

## **Slide 1 Introduction**

Department of the Navy Financial Management

Shifting Course

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Presented to DON Comptrollers and Deputy Comptrollers

5 March 2002

## **Slide 2 Outline**

- Past Guidance and Strategy
- DoD Direction
- DON Course of Action: Supporting OSD and Impact on DON Strategy
- Actions Underway
  1. Financial Statement Preparation
  2. Implementation of USSGL
  3. Implement Process Changes
  4. Reduction of Problem Disbursements
  5. Accounting System Changes
  6. Non-financial Feeder Systems
  7. Enterprise Resource Planning (ERP)
- Conclusion

## **Slide 3 Federal Financial Management Requirements**

- Federal Management Financial Integrity Act of 1982 - Internal accounting and administrative controls
- Chief Financial Officers Act of 1990 - Integration of accounting and financial management systems and internal controls, producing pilot financial statements
- Government Management Reform Act of 1994 - Production of Formal, Audited Financial Statements
- Federal Financial Management Improvement Act of 1996 - Compliance with financial management systems requirements and transaction-level USSGL

## **Slide 4 Migratory Strategy**

- Build a compliant financial management system architecture by reducing the number of accounting systems, implementing the USSGL and other compliance requirements, and consolidating and improving feeder systems
- Take a “top-down” approach to ensure standardization

## **Slide 5 Focus of the Migratory Strategy**

The following graphic shows the Top Down System Approach to the migratory strategy. DON management provides the direction to DON commands to

- Reduce the number of accounting systems
- Implement the SGL and other compliance requirements
- Consolidate and improve feeder systems

The migratory strategy is managed generally from the top down in order to ensure standardization across the DON Commands.

### **Slide 6 What Was Accomplished**

- USSGL: Implemented in GF and most WCF accounting systems
- Accounting Systems: Reduced numbers from 54 to 14; target 10
- Feeder Systems: DON standard systems selected for
  1. GF Personal property (DPAS),
  2. Real Property (NFADS/NFADB),
  3. Inventory (MFCS – Navy)
  4. Time and Attendance (SLDCADA),
  5. Environmental Restoration (NORM),
  6. Heritage Assets (DONHAMS)
- Problem Disbursements: Significant improvements continue
- Financial Statements: Developed and implemented DDRS and DCI as reporting/collecting tools

### **Slide 7 What Still Needs to Be Done?**

- Process and procedural changes necessary to complete implementation of USSGL including proprietary accounting in General Funds and budgetary accounting in Working Capital Funds
- Plans to develop, build, and operate including interfaces between non-financial and accounting systems and databases to hold data

### **Slide 8 The ERP Strategy**

- Differs from and competes with migratory strategy
- Focuses on business process reengineering
- But builds a compliant financial management system architecture by providing a fully integrated systems approach and including proprietary and budgetary accounting
- Takes a “bottom-up” approach to ensure an integrated solution

### **Slide 9 Focus of the ERP Strategy**

The following graphic shows the current ERP (Enterprise Resource Planning) strategy within DON. Current DON ERP pilots are SIGMA, CABRILLO, SMART, and NEMAIS. The bottoms-up approach starts with the Command level providing direction to the pilots to

- Develop internal and external reporting information
- Leverage functionality for standard DON processes
- Roll out to additional DON commands based on business case analysis
- Roll out to other DON Commands

The ERP strategy is currently managed from Command level pilots with an emphasis on leveraging functionality, developing internal management and external reporting information, and rolling out to additional Commands where appropriate.

### **Slide 10 DOD Direction USD(C) Memo of 5 January 2001**

Chartered the Senior Financial Management Oversight Council to provide guidance on compliance

- Chaired by USD(C)
- Provide oversight and guidance, and act as approval authority of the compliance process
- Approve and verify exit criteria for all phases of the process
- Establish a System Compliance Working Group

### **Slide 11 DOD Direction USD(C) Memo of 5 January 2001 (continued)**

Established the Financial and Feeder Systems Compliance Process

- Patterned after Y2K
- Used to monitor efforts to develop and modify critical systems
- Set roles and responsibilities
- Established a five-phase process to achieve compliance with Federal Financial Management Requirements

Steps in the five-phase process to achieve compliance are awareness, evaluation, renovation, validation, and compliance.

### **Slide 12 GAO Report of 17 May 2001**

- Designate financial management modernization a Departmental priority
- Direct DEPSECDEF to lead an integrated program to modernize and optimize financial management operations and systems
- Issue policy to direct the development, implementation, and maintenance of financial management enterprise architecture

### **Slide 13 GAO Report of 17 May 2001 (continued)**

Until architecture is developed, components' financial management investments are limited to:

- Deployment of developed systems
- Maintenance of existing systems
- New systems or changes to existing systems that are directed by Congress or are small, cost effective, low risk and delivered quickly

### **Slide 14 Shift in DOD Direction**

Guidance reflecting the DoD shift ID direction:

- Friedman Report of 13 Apr 01 - DoD-wide Standardization
- SECDEF Memo of 19 Jul 01 - DoD financial management modernization program
- USD(C) Memo of 21 Aug 01 - ERP Initiatives
- USD(C) Memo of 12 Oct 01 - Executive and Steering Committee
- USD(C) Memo of 12 Oct 01 - System Initiatives

### **Slide 15 DOD Direction Friedman Report of 13 April 2001**

Vision: The study group envisions a future in which relevant, reliable and timely financial information, affirmed by a clean audit opinion, is available on a routine basis to support management decision making at all levels throughout DoD.

### **Slide 16 DOD Direction Friedman Report of 13 April 2001 (continued)**

Current Situation: Situations and problems associated with the current DoD environment include:

- Inability to consistently provide reliable financial and managerial data
- Lack of an overarching approach to financial management
- Overly complex data requirements
- "Convoluting" business processes
- Changing federal financial management standards
- Difficulty in obtaining financially based, outcome-oriented management metrics
- Inability to produce CFO Act compliant financial statements
- Disproportionate budget dollars appear to support non-value added activities

- Cultural bias toward status quo
- Requires an infusion of personnel with technical and financial skills

**Slide 17 DOD Direction Friedman Report of 13 April 2001 (continued)**

Significant Challenges

- Developing an integrated system architecture
- Standardizing DoD-wide “core” accounting and data classification
- Engaging Congress and OMB to ameliorate certain rules
- Providing DoD management with enhanced financial intelligence, incentives and tools, and encouragement to maximize the efficiencies and effectiveness of their operations and suppliers
- Imbuing the culture with a sense of urgency for DoD-wide financial management information transformation

**Slide 18 DOD Direction SECDEF Memo of 19 July 2001**

- States a vision
- Includes non-financial business processes
- Establishes a Department-wide financial management modernization program which places leadership with the USD(C) in coordination with USD (AT&L) and CIO, establishes a Program Management Office under USD(C), and allows SECDEF to hold Military Department Secretaries accountable for results

**Slide 19 DOD Direction SECDEF Memo of 19 July 2001 (continued)**

Vision: “One of my highest priorities is to have reliable, accurate, and timely financial management information upon which to make the most effective business decisions. Because we do not always have that information, we must change the Department’s business operations and systems.”

**Slide 20 DOD Direction SECDEF Memo of 19 July 2001 (continued)**

Non-financial Business Operations and Systems

- Acquisition
- Medical
- Transportation
- Property
- Inventory
- Supply
- Personnel
- Other

**Slide 21 DOD Direction SECDEF Memo of 19 July 2001 (continued)**

Program Management Office Responsibilities

- Develop DoD-wide blueprint (enterprise architecture) that prescribes interaction of financial and non-financial systems and business processes
- Control and oversight of systems development, acquisition, upgrade, deployment of all financial and related non-financial business systems
- Any other efforts directed by USD(C)

**Slide 22 DOD Directions on ERP Systems USD(C) memo of 21 August 2001**

- ERP Systems are important, but must be assessed within the context of the pending DoD enterprise architecture

- May continue with ERP initiative up to and including completion of the pilot/prototype evaluation
- Must have a third-party assessment and brief the results to the USD(C) for approval to enter production/deployment

### **Slide 23 DOD Direction on Oversight Committees USD(C) memo of 12 October 2001**

Reestablishes/renames executive oversight and steering committees

- Executive chaired by USD(C), Steering by PD USD(C)

Financial and feeder system compliance process

- Does not change the 5 phase compliance process
- Increased oversight, greater controls while architecture being developed

Codified in FY 2002 Authorization Act

### **Slide 24 DOD Direction on System Initiatives USD(C) memo of 12 October 2001**

Places USD(C) in approval chain for financial and non-financial system changes

- Operational Systems - limits DON authority to approval of priority 1 or 2 changes; priority 3 or 4 require DoD Comptroller approval
- Development Systems - requires DoD Comptroller approval beyond prototype
- New System Initiatives - requires DoD Comptroller approval; requirements include business process reengineering, mission needs statement, and trade-off studies

### **Slide 25 Office of Management Budget and Guidance**

OMB Bulletin 01-09 - 25 Sept 2001

- Interim unaudited reports required (without footnotes) semiannually for FY 2002 and Quarterly for FY 2003
- Annual reports required earlier consistent with annual Budget submission to Congress
- Comparative reporting required starting in FY 2001 for both annual and interim reports

Established Agency Scorecard

- Financial one of the functions graded
- DoD "Red"

Speaker Notes: The semiannual reports will add a report to be delivered 31 May after the 31 March close. The FY 2003 quarterly reports will be due 45 days after the quarter end. Earlier submission dates: FY 2001 - 22 Feb 02, FY 2002 - 1 Feb 03, FY 2003 - even sooner. The clean audit opinions cited in the draft for FY 2003 for civilian agencies and FY 2005 government-wide were not included in the final guidance.

Intra-governmental Revolving Support Funds sells goods and services on a full cost, reimbursable basis.

Capital Acquisition Funds acquires capital assets, and charges programs annual capital usage charge.

Hazardous Waste Clean-up Funds collects program accruals, and makes payment for clean-up.

### **Slide 26 Department of Defense Authorization Act for Fiscal Year 2002**

- Encourages reductions in resources dedicated for an annual report that is known to contain unreliable data (production resources and audit resources)
- Establishes Financial Management Modernization Executive Oversight Committee
- Codifies the five phase compliance process

Speaker Notes: The information in the slide above represents the House committee's actions on the National Defense Authorization Act for Fiscal Year 2002. The actual bill has not yet been posted.

The conclusion of unreliability is to be based on OMB guidance for financial statement preparation.

Included in the upcoming fiscal year budget justification, DoD would project the savings realized or expected from the preclusion for the preparation of the annual financial report from unreliable data.

### **Slide 27 Department of Defense Authorization Act for Fiscal Year 2002**

- All system development efforts must be in accord with DoD's Financial Management Modernization Plan
- Financial management information technology must be registered with the Chief Information Officer of the DoD to receive funding

### **Slide 28 USD(C) Implementation Efforts On Long Term Solution**

- Established a financial management modernization working group
- Established two oversight groups - Executive Committee and Steering Committee
- Established a program management office
- Contractual support for architecture effort
- Begun to define "as is" environment with the following:
  1. Development of DoD's "As Is" system inventory
  2. Classification of DoD's business lines using the NAICS
  3. Benchmarking industry best practices for developing Enterprise Architecture
  4. Identification of DoD's "As Is" data elements

### **Slide 29 DOD Financial Management Modernization Program**

Vision: The DOD will be managed in an efficient, business-like manner in which relevant, reliable and timely information, affirmed by clean audit opinions, is available on a routine basis to support informed decision-making at all levels throughout the Department

### **Slide 30 DOD Financial Management Modernization Program**

Scope: Financial information - necessary to manage the Department's business and report the results of its operations - is a product of virtually every action taken by the Department

- Policies - Systems - People - Processes
- Which Guide, Perform, or Support all aspects of financial management
- Includes Financial Feeder Systems (Logistics, Supply Management and Personnel, Medical, Acquisition, etc.)

### **Slide 31 Approach**

The following page shows two graphics. One illustrates the near-term improvements and one illustrates the long-term solutions. The first graphic shows that near term improvements lead to availability, which leads to improved public confidence.

- Manage Using Performance Measures
- Execute Management Plan to Attack Problems
- Stabilize Systems and Initiatives

The second graphic shows that long-term solutions lead to efficiency and to more funds for the warfighter.

- Reengineer Business Process to Model Private Sector
- Establish Defense Wide Standards
- Simplify Accounting and Reporting Rules
- Consolidate and Modernize Systems
- Enhance and/or Augment Financial Management Workforce

Speaker Notes: Point of Slide: How we're going to attack the problem.

1. The path to full transformation is a long one. (Friedman Study)
2. The complete solution is key to ensuring that the transformation has a permanent impact on DoD. (Friedman Study)
3. Performing an industry benchmark—lessons learned, benchmarking for both success and failures with similar efforts
4. Twin-track approach (Friedman Study) provides near-term improvements (management plan)—increased management attention—accounting adjustments, late payments, and overpayments—and a long-term solution (Enterprise Architecture)—business processes and systems. The long-term solution would entail:
  - Business Process Reengineering, modeling highly successful private sector enterprises.
  - Establishing Defense-wide data and process standards.
  - Consolidating and modernizing systems.
  - Enhancing “core competencies”.
  - Engaging Congress and the Office of Management and Budget to simplify accounting and reporting rules.

### **Slide 32 Schedule**

The timeline below shows the timeframe in which the following events are scheduled to occur:

- Benchmark Activity from October 2001 to February 2002
- Award Enterprise Architecture Contract in January 2002
- Document “AS-IS” Environment from February 2002 to June 2002
- Assess Compliance with Federal Financial Requirements from February 2002 to July 2002
- Develop Defense Wide Standard from February 2002 to August 2002
- Review/Reengineer Business Processes from April 2002 to September 2002
- Develop “To Be” Architecture and Implementation Plan from April 2002 to January 2003
- Commence Execution in January 2003

### **Slide 33 Influence on DON Course of Action**

### **Slide 34 Support OSD Efforts**

Follow Financial and Feeder Systems Guidance

- 14 Feb 01 - Provided overview of DoD five phase compliance process and established ASN (FM&C) in oversight role
- 30 Nov 01 - Provided DoD system change approval guidance with ASN (FM&C) in approval role
- 19 Dec 01 - Outlined ASN (FM&C) approval process and provided briefing requirements

Participate in FMMP working group

### **Slide 35 Basis for “As Is” Architecture Encyclopedia of Existing DON Systems**

DON actions to support USD(C) include accumulating a database of financial and feeder systems e.g., points of contact, system functionality, design agency, interfaces to other systems.

- Who – Point of Contact
- What – System Function
- Where – Design Agency
- When – Implementation and Maintenance Schedule
- How – Interfaces to Other Systems

### **Slide 36 Basis for “As Is” Architecture System Mapping**

- System Mapping: identify financial and feeder systems, including technical information (e.g., hardware, software, etc.) and interfaces (including data supporting the Balance Sheet)
- Cross-referencing templates for interfaces
- System database of 500+ systems (many with ownership outside the DON). Ensure all system relationships
- Providing to USD(C) for DoD Architecture
- Preliminary to specific system data mapping

### **Slide 37 “Perfect World” Systems Inventory**

The following graphic shows systems grouped into one of four categories: Core, Tier 1, Tier 2, or Tier 3. In a perfect world, the 300 plus DON systems would fall neatly into one of these categories.

Speaker Notes: Point of Slide: To illustrate complexity of the current systems environment.

1. 77 Core Systems. Systems that primarily provide accounting and finance functions (General Ledger, Accounts Payable, Accounts Receivables, Disbursing, Payroll, etc.).
2. DFAS has reduced the number of core systems from 324 to 77 since 1991 (DFAS strategic plan).
3. Tier 1 directly feeds financial information to a Core system.
4. Non-financial feeder supports mission functions and provides financial data to a core systems (i.e., inventory, property, acquisition, etc.).
5. To date we have identified more than 560 plus systems that support greater than 1000 different interface requirements.
6. Data call underway; expect completion end of September.
7. Tier 2 and 3. Tier 2 directly feeds information to a Tier 1 systems, etc. Data call underway; expect completion end of January.
8. The C3I System registry identifies 273 systems classified as financial systems and over 1100 systems that would be considered support systems (validation of the data call against the C3I registry is on-going).
9. Actions to stabilize existing inventory:
10. First step is to identify inventory through data call(s).
11. Capture both operational and development budget through the budget process—modifications to the budget submission for financial and non-financial systems.
12. Issue letters to insert Comptroller approval in the process for any new system initiatives and systems moving from prototype to deployment or production.

### **Slide 38 “Real World” System Inventory**

The following graphic shows a complex network of computers (Core, Tier 1, Tier 2 and Tier 3 systems). The graphic illustrates that in the real world, system categorization is not so orderly, tiers are not clearly defined, and there is not necessarily a direct feed of information to a core system.

### **Slide 39 Basis for “As Is” Architecture Data Mapping**

- Requirement to describe Financial Event flow from Point of Entry through various financial systems to the general ledger in the Defense Departmental Reporting systems (DDRS) and ultimately the Audited Financial Statements (AFS)
- Reverse-engineering process

AFS to DDRS (Trial Balance Import Sheet) to Financial Systems to Financial Event

### **Slide 40 “Real World” Data Mapping – NRL**

The following graphic shows a complex spaghetti-style grouping of flowchart elements. The graphic illustrates that in real-world system categorization, data mapping is not so orderly or clearly defined.

### **Slide 41 Data Mapping: Business Line Identification**

Adopting Industry practices to identify standard business lines - North American Industrial Classification System (NAICS)

- Based upon one principle that activities using similar processes are classified together
- A way to improve basic benchmarks and current performance statistics

**Slide 42 How Will NAICS be Used?**

The USD(C) Program Management Office (PMO) plan:

- The PMO will develop a “Straw Man” of activity to NAICS mapping.
- The PMO will identify the supporting financial systems to activities.
- The DoD Components will verify mapping of business lines to NAICS classifications and systems.
- The PMO will identify industry best practices/performance metrics by business line.
- The PMO will develop a plan to transition to solution(s) and industry performance metrics.

**Slide 43 Support Working Groups**

The DONJ will support various USD level working groups such as Data standardization Working Group of FMMP

- Promoting standard data
- Common financial events generate standard financial postings

Support USD(C) and USD(AT&L) Working Groups

- Developing policies/procedures in areas such as inventory and personnel property
- Developing standard transactions and account postings

**Slide 44 Impact on DON Strategy**

- DON Financial Management Goal
- Impact on DON Financial Management (History and Culture, Organization, and Responsibilities)
- Likely High-level Architecture
- Likely Time Frame

**Slide 45 DON Goal**

- To provide managers information they need to manage
- To obtain Compliance with systems, financial management/accounting and reporting requirements

#### **Slide 46 DON FM History and Culture DON FM Organizational Structure**

The following organization structure shows a high-level schematic of the DON organization representing the funds flow from the top of the organization to the command and activity level. The flow starts with the Secretary of the Navy ASN (FM&C) FMB and continues through the three DON “responsible offices” of the Commandant of the Marine Corps P&R, ASN (RD&A) ONR, and the Chief of Naval Operations N 82. From there, funds flow to the subordinate commands and activities as shown below:

- Bureau of Navy Personnel
- Naval Supply System Command
- Naval Sea Systems Command
- Naval Meteorology & Oceanography Command
- Naval Forces Europe
- Chief of Naval Operations (09BF)
- Bureau of Medicine and Surgery
- Naval Reserve Forces
- Atlantic Fleet
- Naval Security Group Command
- Chief of Naval Reserve
- Marine Forces Pacific
- Marine Forces Atlantic
- Recruiting Command
- Space & Naval Warfare Systems Command
- Office of Naval Intelligence
- Strategic Systems Programs
- Naval Air Systems Command
- Military Sealift Command
- Assistant for Administration Under Secretary of the Navy
- Naval Facilities Engineering Command
- Naval Computer & Telecommunication Command
- Pacific Fleet
- Naval Special Warfare Command
- Chief of Naval Education & Training
- Material Command
- Marine Forces Reserve
- Other Marine Corps Commands

#### **Slide 47 DON FM History and Culture DON FM Organizational Structure**

Additional appropriations increased DON management responsibilities. In addition to receiving the traditional allocation of funds appropriated to the DON, the various DON command echelons (as listed in Slide 46) began to receive allocations of funds that were originally appropriated to other organizations with which DON was to finance their operations.

#### **Slide 48 DON FM History and Culture DON FM Organizational Structure**

Added complications to the traditional DON organization came in FY 1991 with the creation of the Defense Finance and Accounting Service (DFAS). As a result, DON was required to transfer accounting and finance personnel to the new DFAS organization, which was established to perform accounting and finance services for all echelons of the DOD.

### **Slide 49 DON FM History and Culture DON FM Organizational Structure**

A third major event affecting the DON organization was the passage of the Chief Financial Officers' Act in 1990. With this act and subsequent events, the DON organization as well as the whole of the DOD was required to perform both Proprietary and Budgetary Accounting, to have compliant Non-Financial Feeder Systems, and perform Managerial Accounting.

### **Slide 50 Assumptions Financial Management Organization**

- Financial management organization remains decentralized with command focus following chain of command
- But must embrace new DON and DoD-wide financial management requirements

### **Slide 51 Financial Management Responsibilities**

Funds control includes:

- Posting authorizations
- Ensuring proper use of funds
- Posting commitments & obligations

More recently resolving disbursement issues includes:

- Matching disbursements to obligations
- Pre-validating disbursements
- Certifying disbursements

### **Slide 52 Financial Management Responsibilities (continued)**

Add proprietary accounting in General Funds includes:

- Posting assets, liabilities, and expenses
- Involvement in process of receipt and acceptance of goods and services
- Continue budgetary accounting

Add budgetary accounting in the NWCF includes:

- Posting commitments and obligations
- Continue proprietary accounting but meet DoD/DON standards

Add cost accounting to provide management information at all levels

### **Slide 53 Assumptions - Architecture**

The Standard Chart of Accounts will be used throughout the various function segments of the organization to record financial events. The financial events will be transacted at the lowest possible level (activities) and roll up into data repositories at the command and departmental level. Business functions include Budget, Inventory, Plant Property Equipment, Other Assets, Procurement, Payroll, Environmental Liabilities, and Other Liabilities. Financial Data Rollup includes Activities (transaction level), Commands (aggregated financial data) and Departmental levels.

#### **Slide 54 Near-Term Future Vision**

The near-term future vision shows DON accounting systems being fed data by compliant non-financial feeder systems, which in turn feed a notional summary database.

- DON Summary Data: ASN(FM&C) and DFAS (including Centralized Disbursing and Reporting)
- Non Financial Feeder Systems: SYMIS (1), IMPS (1), DBMS (1), Oracle (1), SABRS (1), MFCS (1), DWAS (1), DIFMS (4), STARS – FL (16), and STARS – HCM (8).

#### **Slide 55 Assumptions - Time Frame**

DoD target of one year for top-level architecture

- But many years to implement throughout the DoD
- Likely to require detailed Component Plans

DON Initiatives must be oriented to top-level architecture

- Be part of a “need to do regardless” scenario or
- Be economically beneficial

#### **Slide 56 Impact on Actions Underway**

Some of the actions being taken by the DON have been affected by the DOD efforts:

- Change focus in preparation of financial statements
- Develop standard accounting data for DON via a standard chart of accounts
- Develop processes necessary for posting assets liabilities, and expenses
- Reduce Problem Disbursements
- Identify accounting system changes
- Support non-financial feeder efforts
- Pursue Enterprise Resource Planning initiatives

#### **Slide 57 Financial Statement Preparation**

##### **Slide 58 What are Financial Statements?**

- Financial display of assets, liabilities, equity, and operating results of an entity
- Management’s representation of the financial condition and operations of the entity
- Final output of DFAS accounting systems
- Result from transaction level events in DFAS and DON financial and non-financial feeder systems

##### **Slide 59 What Are Auditable Financial Statements?**

- Financial statements on which the auditors can express an opinion.
- Auditors form an opinion by testing five management assertions:
  1. Existence or Occurrence
  2. Completeness
  3. Rights and Obligations
  4. Valuation or Allocation
  5. Presentation and Disclosure

### **Slide 60 What Are Audit Opinions?**

Auditors express an independent and expert opinion on the fairness of financial statements.

- Unqualified: “clean opinion.” –Good
- Qualified: fairly presented with certain material exceptions. –OK, but needs work
- Adverse: not fairly presented. –Not good, needs a lot of work
- Disclaimer: auditors were unable to form an opinion on the fairness of the financial statements. – Can’t be audited, needs significant work

### **Slide 61 Financial Statement Production**

DON is responsible for two reporting entities:

1. DON General Fund (GF)
2. Navy Working Capital Fund (NWCF)

ASN(FM&C) FMO and DFAS prepare the statements:

- GF - Manual roll-up of data
- NWCF - Automated update of the DFAS Central Data Base
- DFAS prepares statements via Defense Departmental Reporting System (DDRS)
- FMO prepares Overview and Notes/Disclosures for the Statements

### **Slide 62 DON General Fund AFS Process**

The following flowchart depicts the General Fund AFS Process:

STARS FL sends data to STARS HCM and STARS MCR/CAM.

STARS FDR receives data from the following: PBAS, STARS HCM, STARS MCR/CAM, SABRS, and CERPS.

STARS FDR is sent to DDR via SF133 Report on Budget Execution. Also DFAS KC 1100 Accounts are sent to DDRS along with external data. External data sent to DDRS is

- From the Data Collection Instrument (DCI), which includes Inventory/OM&S, General PP&E, Environmental Liabilities, and Other Liabilities
- From the query of systems, which includes Accrued Payroll, Accrued Annual Leave, Allowance for Uncollectible A/R, Contract Financing Payments, MOCAS Accounts Payable, and Contract Holdbacks.
- Workers compensation (FECA)
- Employment benefits
- Imputed costs.

The DDRS (Trial Balance Import Sheet) populates and produces the General Fund financial statement.

### **Slide 63 MWCF AFS Process**

The following flowchart depicts the MWCF AFS Process:

The following activities send data to CDB: DIFMS, DWAS, IMPS, RIMS, DBMS, MFCS, SYMIS, MC SM, and SPAWAR. CERPS also send data to CDB as well as the Activities listed above. The CDB feeds the DDRS (Trial Balance Import Sheet) from DDRS (which is also fed external data from FECA Data, Elimination Entries, MSC Service Fees, and OPM Benefits) and DON Activity Groups, which review statements and provide supplemental note information.

DDRS (Trial Balance Import Sheet) populate and produce the Navy Working Capital Fund financial statement.

### **Slide 64 Change Focus - Preparation of Financial Statements**

- Prepare more frequently (OMB): Semiannual (FY 2002) and Quarterly (FY 2003)
- Increase Command-level involvement: Shift preparation, review, and analysis efforts and develop efficiencies in data collection efforts
- Push accounting for financial events to lowest level: Modify accounting systems/interfaces to receive data and modify feeder systems to provide data.

### **Slide 65 Implement USSGL**

#### **Slide 66 DON Standard Chart of Accounts**

- Summary of financial transactions
- Framework for reporting
- Standardized at highest level

Where we've been . . . variety of charts of accounts, system-specific, and specialized application.

Where we're going . . . One DON Chart of Accounts that is USSGL compliant, adaptable to all systems, and a flexible application.

Speaker Notes:

1. The chart of accounts, in an accounting sense, is a numerical categorization of summary financial transactions recorded in the book of final entry, the general ledger.
2. External and department-level reporting requirements have been keyed to a standard categorization of financial transactions as put forward by Treasury, and endorsed by the DoD FMR Volume 1, Chapter 7, Addendum A.

#### **Where we've been....**

1. Each system had its own chart of accounts, moving at different paces towards compliance with the United States Standard General Ledger
2. The charts of accounts for each system reflected the internal architecture of the system, capturing different levels of information in the chart of accounts for hierarchical systems vice relational databases
3. Not only are these charts of accounts formatted to accommodate the system structure, they also reflect the specialized business processes and management information required by the system sponsor(s).

#### **Where we're going...**

A single chart of accounts that will be applicable in all the DON financial management system environments, and will support the multitude of DON business processes and reporting requirements.

#### **Slide 67 USSGL Account Structure**

- Based on a four-digit USSGL account
- Further defined by attributes, expressed in a point-account structure

Standard—the four digits to the left of the decimal point

- Within DoD
- Within Federal government

Flexible—the four digits to the right of the decimal point

- Developed by DON
- Level of detail immediately recognized

Speaker Notes: Federal government entities, including DoD, established the USSGL in an attempt to standardize accounting and reporting for federal entities. The USSGL was expanded by adding and creating subaccounts to develop a general ledger system accommodating DON's management information needs.

### **Slide 68 Delivery Streams**

The following graphic depicts the delivery streams. The DON Chart of Accounts will be used in all accounting transactions emanating from the lowest possible level resulting from some defining event, and flow through various systems and data repositories to produce external reports and internal management reports.

Source document and MIS feed the account transaction that uses the DON COA/USSGL and produces managerial reports containing detailed information and external reports at a high level.

### **Slide 69 DON USSGL Integration Transaction Library**

To have consistent information throughout the DON organization, accounting transactions must be standardized using the DON COA.

The following graphic depicts the Source Document and MIS Feed creating an Accounting Transaction. The DON Standard Transaction Library focuses on applying the USSGL in the accounting transactions triggered by financial events.

### **Slide 70 DON USSGL Integration Transaction Library**

- Transaction Library built to comply with USSGL/FMR and applicable guidance
- Existing transactions from STARS and SPAWAR ERP used as a baseline for development
- Three Volumes to be released: 1. General Fund – Direct, 2. General Fund – Reimbursable, and 3. Working Capital Fund.

### **Slide 71 DON SGL Integration: Status and Next Steps**

- Command comments received (mostly) on DON USSGL draft #2. Includes scheduling review sessions as warranted and project release of final product March through April
- Command review of transaction library. Includes targeted review session March through May and project release of draft product(s) May through July
- Establish Review Panel. Includes DON and DFAS participation and review changes for Chart of Accounts and Transaction Library.

### **Slide 72 Develop Process Changes**

#### **Slide 73 Process Changes Necessary**

- Liabilities: Payables, Environmental, and Deferred Maintenance
- Expenses: Accrued Labor, Accrued Contractual Services, Supplies & Equipment, and Travel
- Cost Accounting: Support Local Managers, Support SECDEF
- Assets: Personal Property, Real Property, Operational Material & Supplies, Inventory Held for Sale, and National Defense Equipment
- Budgetary: Authorizations, Commitments, Obligations, and Disbursements

#### **Slide 74 Process Changes**

- Perform Gap Analysis to identify major process deficiencies
- Map the “as is” processes for the ordering, delivery, and payment for goods and services
- Analyze and implement commercial and government best practices for these processes

### **Slide 75 Requirements Environment Procurement Process**

The following flowchart depicts the steps involved in the requirements environment procurement process:

- Command sends purchase request to Contracting System as well as Commitment to Accounting System (Slide 77 and 78).
- Contracting System send contract to vendor, Obligation to Accounting System (Slide 77 and 78) and Contract information to for certification to Disbursing System. (Slide 81).
- Vendor sends Invoice for Payment to Disbursing System (Slide 81) as well as Physical Delivery of Goods or Services to Receiving.
- Receiving forwards receipt information to both the Disbursing System and Accounting System for processing as an Asset/Expense, Accounts Payable (Slide 79).
- Prevalidation is done between the Disbursing System and Accounting System to ensure funds are available (Slide 78).
- Disbursing System forward Payment Transaction to Accounting System.
- Receiving also submits information to Feeder Systems: (Slide 80) including Subsidiary Ledger Transactions (information is forwarded to the Accounting System (Slide 83) and Non-Financial Data. Subsidiary Ledger Transactions include Real Property, Personal Property, OM&S, Inventory, Environment, and Deferred Maintenance. Non-Financial Data includes RSSI.
- Feeder Systems submit Non-Financial Data to Data Collection Instrument (Slide 82).
- Data Collection Instrument forwards Non-Financial Data to Departmental Reporting.
- Accounting System also forwards Reporting information to Departmental Reporting.

### **Slide 76 Requirements Environment Procurement Process Roles and Responsibilities**

- Review Purchase Orders and ensure that Commitments and Obligations are posted to the Accounting System.
- Perform Funds Control checks at the Commitment, Obligation, and Disbursement stages.
- Post Assets/Expenses and Accounts Payable to the Accounting System upon valid receipt of goods and services.
- Manage subsidiary ledger feeder information and ensure that subsidiary ledger transaction information is sent to the Accounting System.
- Certify invoices for payment based on a three-way match of Contract information, Receipt information, and Invoice information.
- Manage Non-Financial data and the annual Data Collection process.
- Assume reporting responsibility for the Command-level information that is consolidated in DDRS.

### **Slide 77 Requirements Environment Procurement Process**

Review Purchase Orders and ensure that Commitments and Obligations are posted to the Accounting System.

### **Slide 78**

Perform Funds Control checks at the Commitment, Obligation, and Disbursement stages.

### **Slide 79**

Post Assets/Expenses and Accounts Payable to the Accounting System upon valid receipt of goods and services.

### **Slide 80**

Manage subsidiary ledger feeder information and ensure that subsidiary ledger transaction information is sent to the Accounting System.

**Slide 81**

Certify invoices for payment based on a three-way match of Contract information, Receipt information, and Invoice information.

**Slide 82**

Manage Non-Financial data and the annual Data Collection process.

**Slide 83**

Assume reporting responsibility for the Command-level information that is consolidated in DDRS.

**Slide 84 Accounts Payable Process**

Current process under review:

- 30 activities interviewed for current process
- 8 event categories were reviewed e.g., travel, purchase card, services, material and pay
- 4 specific areas addressed:
  1. Timeliness of Transactions
  2. Use of subsidiary ledgers
  3. Identification of Trading Partners
  4. Support for end-of-period adjustments
- 9 preliminary recommendations were identified.

**Slide 85 Reduce Problem Disbursements****Slide 86 Problem Disbursements Historical Overview**

The following line graph shows progress to date as of January 2002. Supporting data is shown in the table below.

<b>Fiscal year</b>	<b>\$Billions (Absolute)</b>
FY 1993	14.40
FY 1995	16.20
FY 2001	0.48
January 2002	0.78

Speaker Notes: Corrective action may include:

1. Letters signed by Mr. Haas and/or Ms. Commons re-emphasizing importance of eliminating “old” problem disbursements.
2. Dispatch of manpower to assist the lagging Commands.
3. NAVSEA (\$30M absolute dollars), NAVAIR (\$28M absolute dollars), CINCPACFLT (\$4M absolute dollars) represent 90% of absolute dollars and 87% transactions remaining for “old” problem disbursements.
4. Work with DFAS-CL to post obligations for remaining problem disbursements.
5. January 2002 \$62.4 Million absolute dollars, 7,679 transactions.

**Slide 87 Reduce Problem Disbursements - Eliminate Aged Problem Disbursements**

60% reduction from June 2001 to November 2001

- As of November 2001 data: \$68M absolute, 8,331 transactions
- 10% average monthly reduction of PD transactions and \$ absolute

Plan of Action: From December 2001 to May 2002 eliminate remaining 40%

- Use November 2001 data as a baseline
- Continue program management in problem disbursements categories being monitored
- Use February 2002 data to evaluate progress

Take corrective action to clear 100% of over-aged problem disbursements by the end of FY 2002.

**Slide 88 General Fund Focus - Reduce Problem Disbursements 180 Days and Older (Post 10/1/00)**

Goal should be \$0

Plan of Action

- Based on November 2001 detail data, provide notice letter to each Major Command stating the balance of their problem disbursements aged 180 days and older
- Request that Major Commands provide a written explanation of their problem disbursements aged 180 days and older
- On 10 January 2002 requested DFAS-CL to identify Major Commands consistently not complying with the FMR Guidance even when necessary documentation was provided
- Continue to develop and distribute report cards on a monthly basis to monitor the progress of each Major Command
- Establish program management to assist Major Commands in achieving progress.

**Slide 89 General Fund Focus - Reduce Monthly Problem Disbursement Inflow**

- Focus on Top 3 Problem Disbursement Inflow Document Types (Dollar Volume)
- Top 3 Document Types constitute 80% of total problem disbursements
- Assign teams to analyze problem disbursement processes and data flows, identify PD causes, and develop process improvements to assist top 3 Major Commands to eliminate problem disbursements for these top 3 document types.
- Establish program management using the monthly trend analyses to task the Major Commands to research/resolve their problem disbursements and provide timely status reports to FMO.

**TOP 3 DOC TYPES and TOP 3 Major Commands**

DOC TYPES	FL UMD	HCM UMD	HCM NULO
Large Contracts	NAVFAC - LANTFLT - SPECWAR	NAVAIR - NAVSEA - SPAWAR	NAVAIR - NAVSEA - SPAWAR
Reimbursable	PACFLT - LANTFLT - NAVFAC	NAVAIR - NAVSEA - SPAWAR	NAVAIR - NAVSEA - SPAWAR
MILSTRIP	PACFLT - LANTFLT - RESFOR	NAVAIR - NAVSEA - NAVSUP	NAVAIR - NAVSEA

Speaker Notes: Based on November 2001 balances, if we achieved 100% reduction in GF problem disbursements pre 10/1/00 \$68M, GF >180 days \$20M, GF 80% of other problem disbursements (top 3 Doc Types) \$126M, our FY 2002 balances would be better than goal (assuming no spikes in inflow).

**Slide 90 NWCF Focus Problem Disbursement Plan of Action**

- FMO will team with DFAS-CL and its Field Sites to reduce NWCF problem disbursements
- Focus on top problem disbursement producing Major Commands/Activities: meet with team to determine how UMDs are counted, if problem disbursement data are collected on a consistent basis, and if standardized procedures are used for reporting problem disbursements and provide recommendations and assistance with process improvement.

<b>Recommended Field Site Visit</b>	<b>NWCF System</b>	<b>Proposed Dates</b>
DFAS-Charleston	DIFMS, NOMIS, RIMS, MFCS	March 2002
DFAS-San Diego	DIFMS	April 2002
DFAS-Oakland	DWAS, PWCMIS	April 2002

Speaker Notes: The NWCF process improvement team will:

1. Visit DFAS Field Sites that handle the majority of NWCF problem disbursements to analyze data and systemic process inflows/outflows using a combination of questionnaires and interviewing techniques.
2. Identify deficiencies and provide recommendations to standardize and improve business processes and data collection.
3. Work with DFAS-CL and all Field Sites to implement the recommendations.

**Slide 91 Accounting System Changes**

**Slide 92 General Fund Accounting Systems**

The following graphic shows the current General Fund Systems within DFAS: STARS FL, and STARS HCM, and SABRS. Supporting data are shown in the following table.

Past	Present	Future
38	3	3

**Slide 93 NWCF Accounting Systems**

The following graphic shows the current NWCF Systems: DWAS, PWCMIS, MSC-FMS, MFCS, SYMIS, IMP, RIMS(PH), and DIFMS. Supporting data are shown in the following table.

Past	Present	Future
16	10	8

**Slide 94 Accounting Systems Changes**

- Continue to support accounting systems deployments. Identify short term, cost effective improvements
- Work with DFAS to establish interfaces between feeder systems and accounting systems and utilize EC/EDI data technology
- Support DON/DFAS. Participate in General Fund Joint Requirements Board and participate in DON USSGL/Library review panels.

**Slide 95 Non-Financial Feeder Systems**

**Slide 96 Non-Financial Feeder Systems**

- DON functional level systems providing transaction level information to DFAS accounting systems.
- Why Important? Feeder systems provide an estimated 80% of data to accounting systems.
- DON efforts to consolidate feeder systems and standardize business practices.
- Functional level Non-financial Feeder Working Groups established under the leadership of the Deputy Undersecretary of the Navy.

**Slide 97 Non-Financial Feeder Systems Teams**

Composition:

- 13 Non-Financial Feeder Teams
- Each Headed by Senior Flag/Executive Official
- Composed of Financial, Logistics, IT personnel
- Auditor Involvement

**Slide 98 Non-Financial Feeder Systems DON Strategy**

The following graphic depicts the DON Compliance Validation Panel pyramid with ASN(FM&C), DFAS, Audit Community, DONCIO, and Non-Financial Functional Area Members shown in the top triangle. Non-Financial Feeder Teams are shown in the second, or middle, tier: OM&S, Real Property, Personal Property (2), National Defense PP&E, Inventory & Logistics, Time & Attendance, Military Personnel, Environmental Restoration Liabilities, Hazardous Material Disposal Liabilities, Deferred Maintenance, Contractor Held Property, and Heritage Assets. DON Management Command Owned Systems are shown in the bottom tier of the pyramid.

**Slide 99 DON Non-Financial Feeder Working Groups**

The following table lists the working group and functional lead for the DON non-financial feeder working groups.

<b>Working Group</b>	<b>Functional Lead</b>
Operating Materials & Supplies (OM&S)	NAVSEA
Real Property	NAVFAC
Personal Property, Navy	CNO N41
Personal Property, Marine Corps	DCS (I&L)
National Defense PP&E	ASN (RD&A) / DASN (SHIPS)
Inventory and Logistics	NAVSUP
Time and Attendance	ASN (M&RA) / DASN (CIV PERS/EEO)
Personnel Systems	CNO N1
Environmental Restoration Liabilities	NAVFAC
Disposal Liabilities	ASN (RD&A) / DASN (ABM)
Hazardous Waste Liabilities	ASN (I&E) / DASN (E&S)
Deferred Maintenance	FMB
Gov't Property in Possession of Contractors	ASN (RD&A) / DASN (ABM)
Heritage Assets	ASN (I&E) / DASN (E&S)

### **Slide 100 Non-Financial Feeder Improvements**

- Adapt business processes and transactions to reflect DoD standards. Perform routine validation of source information. Provide oversight to functional areas
- Need for Comptroller organization to be the conduit. For data collection and information gathering to functional experts.
- Participate in DON and OSD working groups. Provide command/activity level expertise. Provide DON perspectives/solutions.

### **Slide 101 Enterprise Resource Planning (ERP)**

#### **Slide 102 The ERP Alternative Revolution In Business Affairs Vision**

“DON will use the best business practices (commercial or public) and supporting architectures (ERP approach) to make informed decisions (right info to the right people at the right time).”

#### **Slide 103 What Is ERP?**

Revolutionary change in business processes for dramatic improvements.

The integration of business processes that optimize functions across the enterprise (e.g., supply chain, finance, manufacturing /maintenance, HR etc.) is ERP.

The following graphic shows Common Data at the core of the following functions:

- Order Management
- Financials
- Procurement
- Human Resources
- Manufacturing/Maintenance
- Operations
- Inventory
- Facilities Management
- Management Reporting

ERP solutions provide consistent, complete, relevant, timely and reliable information for decision making.

#### **Slide 104 ERP OBJECTIVES**

- Best business practices
- COTS solutions
- Single data entry at source
- End-to-end process connectivity
- Data commonality
- Internal management orientation
- Federal financial standards compliance

#### **Slide 105 ERP Pilots**

Four Navy ERP pilots structured to demonstrate and evaluate different DON functional requirements:

1. SPAWAR - Warfare Center Management (Cabrillo)
2. NAVAIR - Program Management (SIGMA)
3. NAVSUP/NAVAIR - Aviation Supply Chain / Maintenance Management (SMART)
4. NAVSEA / CLF - Regional Maintenance (Nemais)

### **Slide 106 DON Future Vision with Multiple Applications of ERP and Migratory Systems**

The following graph illustrates the future DON vision. The future vision shows DON accounting systems being fed data by compliant non-financial feeder systems which in turn feed a notional summary database while ERP applications are not reliant on outside feeders to provide any information to feed a notional summary database.

DON Summary Data serves as the hub for ASN(FM&C), DFAS (Centralized Disbursing and Reporting), and the following Non Financial Feeder Systems:

- PeopleSoft (1)
- IMPS (1)
- DBMS (1)
- Oracle (1)
- SABRS (1)
- SAP (1)
- DWAS (1)
- DIFMS (4)
- STARS – FL (16)
- STARS – HCM (8)

### **Slide 107 DON Future Vision under DOD Architecture**

The following graph illustrates the DON vision under the DOD architecture. DON accounting systems serve as enterprise systems that will contain all data necessary to feed a notional summary database.

It shows the DON Standardized Data as the central hub integrating with the following:

- ASN(FM&C)
- DFAS (Centralized Disbursing and Reporting)
- Major Command (1)
- Major Command (2)
- Major Command (3)
- Major Command (4)
- Major Command (5)

### **Slide 108 Conclusion**

What Does All This Mean?

- Improve control and accounting of your resources and financial events (Proprietary Accounting and Budgetary Accounting)
- Assume Ownership and Responsibility for your financial events (Business process changes and Reliable financial statements/reports)
- Make informed decisions for your entity (Managerial Accounting and Performance Measures)
- Make control and responsibility a routine occurrence (Compliant financial and feeder systems, Integrated suite of standard systems, and Management controls in effect)

Bottom Line: Increased Responsibilities for Financial Managers