



INSPECTOR GENERAL

U.S. Department of Defense

MARCH 16, 2017



Strategic Plan Needed for Navy Financial Management Systems



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Results in Brief

Strategic Plan Needed for Navy Financial Management Systems

March 16, 2017

Objective

We determined whether the Department of the Navy (Navy) has developed and implemented an adequate information technology strategy to efficiently manage its financial systems, and identified the costs associated with maintaining and upgrading its financial systems.

Finding

The Navy did not have an information technology strategy to effectively manage its financial management systems. The Chief Financial Officers Act of 1990 requires Federal agencies to prepare annual financial statements and requires the financial statements to be audited. However, Navy personnel continued to use financial management systems that did not comply with standards to support the preparation of auditable financial statements. In addition, the Navy and Defense Finance and Accounting Service's costs to maintain systems and develop new functionality in the Navy's decentralized multiple systems environment were expensive.

This occurred because the Navy did not have an enterprise-wide approach to managing its financial management systems. Instead, the Navy allowed its commands to develop and select their own systems. As a result, the Navy and Defense Finance and Accounting Service spent \$2.5 billion over the last decade and plan to spend an additional \$823.4 million over the next 5 years on maintaining and developing

Finding (cont'd)

new functionality for Navy financial management systems that are not compliant with the standards that might not support auditable financial statements and not meet the congressional mandate to have auditable financial statements by September 30, 2017.

Recommendations

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) develop milestones and performance measures for a Navy-wide strategic plan for financial management systems. The plan should implement compliant systems and provide a cost benefit analysis.

Management Comments and Our Response

The Acting Assistant Secretary of the Navy (Financial Management and Comptroller) agreed with our findings and recommendations. Therefore, the recommendations are resolved but remain open. We will close the recommendations after we receive the strategic plan for financial management systems and verify that it includes an implementation plan with milestones and performance measures with the agreed upon implementation of compliant systems and continued cost benefit analyses.

Please see the Recommendations Table on the back of this page.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Assistant Secretary of the Navy (Financial Management and Comptroller)	None	1.a and 1.b	None

Note: The following categories are used to describe agency management's comments to individual recommendations.

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



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

March 16, 2017

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
NAVAL INSPECTOR GENERAL

SUBJECT: Strategic Plan Needed for Navy Financial Management Systems
(Report No. DODIG-2017-068)

We are providing this final report for your information and use. The Navy did not have an information technology strategy to efficiently manage its financial management systems. The Navy and the Defense Finance and Accounting Service spent \$2.5 billion on systems that did not comply with standards that support auditable financial statements. We conducted this audit in accordance with generally accepted government auditing standards.

We considered comments on the draft of this report when preparing the final report. Comments from the Acting Assistant Secretary of the Navy (Financial Management and Comptroller) conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to Edward Blair at (216) 535-3752.

A handwritten signature in cursive script that reads "Lorin T. Venable".

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

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Introduction

Objective

We determined whether the Department of the Navy (Navy) has developed and implemented an adequate information technology strategy to efficiently manage its financial systems, and identified the costs associated with maintaining and upgrading its financial systems.

Background

The Chief Financial Officers Act of 1990 requires Federal agencies to prepare annual financial statements and requires the financial statements to be audited.¹ The Navy is required to have all its financial statements audited in FY 2018. The Navy's financial statements will be a significant part of the audit of the DoD agency-wide consolidated financial statements, which includes the General Fund² and Working Capital Funds³ for the Departments of the Army, Navy, and Air Force. Reliable financial management systems are critical to achieving and sustaining audit readiness.

The Navy and the Defense Finance and Accounting Service (DFAS) prepare annual financial statements for the Navy General Fund (NGF) and Navy Working Capital Fund (NWCF). During FY 2016, the Navy used eight financial management systems across 20 budget submitting offices (commands) to process budgeting and accounting transactions to prepare its NGF and NWCF financial statements. Appendix C shows the Navy's current financial management systems used by commands.

Congressional Testimony on Audit Readiness Related to Financial Management Systems

Audit readiness remains a high priority for the House Armed Services Committee as the congressionally mandated September 30, 2017, deadline for financial statement auditability approaches. On June 15, 2016, the House Armed Services Committee held a hearing on the DoD finances and audit readiness. During the hearing, the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN[FM&C]), who directs and manages the financial activities of the Navy, acknowledged the many challenges the Navy continues to face.

¹ Public Law 101-576, "Chief Financial Officers Act of 1990," November 15, 1990, section 303 and 304.

² A general fund records amounts set aside by Congress to make payments for general support of the Government. DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 12, chapter 1, section 010302.

³ A working capital fund is a revolving fund account that finances products and services on a reimbursable basis.

The Assistant Secretary stated that during the Navy's FY 2015 Schedule of Budgetary Activity audit:

the auditors found significant internal control weaknesses in our systems, business processes, and in the statement compilation process. These findings make it absolutely imperative that we immediately strengthen internal control environments in every one of our business systems. The first-year audit identified 220 major deficiencies—82 percent of them related to information technology system weaknesses. Simply stated, we have too many systems and most of them were not originally configured to conform to auditability standards.

In addition, the ASN(FM&C) acknowledged that the Navy needs to downsize its current systems and eliminate redundant capabilities and nonauditable legacy systems that were developed to address operational or mission requirements, but were not designed to meet Federal financial accounting standards, thereby eliminating maintenance costs and streamlining systems controls.

Strategic Planning and Federal Financial Management Systems Policies

The Secretary of the Navy Instruction 5000.36A designates the ASN(FM&C) as the functional area manager for the financial management area.⁴ According to the Secretary of the Navy Instruction 5320.14, ASN(FM&C) will serve as the information technology portfolio manager for the financial management functional area and, as such, must align the financial management information technology portfolio to enterprise-wide and mission area vision, goals, capabilities, concepts, outcome measures, and integrated architectures.⁵

The Navy has both mixed systems⁶ and financial management systems since financial management crosses over the functional area missions. For example, the Navy Enterprise Resource Planning (ERP) system is a mixed system, classified under the logistics functional area since it manages logistics, supply chain management and other functions as well as being a financial management system that processes budgeting and accounting transactions to prepare NGF and NWCF financial statements. A comprehensive financial management information

⁴ Secretary of the Navy Instruction 5000.36A, "Department of Navy Information Technology Applications and Data Management," December 19, 2005.

⁵ Secretary of the Navy Instruction 5320.14, "Information Technology Portfolio Management Implementation," November 9, 2009.

⁶ A mixed system includes financial and non-financial portions of the financial management system. Examples of mixed systems include: payment and invoice systems, procurement systems, property management systems, travel systems, or other mission operational systems that impact a financial system. Office of Management and Budget memorandum M-13-23, "Appendix D to Circular No. A-123, Compliance with the Federal Financial Improvement Act of 1996," September 20, 2013, section 5.

technology strategy would integrate all financial management systems across mission areas and support a financial management strategy that flows up to the overarching Navy strategy.

Office of Financial Policy and Systems

In January 2016, the ASN(FM&C) established the Office of Financial Policy and Systems to oversee the Navy's financial management systems and policies. Its mission is to ensure the highest quality information, data, and technology solutions are provided to the Navy's financial management community. According to the ASN(FM&C), the Office of Financial Policy and Systems will improve the efficiency and performance of financial management systems, associated business processes, audit-readiness initiatives, and mission readiness. The Office of Financial Policy and Systems is the Financial Management Functional Area Manager Lead for initiating, designing, planning and directing all matters pertaining to Navy financial policy and ensuring accounting, budgeting, and financial information technology systems are in alignment and in compliance with established policy.

Federal Financial Management Systems Requirements

Two overarching requirements for financial management systems within the DoD and the Federal Government are the Public Law 104–208, “Federal Financial Management Improvement Act of 1996,” (FFMIA) and the Standard Financial Information Structure (SFIS).

Federal Financial Management Improvement Act

The purpose of the FFMIA is to “provide for consistency of accounting by an agency, from one fiscal year to the next, and uniform accounting standards throughout the Federal Government.” The FFMIA requires that Federal financial management systems support Federal financial data, including full costs of programs and activities and controlling the cost of the U.S. Government.⁷ The FFMIA also requires systems to comply with:

- the U.S. Government Standard General Ledger (USSGL) at the transaction level,
- Federal financial management systems requirements, and
- Federal accounting standards.⁸

⁷ Public Law 104–208, Federal Financial Management Improvement Act of 1996, section 802.

⁸ Public Law 104–208, Federal Financial Management Improvement Act of 1996, section 803.

According to Office of Management and Budget (OMB) Circular No. A-123:⁹

the Federal Government's financial management system policy is to make the best use of financial management systems to initiate, record, process, and report transactions to support agency missions in making business decisions and to provide transparency to the public. These systems shall help agencies ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Additionally, according to OMB Circular No. A-123, agencies must meet information technology needs through cost-effective intra-agency and interagency sharing and maximize the use of commercial off-the-shelf technology.

Standard Financial Information Structure

The DoD Financial Management Regulation states that SFIS is a comprehensive data structure that supports requirements for budgeting, financial accounting, cost and performance, and the generation of financial statements across the DoD.¹⁰ The DoD Financial Management Regulation standardizes financial reporting across the DoD by providing an enterprise-wide standard to support financial management and reporting functions. Compliance with SFIS enables decision makers to efficiently compare similar programs and activities across the DoD and provides the level of detail required for information retrieval and auditability. SFIS compliance improves the efficiency of maintaining business systems, reduces costly maintenance and translation of nonstandard data, and links program execution to performance, budgetary resources, and actual financial information. Additionally, in August 4, 2015, the Under Secretary of Defense directed DoD to implement SFIS.¹¹

DoD Components are responsible for implementing SFIS, using the SFIS checklist, and determining SFIS compliance. SFIS compliance includes sending, receiving, capturing, storing, and maintaining financial data. Further, SFIS Business Rules specify compliance requirements such as storage, source, and usage. SFIS data element transactions are required to be posted to the financial accounting system using the required USSGL accounts and accounting standards.

⁹ OMB Circular No. A-123, "Compliance with the Federal Financial Improvement Act of 1996, Appendix D," October 1, 2013, Policy section.

¹⁰ DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 1, chapter 4.

¹¹ Under Secretary of Defense memorandum, "Standard Financial Information Structure Implementation Policy," August 4, 2015.

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.¹²

We identified internal control weaknesses in the Navy's development and implementation of an information technology strategy for its financial management systems. Specifically, the Navy did not have an information technology strategic plan to manage its financial management systems and make financial management system improvements necessary to support audit readiness.

¹² DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

Strategic Plan Needed for Navy Financial Management Systems

The Navy did not have an information technology strategy to effectively manage its financial management systems. The Chief Financial Officers Act of 1990 requires Federal agencies to prepare financial statements and for those financial statements to be audited. However, Navy personnel continued to use financial management systems that did not comply with the FFMIA and SFIS to support the preparation of accurate, reliable and timely auditable financial statements. The Navy and DFAS' costs to maintain systems and develop new functionality in the Navy's decentralized multiple systems environment were expensive.

This occurred because the Navy did not have an enterprise-wide approach to managing its financial management systems. Instead, the Navy allowed its commands to develop and select their own systems.

As a result, the Navy and DFAS spent \$2.5 billion since 2004 and plan to spend an additional \$823.4 million over the next 5 years on maintaining and developing new functionality for financial management systems. Noncompliance issues with several financial management systems increase maintenance costs and reduce the accountability and credibility of financial management. Without the level of detail required for auditability the Navy's financial management systems might not support auditable financial statements and not meet its congressional mandate to have auditable financial statements by September 30, 2017.

Navy Management Did Not Develop a Strategic Plan for Financial Management Systems

The Navy did not develop and implement an information technology strategy to effectively manage its financial management systems. The Chief Financial Officers Act of 1990 requires Federal agencies to prepare financial statements and requires the financial statements to be audited. In 1993, the Office of the Under Secretary of Defense recognized that the DoD's financial management systems were not centralized and developed an interim plan to improve the management of DoD and, thereby, the Navy's financial management systems.¹³

¹³ DoD OIG Report No. 96-180, "The General Fund Interim Migratory Accounting Strategy," June 26, 1996.

Because DFAS prepared the financial statements for the Military Services, DFAS developed a two-phase plan to reduce the number of financial management systems within the DoD's general funds that would help the Military Services achieve auditable financial statements. The first phase of the plan required each Service to identify its primary general fund systems by September 30, 1997. For the Navy, Standard Accounting, Budgeting, and Reporting System (SABRS), Standard Accounting and Reporting System (STARS) Field Level (FL) and Headquarters Claimant Module (HCM) were identified as its primary systems. In the second phase, the DoD planned to select the best systems identified by the Services and deploy those systems DoD-wide. However, the DoD did not establish time frames or follow through with this plan to implement its strategy to reduce financial management systems across the DoD leaving the Navy with a decentralized environment with many systems operated by multiple commands.

The Navy Used Noncompliant Systems to Prepare Financial Statements



The Navy uses eight financial management systems across 20 commands.

The Navy uses eight financial management systems across 20 commands to produce financial statements; however, seven systems¹⁴ did not comply with either the FFMIA or SFIS. The FFMIA and SFIS require the DoD to produce accurate and reliable financial management information in a timely manner by applying uniform accounting standards in its financial systems. According to the Federal financial management systems requirements, the Military Services are required to develop standardized account structures so that financial data, including the costs of programs and activities, are recorded consistently. The Navy's implementation of these financial accounting requirements would increase the accountability and credibility of its financial management and improve performance, productivity, and efficiency.

For example, the Navy ERP was designed to provide the Navy with the capabilities necessary to achieve compliance with Federal system requirements and a centrally managed accounting system for the NGF and the NWCF, as well as logistics, supply chain management, and other functions. However, Navy ERP is not compliant with SFIS. For example, the Navy has not implemented all 70 data elements required by SFIS to standardize financial reporting across DoD. The Navy is working to implement the last nine data elements by the fourth quarter of 2017. Additionally, the Navy continued to use STARS-FL and the STARS-HCM, its legacy general fund

¹⁴ Navy System Management Activity management did not provide system information including system description, compliance, and cost data for the Financial Management System—Next Generation; therefore, we did not have information to conclude on this system.

financial management system, to process a significant amount of its general fund transactions even though neither complied with the FFMIA and SFIS. In FY 2012, ASN(FM&C) acknowledged that STARS-FL and STARS-HCM were not compliant with the FFMIA and SFIS. For example, STARS does not use the standard USSGL at the transaction level. The ASN(FM&C) determined that the costs to make STARS compliant with FFMIA and SFIS was cost prohibitive. Table 1 shows the financial management systems used by the Navy and whether they complied with the requirements in the FFMIA and SFIS.

Table 1. Financial Management System Compliance With the FFMIA and SFIS

Financial Management Systems	Federal Financial Management Improvement Act of 1996	Standard Financial Information Structure
Defense Industrial Financial Management System	Yes	No
Defense Working Capital Accounting System	Yes	No
Financial Management System – Next Generation	Not Provided*	Not Provided*
Integrated Management Processing System	Not Provided*	Partially
Military Sealift Command Financial Management System	Not Provided*	Partially
Navy Enterprise Resource Planning	Yes	Partially
Standard Accounting, Budgeting, and Reporting System	No	No
Standard Accounting and Reporting System Field Level and Headquarters Modules	No	No

* The Navy was unable to provide information as requested because they did not have the information regarding FFMIA or SFIS compliance for these systems.

Source: The Navy and DFAS.

In September 2015, ASN(FM&C) completed an analysis to determine whether SABRS or Navy ERP would be the best replacement for STARS-FL.¹⁵ The analysis stated that SABRS was compliant with the FFMIA and substantially compliant with SFIS. However, the analysis did not contain specifics on the noncompliance with SFIS. Subsequently, the Deputy Commandant for Programs and Resources Fiscal Director of the Marine Corps acknowledged in April 2015, that SABRS did not substantially comply with three elements of the FFMIA requirements:

- the USSGL at the transaction level,
- Federal financial management systems related to the accounting system, and
- applicable Federal accounting standards.

¹⁵ ASN(FM&C) did not consider STARS-HCM in its analysis, and an end date for using STARS-HCM has not been established.

Although SABRS did not comply with the FFMIA and SFIS, the Navy decided to eliminate the STARS-FL module and transfer the accounting functions to SABRS. The ASN(FM&C) based its decision on the Marine Corps' use of SABRS and the progress it had made toward auditable financial statements.

The ASN(FM&C) started a phased approach in October 2015 to transfer transactions from STARS-FL to SABRS for 12 of its 20 commands. The ASN(FM&C) estimated that it would take 10 years for transactions to expire in STARS. Although the Navy is transitioning to SABRS, it will continue to rely on STARS-FL for the next 10 years and on STARS-HCM indefinitely.

Navy transactions processed in systems that did not comply with federal financial accounting standards and the USSGL at the transaction level increase the risk of the financial statements containing material misstatements. In addition, Navy systems that did not comply with the USSGL at the transaction level do not provide standardized data. Without standardized financial data decision makers may not have accurate and reliable data to efficiently compare costs for programs and activities which are consolidated into the Navy financial statements, and subsequently DoD and Federal government financial statements.

For example, in FY 2015, STARS-FL processed 200 million transactions, valued at \$502.6 billion, and STARS-HCM processed 41,000 transactions, valued at \$18 billion. To determine the impact on Navy financial statements we calculated the planning materiality¹⁶ for the FY 2015 financial statements of \$12.6 billion.¹⁷ Based on the Navy's plan to reduce the amount of transactions in STARS-FL by 10 percent per year, it may take 10 years, or until FY 2027, before the value of the transactions in STARS-FL will be immaterial to the Navy financial statements.

Even if the Navy could double the rate of migrating transactions, STARS is not FFMIA and SFIS compliant which may affect the accuracy and reliability of the Navy financial statements until FY 2022. Consequently, the Navy has not adequately demonstrated that implementing SABRS will improve its financial reporting within the Navy since STARS-FL will continue to process a material amount of transactions years after the congressionally mandated audit-readiness date.

¹⁶ Materiality represents the significance of an error or misstatement that could influence the economic decisions of users taken on the basis of the financial statements. "Planning materiality is a preliminary estimate of materiality in relation to the financial statements taken as a whole." Government Accountability Office Financial Audit Manual, p. 230.1 and 2.

¹⁷ We calculated planning materiality of \$12.6 billion from the Total Assets reported in the Audit of the Department of the Navy General Fund Basic Financial Statements for the Fiscal Years Ending September 30, 2015, and September 30, 2014, less intragovernmental assets, multiplied by 3 percent (\$562.4 billion - 141.2 billion = \$421.2 x 3 %).

Navy Systems Environment Was Costly

The cost of maintaining the Navy’s systems and developing new functionality in its decentralized multiple systems environment is expensive. According to the OMB Circular No. A-130, agencies should support simplifying and redesigning work processes to improve effectiveness. Since 2004, the Navy and DFAS

Since 2004, the Navy and DFAS spent \$2.5 billion on financial management systems.

spent \$2.5 billion on financial management systems and plan to spend an additional \$823.4 million over the next 5 years for operations and maintenance and new functionality of these systems.

The Navy commands made decisions to manage multiple financial management systems based on operational needs and developed individual plans for their respective business areas. For example, the Navy ERP was designed to provide the Navy with the capabilities necessary to achieve compliance with Federal system requirements and a centrally managed accounting, logistics, and supply chain management system for both the NGF and the NWCF. The Navy spent \$1.8 billion on Navy ERP since 2004 and decided in 2012 not to deploy it beyond the six commands currently using the system. The Deputy Under Secretary of the Navy concluded that Navy ERP was not ready to be expanded because of the cost and lack of standardization and the program office addressing 255 audit-related problems. Table 2 shows the cost of the Navy-owned financial management systems.

Table 2. Navy-Reported Historical and Planned Costs of Navy’s Financial Management Systems

Financial Management Systems	Amount Spent Fiscal Year 2004-2015 (Millions)	Amount Planned Fiscal Year 2016-2020 (Millions)
Defense Working Capital Accounting System	\$54.8	\$32.5
Financial Management System – Next Generation	No cost data provided	No cost data provided
Integrated Management Processing System	4.1	2.1
Military Sealift Command Financial Management System	56.8	25.7
Navy Enterprise Resource Planning	1,832.4	761.0
Standard Accounting, Budgeting, and Reporting Systems	2.2	2.1
Total	\$1,950.3	\$823.4

Note: The Navy reports its costs for new functionality and sustainment for SABRS and Defense Working Capital Accounting System even though DFAS is the system owner. Financial management system costs for Navy ERP could not be separated from the logistics, supply chain management, and other functional costs.

Source: Navy.

The Navy also used DFAS-owned financial management systems to prepare its financial statements. DFAS provides financial reporting services for the Navy and the Marine Corps. Table 3 shows the cost of past and planned expenditures for financial management systems owned by DFAS and used by the Navy.

Table 3. DFAS-Reported Historical and Planned Costs for Financial Management Systems Used by the Navy

Financial Management Systems	Amount Spent Fiscal Year 2004-2015 (Millions)	Budgeted Costs Fiscal Year 2016-2020 (Millions)
Defense Industrial Financial Management System	\$89.2	\$19.2
Defense Working Capital Accounting System	95.4	25.2
Standard Accounting, and Reporting System	276.7	81.6
Standard Accounting, Budgeting, and Reporting System	58.5	67.9
Total	\$519.8	\$193.9

Source: DFAS.

The Navy spent billions of dollars on its financial management systems used to prepare its financial statements and continues to spend money on systems that are not compliant with Federal and DoD regulations and cannot produce auditable financial statements.

A Comprehensive Strategic Plan Could Improve Financial Management

The Navy did not have a strategy to manage, develop, and control its financial management systems. Instead, the Navy chose a decentralized approach allowing the Navy commands to develop and select their own systems. ASN(FM&C) did not have a Navy-wide enterprise approach to managing financial systems, and Navy commands developed and selected their own systems.

The Navy continues to operate in a decentralized systems environment that includes both legacy and ERP systems. Due to the decentralized environment, the Navy commands did not have an enterprise-wide approach to manage financial management systems necessary for financial reporting and audit readiness. Without an enterprise-wide strategic plan to support financial planning, the Navy and DFAS spent \$2.5 billion since 2004 on financial management systems and plan to spend an additional \$823.4 million over the next 5 years on financial management systems that are not compliant with the requirements to provide accurate and reliable financial information. The Navy may have been able to reduce

the increasing costs of Navy ERP and continue its deployment of the system to its remaining commands with a financial management systems strategic plan that included an enterprise-wide approach that centralized managing systems. Compliance with SFIS may lead to improvements in the efficiency of maintaining business systems, reduction of costly maintenance and translation of nonstandard data, and linked program execution to performance, budgetary resources, and actual financial information.

In addition, compliant financial management systems increase the accountability and credibility of federal financial management; improves performance, productivity and efficiency of financial management, supports cost control, and enables decision makers to efficiently compare similar programs and activities across the Navy and provides the level of detail required for auditability. Therefore, the ASN(FM&C) should centralize the management, development, and control of Navy financial systems. As a result, the Navy's mission needs, investment control, and financial management systems enterprise were adversely affected. In addition, the Navy might not be audit ready by the September 30, 2017, deadline and for years beyond, due to unresolved system control deficiencies.

The Office of Financial Policy and Systems officials recognized that the Navy lacked centralization. The Office of Financial Policy and Systems officials developed a financial management information technology strategy in 2016, but it is also developing an organizational strategy, strategic implementation plan and a financial management roadmap which combined should provide the Navy with comprehensive enterprise-wide strategic plan. The ASN(FM&C) should develop and implement a Navy-wide strategic plan for financial management systems that includes milestones and performance measures. The strategic plan should include compliance with the FFMIA and SFIS across the Navy. It should also reduce system costs through cost benefit analysis of system capabilities to determine which systems can provide reliable financial data in a cost effective manner.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) develop and implement milestones and performance measures for a Navy-wide information technology strategic plan that will:

- a. Implement financial management systems that are compliant with the Federal Financial Management Improvement Act of 1996 and the Standard Financial Information Structure.**

- b. Provide cost benefit analysis of system capabilities to determine which systems can provide reliable financial data in a cost effective manner.**

Acting Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Acting Assistant Secretary of the Navy (Financial Management and Comptroller) agreed with Recommendation 1.a, stating that the Department of the Navy will investigate the feasibility and integrate the significant FFMIA elements into its performance framework. The estimated completion date for FFMIA investigation is the first quarter of Calendar Year 2017. The Acting Assistant Secretary also stated that the Navy is complying with the Office of the Under Secretary of Defense (Comptroller) memorandum issued July 14, 2014 “DoD United States Standard General Ledger and Standard Financial Information Structure System Testing Requirement,” through external SFIS compliance testing by the Joint Interoperability Test Command.

The Acting Assistant Secretary also agreed with Recommendation 1.b, stating that Navy performs cost analyses. The Navy developed a “should-cost” model, performance attributes, and benchmarks for effective decision-making and efficient transformation of the environment in a risk managed and cost sensitive approach. The Acting Assistant Secretary agreed that the Department of the Navy will continue to include the cost benefit analysis during the business systems investment review and portfolio management process.

Our Response

Comments from the Acting Assistant Secretary addressed the recommendation; therefore, the recommendation is resolved. We will close Recommendation 1.a and 1.b after we review the Navy’s strategic implementation plan and roadmap for financial management systems and verify that they include milestones and performance measures with the agreed upon implementation of compliant systems and continued cost benefit analyses. We expect receipt of a plan and roadmap no later than December 31, 2017.

Appendix A

Scope and Methodology

We conducted this performance audit from January 2016 through January 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We requested an information technology strategy for the Navy's financial management systems. For the purpose of this audit, we considered a strategy to include the:

- vision, mission, and goals;
- way forward;
- operating environment currently and 5 years from now; and
- assessments and evaluations of financial management systems capabilities.

Although we made repeated requests, the Navy was nonresponsive and did not provide any information to verify that it had a comprehensive information technology strategy to manage its financial management systems and develop and implement costs associated with these financial management systems critical to achieving a clean audit opinion of Navy financial statements.

We reviewed several National Defense Authorization Acts, OMB guidance, the Federal Financial Management Improvement Act of 1996, the Government Performance and Results Modernization Act of 2010, and the Standard Financial Information Structure.

According to OMB Circular No. A-123, "a financial management system includes an agency's overall financial operation on the people, processes, and technology to capture, classify, summarize, and report data in a meaningful manner to support business decisions. It includes hardware, applications and system software, personnel, procedures, data, and reporting functions. The financial management system can be fully integrated with other management information systems (for example, mixed systems) where transactions automatically flow into an accounting general ledger." The Navy provided us with the best cost information that it could

provide; however, the cost information might not represent only expenditures for financial management systems. For example, the Navy could not separate financial management system costs from logistics, supply chain management and other functions costs for Navy ERP.

We reviewed systems descriptions and cost information for the period of FY 2004 through FY 2020 for seven financial management systems that the Navy used to prepare the NGF and NWCF financial statements:

- Defense Industrial Financial Management System,
- Defense Working Capital Accounting System,
- Integrated Management Processing System,
- Military Sealift Command Financial Management System,
- Navy ERP,
- SABRS, and
- STARS.

After several attempts to obtain information, the Navy was nonresponsive and did not provide system information system description, compliance, and cost data for the Financial Management System–Next Generation. We interviewed personnel from:

- the Office of the Deputy Under Secretary of the Navy (Management),
- the Office of the Department of the Navy Chief Information Officer,
- the Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Financial Policy and Systems,
- the Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Budget,
- the Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Financial Operations, and
- DFAS.

We obtained prior audit coverage, an assessment of Navy ERP, the Notifications of Findings and Recommendations from prior audits, the STARS-FL to SABRS migration plans, and functional area manager plans. We used the information obtained to determine whether the Navy developed and implemented an adequate information technology strategic plan for its financial management systems. We also obtained summary-level compliance information on seven of the eight financial management systems from the Office of Financial Policy and Systems and DFAS personnel. We did not test the systems for compliance.

Use of Computer-Processed Data

We used computer-processed data to perform this audit. The Navy and DFAS extracted actual cost data from FY 2004 through FY 2015 and budgeted cost data for FY 2016 through FY 2020 from the Program Budget Information System for Information Technology and the Select and Native Programming Data Input System for Information Technology. To assess the reliability of the cost data, we reviewed information about the system and interviewed system personnel at the Navy and DFAS who are responsible for compiling the data. Although we did not sample transactions to verify the data, we determined that the data were sufficiently reliable to quantify dollars spent or planned to be spent on Navy systems that produce Navy financial statements.

Appendix B

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD OIG) issued four reports discussing information technology strategy for financial management systems. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

DoD OIG

Report No. DODIG-2013-111, “Status of Enterprise Resource Planning Systems’ Cost, Schedule, and Management Actions Taken to Address Prior Recommendations,” August 1, 2013

The DoD reported cost decreases totaling \$680.9 million for four of six ERP systems and cost increases of \$298.9 million for two systems. The DoD also reported schedule delays for three of the six ERP systems since previously reported in report DODIG-2012-111, “Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD’s Auditability Goals,” July 13, 2012.

Report No. DODIG-2013-105, “Navy Did Not Develop Processes in the Navy Enterprise Resource Planning System to Account for Military Equipment Assets,” July 18, 2013

The Department of Navy Office of Financial Operations personnel did not use the Navy ERP system to support \$416 billion in military equipment assets reported out of the Defense Departmental Reporting System-Audited Financial Statements. As a result, Navy officials spent \$870 million to implement the Navy ERP system and still did not correct the preexisting military equipment material weakness.

Report No. DODIG-2012-111, “Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD’s Auditability Goals,” July 13, 2012

The Navy ERP increased the life cycle cost estimates by \$604.4 million and delayed full deployment of the system by 2 years. In addition, the DoD plans to spend more than \$15 billion to develop and implement ERP systems. The impact of schedule delays increases the risk that the DoD will not achieve an auditable Statement of Budgetary Resources by FY 2014 or accomplish its goal of full financial statement audit readiness by FY 2017.

Report No. DODIG-2012-051, "Navy Enterprise Resource Planning System Does Not Comply With the Standard Financial Information Structure and U.S. Government Standard General Ledger," February 13, 2012

The Navy approved deployment of the Navy ERP System without ensuring it complied with the Standard Financial Information Structure and the USSGL. As a result, the Navy spent \$870 million to develop and implement a system that might not produce accurate and reliable financial information.

Appendix C

Systems Used to Record and Report Navy Financial Transactions

Budget Submitting Office	Defense Industrial Financial Management System	Defense Working Capital Accounting System	Financial Management System—Next Generation	Integrated Management Processing System	Military Sealift Command Financial Management System	NAVY ERP	SABRS	STARS-FL	STARS-HCM
BUMED								X	
BUPERS								X	
CMC	X						X		
CNIC								X	
CNRF								X	
COMUSFLTFO RCOM								X	
COMPACFLT								X	
DON/AA								X	
FSA									X
MSC					X			X	
NAVAIR	X					X			
NAVFAC		X						X	
NAVSEA						X		X	X
NAVSUP						X			
NSMA			X					X	X
NSWC								X	
ONI								X	
ONR				X		X		X	X
SPAWAR						X			
SSP						X		X	

Legend for this Appendix is on the next page.

Systems Used to Record and Report Navy Financial Transactions (cont'd)

LEGEND

BUMED	Bureau of Medicine and Surgery	NAVAIR	Naval Air Systems Command
BUPERS	Bureau of Naval Personnel	NAVFAC	Naval Facilities Engineering Command
CMC	Commandant of the Marine Corps	NAVSEA	Naval Sea Systems Command
CINIC	Commander Navy Installations Command	NAVSUP	Naval Supply System Command
CNRF	Commander, Navy Reserve Force	NSMA	Navy System Management Activity
COMPACFLT	Commander U.S. Pacific Fleet	NSWC	Naval Special Warfare Command
COMUSFLTFORCOM	United States Fleet Forces Command	ONI	Office of Naval Intelligence
DON/AA	Department of the Navy Assistant for Administration	ONR	Office of Naval Research
FSA	Field Support Activity	SPAWAR	Space and Naval Warfare Systems
MSC	Military Sealift Command	SSP	Strategic Systems Program

Management Comments

Assistant Secretary of the Navy (Financial Management and Comptroller)



THE ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

FEB 10 2017

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER
NAVAL INSPECTOR GENERAL

SUBJECT: Response to the Draft Report on Strategic Plan Needed for Navy Financial Management Systems

Reference: (a) DoDIG Memorandum Audit of the Efficiency of Navy Systems Used to Support Financial Statements (D2016-D000FS-0073.000) dated 4 January 2016
(b) Draft DoDIG Report D2016-D000FS-0073.000 dated 11 January 2017

In accordance with references (a) and (b), the Assistant Secretary of the Navy (Financial Management and Comptroller) provides comments on recommendations pertaining to the Department of the Navy's (DON) strategic planning for financial management, general ledger, and mixed systems information technology found in attachment (1).

The Department of Defense Inspector General staff's continued review of the Navy's processes has been greatly appreciated and all efforts assisting the DON in improving financial and audit readiness is highly encouraged.

My point of contact for this matter is [REDACTED] Financial Systems Division Director, who can be reached at [REDACTED].

Joseph B. Marshall, Jr.
JOSEPH B. MARSHALL, JR.
Acting

Attachment:
As stated

cc:
DUSN (Management)
DON CIO
DASN (FMP)
DASN (FMO)
N4

Assistant Secretary of the Navy (Financial Management and Comptroller) (cont'd)

ASN(FM&C) comments on Report No. DODIG-2016-D000FS-0073.000

The following comments are submitted in response to DoDIG Report No. D2016-D000FS-0073.000, which reviewed the strategic planning for the Department of the Navy's (DON) financial management systems. The DON thanks the DoDIG staff for conducting this initial in-depth review of the information technology strategic planning and investment review processes. The DON welcomes this review, especially as it facilitates our audit readiness, portfolio rationalization, and driving more efficiency from our information technology enablers. Your staff's work greatly enhances our own efforts to identify systemic weaknesses and opportunities to leverage leading practices.

During the DoDIG review, the highly federated nature of strategic planning, enterprise goal setting, and information technology implementation and execution performance monitoring were highlighted. We are encouraged that DoDIG recognized the DON's significant reduction in financial management systems over the past ten years, the establishment of the Office of Financial Systems and Policy's potential impact, and its strategic plans. OASN (FM&C) expects these to be the DON's financial management information technology foundation, leading to further efficiencies and management effectiveness.

We look forward to DoDIG's final report and any future review to gain additional insight into overall DoD information technology management, and integrating functional strategies across lines of businesses for a more holistic and meaningful business mission area execution. We consider this a significant stepping stone in the DoD's, as well as the DON's auditability, improving financial readiness, and information management investment control. The following comments are provided in response to the Draft Report: Strategic Plan Needed for Navy Financial Management Systems (Project No. D2016-D000FS-0073.000)

Assistant Secretary of the Navy (Financial Management and Comptroller) (cont'd)

Recommendation 1: ASN(FM&C)

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) develop and implement milestones and performance measures for a Navy-wide information technology strategic plan that will:

- a) Implement financial management systems that are compliant with the Federal Financial Management Improvement Act (FFMIA) of 1996 and the Standard Financial Information Structure (SFIS).

ASN(FM&C) concurs with comments with recommendation 1a. FFMIA and SFIS data structure compliancy is more than a straight implementation. The DON acknowledges the importance of FFMIA and SFIS, and maintains schedules for SFIS compliance and through audit and continuous monitoring oversees FFMIA compliancy. However, the DON will continue to balance operational and mission needs against compliance measures and the impact of the changing environment to include planned retirements and technical upgrades and refreshes.

ASN(FM&C) concurs with the implementation milestones and performance measures for the strategic planning of the FFMIA of 1996 compliance. FFMIA is focused on business rather than technology, and replaces "check the box" compliance approaches with an outcome-based approach. The majority of all system change requests have been to improve the standing toward auditability and thus FFMIA compliance. The prioritization of system change requests are validated with Office of the Assistant Secretary of the Navy for Financial Operations for those business related requirements. While direct FFMIA compliance assessments have not been required, nor historically accomplished, the DON will investigate feasibility and integrate the significant elements into its performance management framework by Q1 of Calendar Year 2017.

ASN(FM&C) concurs with comments regarding the implementation of SFIS compliant systems. SFIS is not native within commercially available products. SFIS compliancy requires customization and in turn, the FM&C staff has complied with the annual requirements to analyze, certify, and report on the progress towards SFIS compliance for the systems within their purview. Each applicable system owner is required to have an approved schedule towards compliancy. While the applicability of specific data elements and business rules is system dependent, the overall audit-relevant and high-risk to the financial statement systems within the portfolio has been assessed greater than 60% compliant, and the DON maintains implementation milestones and reports on compliancy performance measures as required. Notably, the SFIS structure has not been a stable structure since its mandate. With continual changes, each system owner and functional sponsor has balanced operational priorities, emergent break-fix needs, and the changing technical and cyber imperatives against ever increasing unfunded mandates in our current resource constraint environment. These decisions are made within the strategic lens of the DoD's number one financial management goal of being audit ready. Finally, the DON is complying with the DoD's memorandum (SUBJ: DoD United States Standard General Ledger and Standard Financial Information Structure Systems Testing Requirement) dated July 14, 2014 through external SFIS compliance testing by the Joint Interoperability Test Command.

Assistant Secretary of the Navy (Financial Management and Comptroller) (cont'd)

b) Provide cost benefit analysis of system capabilities to determine which systems can provide reliable financial data in a cost effective manner.

ASN(FM&C) concurs with recommendation 1b. The DON complies with the related public laws, NDAA's, the DOD DCMO IRB and the DON requirements for business systems investment reviews, information technology investment management, and portfolio management, including cost analysis. Furthermore, the ASN(FM&C) utilized the approach cited by GAO as the method "to effectively [modernize] DoD's multibillion dollar systems environment," in the 2014-2015 study to develop the "Department of the Navy Financial Management System Consolidation Technical Roadmap." This documentation, process, and analysis leveraged proven methodologies to align business processes and operational activities, subject matter expert's judgment within an enterprise context, system functionality, interface dependencies, and system cost to generate a roadmap to guide future decision making. A straight cost benefit analysis does not provide the rich data driven scenarios and analysis of alternatives necessary to influence enterprise change with this scope. The value of cost benefit is recognized and a critical component to this process. ASN(FM&C) will continue to include cost benefit analysis within its decision making process.

Finally, the Deputy Under Secretary of the Navy (Management) directed an assessment of Navy ERP for insight into current cost and cost drivers benchmarked against similar implementations and industry best practices. This study resulted in the Program Office developing a "should-cost" model, performance attributes, and a restructuring of the governance model. These outcomes are used as internal benchmarks and mechanisms for effective decision-making and efficient transformation of the environment in a risk managed and cost sensitive approach.

Acronyms and Abbreviations

ASN(FM&C)	The Assistant Secretary of the Navy (Financial Management and Comptroller)
DFAS	Defense Finance and Accounting Service
ERP	Enterprise Resource Planning
FFMIA	Federal Financial Management Improvement Act of 1996
GAO	Government Accountability Office
FL	Field Level
HCM	Headquarters Claimant Module
NGF	Navy General Fund
NWCF	Navy Working Capital Fund
OMB	Office of Management and Budget
SABRS	Standard Accounting, Budgeting, and Reporting System
SFIS	Standard Financial Information Structure
STARS	Standard Accounting, and Reporting System
USSGL	U.S. Standard General Ledger



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Congressional Liaison

congressional@dodig.mil; 703.604.8324

Media Contact

public.affairs@dodig.mil; 703.604.8324

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www.dodig.mil
Defense Hotline 1.800.424.9098

