A continuing high priority for the Department of Defense is the transformation of its financial management and business practices to better meet the changing needs of customers, strengthen accountability, and fulfill statutory requirements. The ultimate goal is to integrate financial data with other management information in order to render optimum support for DoD decision-makers and U.S. military commanders worldwide.

The Department is transitioning from a decentralized structure in which many DoD organizations had their own finance and accounting systems, most of which were incompatible with one another. Once complete, this transformation will result in an integrated and centralized financial management system that reflects substantial compatibility among DoD financial and non-financial systems and adheres to the government-wide accounting requirements adopted in the last several years.

OPERATIONS AND SYSTEMS

CONSOLIDATING AND IMPROVING FINANCIAL MANAGEMENT OPERATIONS

Activated in January 1991, the Defense Finance and Accounting Service (DFAS) is the Department’s pivotal change agent for improving financial management. By consolidating over 330 financial management field sites into just 26, DFAS has become better able to eliminate redundancy, facilitate standardization, improve and speed up service to customers, and increase productivity. This consolidation has produced annual savings of about $120 million.

In October 2000, DFAS took a major step in its transformation to optimize service to DoD customers by establishing a single point of contact for each of its major business lines. The DFAS Business Evolution will focus DFAS executives on each customer’s needs, improve the value of the business services provided, and establish clear accountability for each DFAS business line (e.g., Accounting Services, Military and Civilian Pay Services, and Commercial Pay Services).

Through improved systems, practices, and service, DFAS intends to become a trusted financial advisor. Strong partnerships, such as those created with U.S. Transportation Command and U.S. Special Operations Command, demonstrate DFAS’s ability to provide independent and objective financial advice and innovative managerial accounting services.

TRANSFORMING FINANCE AND ACCOUNTING SYSTEMS

The Department manages two types of DoD financial management systems: finance systems and accounting systems. Finance systems process payments to the Department’s military and civilian personnel, retirees, annuitants, vendors, and contractors. Accounting systems record, accumulate, and report financial activity.
As of September 2000, 76 finance and accounting systems were operating—down from 324 in 1991. The goal is to reduce this number to 37 by FY 2005 with 30 systems being operated by DFAS. The planned end result is to have nine finance systems vice the current 15, and 28 accounting systems vice the current 61.

These consolidations achieve genuine benefits. For example, by bringing all of DoD’s civilian payroll accounts into a single system, 26 separate systems were eliminated and 348 payroll offices closed. In 2000, a typical civilian payroll technician handled over 2,200 accounts, compared to 380 accounts in 1991.

BEST VALUE FOR CUSTOMERS
To ensure that customers receive the best financial management value, the Department conducts an aggressive competitive sourcing program that compares government agencies and private sector companies to improve services and save money. To this end, DFAS has identified over 85 percent of its positions as available for competition and has committed to study over 6,000 positions for competitive sourcing. DFAS has completed six competitions resulting in annual savings of over $28 million. Three ongoing studies are expected to save over $26 million annually.

ACCOUNTABILITY AND CONTROLS
INTERNAL CONTROLS, INFORMATION ASSURANCE, AND FRAUD PREVENTION
DFAS continues to place strong emphasis on strengthening internal controls to ensure proper stewardship of DoD resources. To that end, DFAS is implementing in all of its accounting systems the U.S. Government Standard General Ledger. Automated measures for costs, performance, and other outputs also are being implemented where appropriate. These actions will provide a clear audit trail for all financial transactions, as well as enhanced safeguards for DoD resources.

DFAS and other DoD organizations continue to implement information assurance (IA) programs and fraud detection and protection measures. Efforts include corporate-wide reviews of controls to reduce vulnerability and improve employee fraud awareness training. In a major effort to upgrade internal controls, DFAS recently appointed an independent Director of Internal Review. In coordination with other DoD offices, DFAS also is developing a standardized process to prevent, investigate and prosecute fraud.

CONTRACT AUDITS
The Department continues to improve its contract payment process, with substantial progress being led by the Defense Contract Audit Agency (DCAA). DCAA has increased customer on-site support and responded decisively to the changing needs of the DoD procurement community as a result of acquisition reform. For example, as a benefit of the shift to commercial pricing practices, DCAA is performing financial analyses of data available at DoD procurement offices rather than performing audits at contractor locations. In addition, DCAA is increasing its support of important customer activities. Examples include: support of acquisition officials making major source selection decisions; support of price determinations by contracting officers in determining reasonable prices, finance terms, and industry practices—through intensive market analysis; and support of customer initiatives such as privatization of utilities and military housing. Finally, DCAA is advancing the DoD goal of paper-free contracting by providing its audit reports electronically to its customers.
MORE FAVORABLE AUDIT OPINIONS

The Department has received an unqualified (most favorable) audit opinion on the financial statements of its Military Retirement Fund each year beginning with FY 1994. The Department has not, however, received as favorable audit opinions on the annual financial statements of its major operating components. A primary reason for this shortcoming is that a significant portion of the financial data presented in DoD’s financial statements originates outside the Department’s accounting and finance systems. These data come from personnel, acquisition, logistics, and other feeder systems, which were not designed to produce business-type financial statements. For the most part, these systems were developed long before the promulgation of current federal accounting standards. Accordingly, much financial information has to be transferred manually from feeder systems into the financial systems. Establishing a seamless connection between these feeder systems and the financial systems that produce financial statements is a crucial step in the Department’s financial management reform.

To oversee the massive effort required to make financial management systems compliant with applicable requirements, the Department has developed the Financial and Feeder Systems Compliance Process. Similar to the Department’s successful handling of its Y2K computer problems, this new process is designed to ensure progress through intense involvement by top DoD leaders.

In order to accomplish fundamental financial management reform, electronic interfaces must be established between DoD financial systems and critical feeder systems. This effort will take several years and substantial resources to achieve. In the interim, however, the Department believes that significant progress can be made toward earning an unqualified audit opinion on its financial statements.

Toward this end, the Department is partnering with the Office of Management and Budget, the General Accounting Office, and the DoD Inspector General, and has identified major obstacles that must be overcome for the Department to be successful. Interim solutions to systemic problems are continuously being developed.

BEST BUSINESS PRACTICES

Critical to the transformation of DoD financial management is the adoption of successful business practices from both the private and government sectors. The goal is to make DoD business practices simpler, more efficient, and less prone to error.

TRANSPORTATION PROCESSES

Historically, commercial carriers have been dissatisfied with delays in receiving DoD payments for their services. Leaders within the DoD financial and transportation communities, and their industry partners, have adopted a commercial-off-the-shelf system to achieve the needed speed-up in payments to commercial carriers. This process fully automates orders for transportation services and associated accounting and payment transactions, and enables commercial carriers to be paid within three business days instead of the previous standard of 60-plus days. Full implementation will eliminate government-unique documentation, and reduce costs and infrastructure for DoD and its commercial partners.
ELECTRONIC EXCHANGE OF FINANCIAL INFORMATION

DFAS is promoting the paperless exchange of financial information through several initiatives, which cut customer costs by over $24 million during 2000 alone. Electronic document management (EDM) and World Wide Web applications, such as Employee/Member Self-Service (E/MSS), facilitate access to documents, improve service, and reduce cycle times and cost of operations. Documents are stored in an electronic file and shared among DFAS activities. Converting them into an electronic format for on-line processing eliminates the printing of reports. E/MSS enables DoD personnel to make payroll changes online and print their leave and earnings statements electronically—thereby improving customer service while cutting costs. EDM also is used to process the 148,000 garnishment orders received each year, and a web-based system allows state child support agencies to submit orders over the Internet.

Electronic funds transfer (EFT) significantly reduces the cost of disbursement. Over 98 percent of DoD personnel paid by the Department have their pay directly deposited into their accounts. In FY 2000, EFT accounted for about 90 percent ($63 billion) of the total contract dollars disbursed by the Department. New military members can now be issued Stored Value Cards at their initial training sites, to use instead of cash to obtain goods and services. Remaining values on the cards at the end of their training can be electronically posted directly into the members’ military pay accounts.

Electronic data interchange is being used to send remittance information directly to vendors and to process contracts and contract modifications into finance and accounting systems. Additionally, a web-based system now enables industry to economically submit electronic invoices.

The Department now uses a single web database of basic business information from contractors that want to do business with DoD. The Central Contractor Registration (CCR) provides all DoD procurement and payment offices with a single source of valid and reliable contractor data. It also facilitates DFAS’s electronic exchange of financial information.

The Department also is implementing the Defense Cash Accountability System (DCAS), through which information will be collected under one central system and distributed electronically for posting to accounting systems. DCAS will reduce the DoD disbursing cycle from over 90 days to just two days.

DEFENSE PROCUREMENT PAYMENT SYSTEM AND DIGITAL SIGNATURE

In 2001, DFAS will begin incremental implementation of the Defense Procurement Payment System (DPPS)—designed to replace all current contract and vendor entitlement systems. DPPS will rely on remote electronic feeds to streamline commercial entitlement processes.

To help achieve paperless contracting, DoD leaders—working with GAO and the Departments of Commerce and Energy—developed a software specification for a digital signature that complies with federal standards. This initiative is being piloted and will be available to all DoD personnel during the next year.

INFORMATION INFRASTRUCTURE

The DFAS Corporate Information Infrastructure (DCII) is being implemented to help modernize DFAS finance and accounting systems and to establish the information environment needed to support future
DoD financial activities. DCII will support the use of common standard data for the collection, storage, and retrieval of financial information, and simplify and standardize DoD finance and accounting transactions. DCII also will interface with DFAS migratory and legacy systems, as well as non-financial feeder systems. Included in DCII is an ambitious effort to standardize and share acquisition data. This will greatly improve the interactions between DoD procurement systems and the financial systems that process and account for payments of procurements.

PROFESSIONALLY TRAINED WORKFORCE
Today’s DoD financial management workforce is well qualified and highly motivated, but the future workforce must be even better qualified. Changes in financial management requirements and technologies will place new and evolving demands on that workforce. In cooperation with the American Society of Military Comptrollers, the Department has initiated a new Certified Defense Financial Manager Program specifically geared toward DoD financial managers. This enhanced training, coupled with the validation of competence that comes with a formal certification program, will better position the Department to meet future financial management challenges. In addition, the Department has entered into an agreement with the U.S. Department of Agriculture Graduate School to present a five-day enhanced financial management training class. Over 60 classes are being offered to over 2,000 DoD financial management personnel a year.

CONCLUSION
By integrating the best of private and government practices, overhauling operations and systems, and skillfully exploiting advanced technologies, the Department is transforming DoD financial management to provide responsive, professional finance and accounting services. Further information on this transformation is in the Department’s Financial Management Improvement Plan, available at http://www.dtic.mil/comptroller.