(U) DoD IG RECOMMENDATION 3(b): The DoD CIO reconsider the definition of a legacy system to ensure that it encompasses a system that is outdated and needs to be modernized or retired, regardless of when the DoD chooses to retire it.

(U) DoD CIO RESPONSE: DoD CIO agrees with the DoD IG recommendation. The DoD CIO will review the definition of legacy system. If changes are needed to the definition of legacy system to ensure clarity in the application of the definition, the DoD CIO will revise or issue DoD-wide guidance. ECD: Q3FY24

(U) DoD IG RECOMMENDATION 3(c): The DoD CIO coordinate with the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, to obtain from each system owner an estimate of the total cost associated with each DoD system retiring or becoming compliant with the Federal Financial Management Improvement Act of 1996 through modernization and identify where in the DoD's budget the funds to do so are located.

(U) DoD CIO RESPONSE: DoD CIO agrees with the DoD IG recommendation. Once USD(C)/CFO assesses and determines a system's Federal Financial Management and Improvement Act (FFMIA) of 1996 compliance disposition, the DoD CIO will coordinate with USD(C)/CFO to obtain from systems owners an estimate of the total cost associated with each DoD financial system retiring or becoming compliant with the FFMIA through modernization. ECD: Q4FY24

(U) DoD IG RECOMMENDATION 3(d): Develop and implement procedures to oversee system decisions (including retirement) made by the DoD Components to ensure that they are consistent with the DoD's published goals related to its compliance with the Federal Financial Management Improvement Act of 1996 and system environment modernization.

(U) DoD CIO RESPONSE: DoD CIO agrees with the DoD IG recommendation. The DoD CIO, in coordination with USD(C)/CFO, and other responsible OSD and DoD Components, will develop and implement procedures to oversee DoD Components' system decisions after USD(C)/CFO, working with system owners, publishes goals related to the Federal Financial Management Improvement Act of 1996 (FFMIA) and system environment modernization and how to meet the FFMIA compliance. ECD: Q2FY25

[REDACTED] **DoD IG RECOMMENDATION 3(e):** The Department of Defense Chief Information Officer (DoD CIO) coordinate with the system owners to develop a plan and identify the funding necessary to retire the following systems as soon as possible and replace

(U) DoD Chief Information Officer (cont'd)

them with enterprise resource planning systems that exist or are in development and allow for the DoD to put \$134.1 million in future funding to better use.

1. [REDACTED]
2. General Accounting Financial System Reengineered
3. [REDACTED]
4. Standard Operations and Maintenance Army Research and Development System
5. Standard Army Finance Information System

(U) DoD CIO RESPONSE: DoD CIO agrees with the DoD IG recommendation. DoD CIO will coordinate with systems owners as they develop their plan to retire systems identified for retirement ensuring they meet the requirements of systems owners. DoD CIO cannot provide details regarding the potential monetary benefit as the monetary benefit cited in the recommendation is based upon information provided by USD(C)/CFO to the DoD IG. Accordingly, DoD CIO does not have insight into the basis or viability of the monetary benefit as stated in the recommendation. ECD: Q1FY25 and updated annually after.

(U) DoD IG RECOMMENDATION 3(f): Coordinate with the system owners of 20 additional systems that according to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, "can and should" be retired, to develop and implement a plan to expedite their retirement and allow for the DoD to put \$2.6 billion in future funding to better use.

(U) DoD CIO RESPONSE: The DoD CIO agrees with the DoD IG recommendation. DoD CIO, with USD(C)/CFO's leadership, will support coordination with the system owners of the 20 systems to develop and implement a plan to expedite the retirement of these systems. DoD CIO cannot provide details regarding the potential monetary benefit as the monetary benefit cited in the recommendation is based upon information provided by USD(C)/CFO to the DoD IG. Accordingly, DoD CIO does not have insight into the basis or viability of the monetary benefit. ECD: Q3FY24.

(U) The security review to verify "CUI" markings in the report has been completed and there are additional recommendations highlighted in yellow and the attachment includes the specific FOIA exception identified.

(U) The point of contact for this matter is [REDACTED]


John B. Sherman

(U) Acronyms and Abbreviations

(U) ADVANA	Advanced Analytics
(U) CIO	Chief Information Officer
[REDACTED]	[REDACTED]
(U) DBS	Defense Business Systems
[REDACTED]	[REDACTED]
(U) DITPR	DoD Information Technology Portfolio Repository
(U) DSD	Deputy Secretary of Defense
(U) ERP	Enterprise Resource Planning
(U) FBWT	Fund Balance with Treasury
(U) FFMIA	Federal Financial Management Improvement Act of 1996
(U) FSD	Financial Improvement and Audit Remediation Systems Database
(U) GAFS-R	General Accounting Financial System Reengineered
(U) GAO	Government Accountability Office
[REDACTED]	[REDACTED]
(U) GL	General Ledger
(U) ICOFR	Internal Controls over Financial Reporting
(U) IT	Information Technology
(U) OUSD(C)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
(U) PMB	Potential Monetary Benefits
(U) RPA/ML	Robotic Process Automation and Machine Learning
[REDACTED]	[REDACTED]
(U) SOMARDS	Standard Operations and Maintenance Army Research and Development System
(U) STANFINS	Standard Army Finance Information System
(U) STARS	Standard Accounting and Reporting System
(U) U.S.C.	United States Code
(U) USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
(U) USSGL	U.S. Standard General Ledger



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