DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

November 25, 2011

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Defense Logistics Management Systems (DLMS) Finance Process Review
Committee (FPRC) Meeting, November 15-16 2011

The attached minutes of the DLMS FPRC meeting are forwarded for information and
action as appropriate.

The DLA Logistics Management Standards point of contact is Mr. Robert Hammond,
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DONALD C. PIPP
Director
DLA Logistics Management Standards

Attachment

cc:
ODASD(SCI)
Attendees
Finance PRC

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MEMORANDUM FOR RECORD

SUBJECT: Defense Logistics Management System (DLMS) Finance Process Review Committee (FPRC) Meeting, November 15-16, 2011

Purpose: DLA Logistics Management Standards hosted the FPRC meeting at a conference facility located at 2000 Corporate Ridge, McLean, Virginia. Defense Connect Online (DCO) provided real-time viewing of presentations for those participants calling in to the meeting. Discussions topics are noted below. A list of attendees, including over 60 participants, and all meeting related materials and briefings are available on the FPRC Web page and linked to in the meeting agenda at (http://www2.dla.mil/j-6/dlmso/Programs/Committees/Finance/financeprc.asp).

Briefing Summary of Discussion: Bob Hammond, FPRC Chair, facilitated meeting discussions. He extended his **sincere appreciation** to all who participated, including special guests from Department of Treasury, Deputy Chief Management Officer Staff, the many new participants, and the FPRC representatives who do the daily work. Mr. Hammond plans to address significant issues with focused sessions between comprehensive FPRC meetings.

1. **Treasury Government-Wide Accounting (GWA) Initiative.**
    a.   Carolann Marker of Treasury presented an overview of Treasury's efforts to facilitate GWA implementation. A Treasury strategic goal is to establish GWA as the authoritative voice in Government-wide financial accounting and reporting, while improving the integrity of information to support decision makers. Treasury Commissioner Memorandum of January 14, 2011, subject "Upcoming Financial Management Services (FMS) System Changes and Timelines", mandates process, system, and data changes to support GWA by 2014. These include implementing Treasury Account Symbol and Business Event Type Code, eliminating the SF 1220 used for Interfund reporting, and eliminating of some systems. Treasury is committed to having Financial Management System feeder systems updated to support GWA processes by the end of 2012 and to assisting agencies in transitioning to GWA by October 1, 2014. Challenges include meeting the October 2014 mandated date and processing Interfund activity. Mr. Hammond noted Interfund billing is integral to the Logistics Information Exchange and that accommodating Interfund billing is vital. Ms. Marker and GWA outreach representatives are currently working very cooperatively with the Department of Defense to assess the applicability and impact to the Department of Defense and the Federal Agencies engaged in Interfund billing. A simple reclassification strategy is being considered for the Department of Defense, which Treasury expects to confirm by November 30, 2011. A solution for Federal Agencies is still being evaluated.

b. Tracy Jackson, Defense Finance and Accounting Service (DFAS), Enterprise Solutions GWA/GTAS Project Office, is leading GWA coordination for the Department of Defense. She provided an overview of impacts and status. Ms. Jackson noted support for Interfund billing is essential. One DOD challenge is to determine the end-state systems solution to transition from monthly to daily reporting. She noted that reclassification and reconciliation of Funds Balance with Treasury is critical and must be maintained.

c. Mr. Hammond recently became aware of the GWA initiative and facilitated meetings with staff from Treasury, Office of Secretary of Defense Comptroller (OSD(C) DFAS, Defense Logistics Agency (DLA), Defense (DOD) Deputy Chief Management Officer (DCMO, Federal Agencies engaged in Interfund billing, and Logistics Management Standards to assist in assessing the applicability and impacts of GWA to logistics processes and systems. Meeting minutes from the November 9, 2011 meeting and relevant links are included on the FPRC Agenda. Significant points include:

    i. There are potential significant systems, process, policy, data, and resource implications for the Department of Defense and Federal Agencies using Interfund billing.

    ii. DOD policy (DOD Financial Management Regulation, DOD 7000.14-R) mandates use of Interfund billing where possible.

    iii. Interfund billing is an automated, highly efficient, streamlined process, using summary level reporting to Treasury by DFAS and Federal Central Accounts Offices (CAOs). Logistics procedures, policies, and data elements (including bill validation, transaction routing, and funds transfer) are in place to support Interfund.

    iv. Interfund reporting is done at the summary level only, for approximately 2.1 million summary bills, supported by 51 million detail bills, totaling $55 billion annually. DFAS seller CAOs report both sides of the funds transfer between appropriations on SF 1220.

    v. General Services Administration (GSA), does Federal Agency Interfund billing for over $2 billion in annual sales to Department of Defense using the Simplified Interagency Billing and Collection (SIBAC) system, has been advised that Treasury currently plans to discontinue support for SIBAC. Treasury has suggested Intra-Governmental Payment and Collection System (IPAC) as an alternative solution.

    vi. Intra-Governmental Payment and Collection (IPAC) System is much more labor intensive process reported at the detail level. There are potential process, volume, and data issues associated with the use of IPAC. DFAS and Federal Agencies participating in Interfund strongly oppose IPAC as an alternative approach to Interfund.

    vii. The FPRC role is to gather/share information to assess applicability/impacts to DOD Logistics Information Exchange; support OSD(C) in leading role with Treasury for implementation and compliance; support DFAS and the Federal Agencies as needed; and address any policy/process changes via applicable DOD Process Review Committees.

2. **Financial Eliminations.** Financial eliminations are a significant issue for Treasury and a material weakness for DOD. Mr. Hammond is very interested in whether logistics transactions, particularly Interfund, are contributing in any way to this condition, so that we may assist in resolution. Treasury will present a focused briefing to the FPRC, which is tentatively planned for January 2012.

3. **Treasury Interagency Agreement (IAA).** Paul Lionikis of the Federal Reserve Bank of Boston and Peter Moore of Treasury presented information on Treasury's Interagency Agreement (IAA) process and Internet Payment Platform (IPP).

a. Treasury is working to develop a clean audit of interagency buy/sell transactions. A Government Accountability Office (GAO) audit for 2010 found nearly $26 billion in issues with interagency buy/sell balances. The IAA program addresses DOD Military Interdepartmental Purchase Request (MIPR) transactions. Treasury FMS form 7600A, General Terms & Conditions (GT&C), establishes an IAA between agencies. Form7600B, Order Requirements and Funding Information (a.k.a. Order), is for the buy/sell transactions under the IAA GT&C. Treasury has cross-walked the FMS forms to the MIPR to ensure all the MIPR data is captured. The IAA forms are longer than a MIPR, but Mr. Lionikis indicated that IAA form standardizes content that has often been attached as supporting documentation to a MIPR. IAA does not apply to credit card transactions; however, Treasury is encouraging agencies to migrate away from using credit cards for inter-governmental transactions.

b. The IPP is an effort to automate the IAA process. IPP modernization is integrated as a front-end to the IPAC interface. Treasury is looking for pilot trading partners to perform intra- and inter-departmental GT&Cs and Order transactions to run during the first half of 2012. IPP is not yet developing Enterprise Resource Planning System (ERP) interfaces, but expects that Common Government-Wide Accounting Classification compliant bulk load capabilities with ERPs will be developed in future releases. Existing IPAC interfaces are not impacted by the pilot.

c. Receipt acceptance is not part of IPP. Treasury is considering where to draw the line in the process. They recognize that DOD is highly automated and will have different requirements than other Federal agencies.

d. Mr. Hammond noted a caution regarding Business Partner Number (BPN) as an identifier for logistics transactions, as DOD and its logistics trading partners use DOD Activity Address Codes DoDAACs exclusively in logistics transactions. Additional information is included in the Standard Financial Information Structure topic below.

e. Robin Gilliam, Department of Treasury Financial Management Service (FMS) Government-Wide Accounting (GWA) Systems and Standards Integrator, is working closely with the Department of Defense in a very cooperative relationship toward piloting the IAA**.** With respect to Interfund and other potential uses, Ms. Gilliam previously provided the following guidance:

i. All agencies need to understand their "inventory" of reimbursable agreements (transaction types) in order to determine which ones would fit best with the IAA. At this time, the IntraGov business rules (TFM Vol. 1, Part 2, Section 4700, Appendix 10, Section 4) state that: "Federal entities should use the recommended standard IAA (see the FMS Web site at http://www.fms.treas.gov/finstandard/reference.html) for most reimbursable transactions between trading partners."

ii. The recommended standard IAA is not the solution for all intergovernmental activity such as high-volume, low-dollar type transactions between agencies. It is intended to standardize and facilitate the exchange of data among intra-governmental trading partners for contractual type transactions.

iii. FMS can guide you on what is a good fit in relationship to reimbursable agreements, but while FMS can guide you where to use the IAA, agencies need to make the final decision based on their understanding of the transaction types involved.

4. Standard Financial Information Structure (SFIS) ADC 435 Implementation.

a. Mr. Hammond led a discussion of ADC 435 SFIS implementation in the "Target Environment". Components and Agencies unanimously selected the referential data approach to add financial data to the fund code table and to add Business Partner Network (BPN) number to selected DLMS transactions as an authorized future enhancement with staggered implementation. Referential data is used broadly in the private and public sectors to ensure the integrity of associated data in processes. Examples include social security number, product SKU, credit card number, national stock number and DoDAAC.

b. Use of a BPN without the corresponding DoDAAC is not authorized at this time. Components should be aware that the BPN is defined in the applicable supplements as repetition for the Bill-to Party, which is only distinguished by the identifying qualifier being a BPN instead of a DoDAAC. This requires additional programming, which led to a discussion regarding prioritization of enhancements relative to other important requirements. DOD and its logistics trading partners currently use DoDAACs exclusively in logistics transactions. DOD BPNs are constructed by simply adding the prefix "DOD" to the DoDAAC, and there is an initiative for Federal Agencies to incorporate a similar construct. There are no DLMS-capable Federal trading partners currently able to provide BPNs. Moreover, incorporating BPNs for the nearly 150,000 Federal Agency DoDAACs would be costly and very problematic under the current BPN process.

c. The following steps are required to implant SFIS financial data elements.

i. DLA Transaction Services will create a web-enabled update application for the authoritative SFIS Fund Code to Fund Account Conversion Table and will support data replication to external systems. DLA Transaction Services indicated that this work is being prioritized, but no technical difficulties are anticipated. The SFIS Fund Conversion Table will include the current concatenated accounting data element and will include the following additional elements:

- Department Regular Code
- Department Transfer Code
- Main Account Code
- Sub-Account Code
- Treasury Sub Class
- Limit/Subhead
- Beginning Period of Availability
- Ending Period of Availability

ii. DLA Transaction Services will replace the Logistics Report "Fund Code to Fund Account Conversion" report with the "SFIS Fund Code to Fund Account Conversion" report, which will display the SFIS data elements above in addition to the concatenated fund account. A corresponding change will be made to DOD 4000.25-7-M (MILSBILLS) Appendix 1.1 "Fund Code to Appropriation Conversion Table".

iii. Component/Agency Fund Code Monitors will review existing fund codes and delete fund codes as appropriate. Mr. Hammond recently provided a listing of unused fund codes to Fund Code Monitors for evaluation. This should be a near term priority effort.

iv. Once the Fund Code web update application has been completed, Component/Agency Fund Code Monitors will add the data elements above to the SFIS Fund Code to Fund Account Conversion Table.

v. Components/Agencies requiring SFIS data for their logistics business processes may coordinate with DLA Transaction Services to establish data replication or alternative means for obtaining the fund code table.

5. <u>DCMO Overview of Standard Financial Information Structure.</u> Ray Bombac, who leads SFIS compliance for DOD DCMO, provided a brief overview of SFIS elements, the SFIS Governance Board and SFIS compliance. He noted that programs that are evaluated and found to be deficient in SFIS implementation receive a non-compliance condition and must then provide implementation plans with target compliance dates. Several DOD systems have already been evaluated and are working to achieve SFIS compliance. A question was raised regarding whether SFIS compliance equated to GWA compliance. Mr. Bombac indicated that it is his understanding that it does. Regarding the SFIS Governance Board, Mr. Bombac explained that the board votes on all data elements and business rules to incorporate needed changes. He offered that there is a standing weekly conference call addressing United States Standard General Ledger requirements and SFIS.

6. <u>Federal Agency Billing Systems.</u>
a. GSA is modernizing its SIBAC billing system used for Interfund billing. GSA is the CAO supporting GSA, Federal Aviation Administration (FAA), and National Oceanic and Atmospheric Administration (NOAA). SIBAC is scheduled to be replaced by July 2013. SIBAC is under a code freeze; functional requirements for the replacement system have been written. This has significant implications for GSA's ability to meet the Treasury GWA implementation, SIBAC be accommodated. Treasury initially indicated that GSA must convert to IPAC billing, but advised GSA that they are re-evaluating that assessment. DFAS reported that GSA IPAC submissions have been very problematic, requiring significant manual work. Others, including FAA, cited charge backs from buyers as a concern. GSA will incorporate processes to prevent inappropriately billing transactions that fail DAAS billing edits.
b. FAA is planning to become a CAO to support FAA and potentially NOAA billing. FAA will coordinate with DLA Transactions Services to integrate fund code table updates and DAAS billing edits into its processes.

7. <u>DAAS Bill Rejects</u>
a. Mr. Hammond noted that DAAS data validations resulted in $33 million in rejected bills during the past 12 months, including $7.6 million in October 2011. Rejects predominantly result from DoDAAC validation errors that include improper authority code. Rejected bills are indicative of systemic process and systems issues that must be identified and corrected. Delayed bill processing results in unrealized revenue for the seller and delayed credits for buyers. Credits received after the expiration of the applicable appropriation may not be re-obligated. Moreover, they create manual work for buyers, sellers, and CAOs. Resolving the process and systems issues will further the goal of achieving clean financial audits. Steps needed to resolve these issues include: working rejected bills promptly, identifying root causes, implementing systems and process changes over time, implementing applicable DLMS changes, and identifying additional opportunities for improvement through proposed DLMS changes. While DLA is the predominant seller, all Components and Agencies experience rejected bills.

b.   Cathy Shepard of DLA reported that as September, 2011 there were 407 DLA Interfund bills (totaling $4 million) that failed DAAS DoDAAC and other edits. Root causes identified to date that are being addressed include:

          i.   Lack of front-end edit in requisition processing systems such as Subsistence Total Order and Receipt Electronic System (STORES);

          ii.   Military Assistance Program Address Code (MAPAC) being used for Foreign Military Services billing vs. DoDAAC;

          iii.   DLA Enterprise Business System (EBS) not processing signal code in sales orders to bill proper party – need System Change Request (SCR);

          iv.   EBS automatically converting non-Interfund bills to Interfund after 30 days – need SCR;

          v.   EBS not auto populating bill-to DoDAAC for Supply Discrepancy Report credits, resulting in manual entry errors – submitted SCR; need training in interim;

          vi.   EBS dropping detail billing lines, so that totals don't match with summary bill – need SCR.

c.   With respect to STORES, DLA reported that these requisition transactions will be processed through DAAS for validation. Research into root causes and coordination to resolve rejected bills is continuing. Michael Lane (DLA) will coordinate DLA SCR submissions.

- **ACTION:** GSA and all Components research causes of rejected bills; report initial findings and plans for corrective action FPRC Chair by January 17, 2012.
- **ACTION:** Michael Lane, DLA report SCR submission status to FPRC Chair by January 31, 2012.

8.   **Non-Interfund Billing (XP Fund Code).**

a.   DOD Financial Management Regulation DOD 7000.14-R, Volume 4, Chapter 3 Receivables, Paragraph 030504.B states that "Bills arising from transactions which contain a National Stock Number within the DOD will be collected through the Military Standard Billing System (MILBILLS) Interfund billing procedures when supported by the supply and accounting systems. The provider will not accept a Military Interdepartmental Procurement Request (MIPR) if Interfund can be used. Manual billing (i.e., the XP fund code) will not be used unless approved by the Deputy Chief Financial Officer."

b.   Non-Interfund transactions increase processing costs and processing time. In addition, they are a significant source of delinquent receivables.

c.   DLA has held meetings with Military Services and DFAS client executives to reduce the use of non-Interfund requisitions. DLA acknowledges that price adjustment issues for STORES requisitions have resulted in Components using non-Interfund transactions.

d.   Angel Sweetser, Systems Accountant, Air Force Accounting Requirements, DFAS briefed Approved DLMS Change 110 series edits for Air Force DoDAACs. Implemented at DLA Transaction Services to reject non-authorized bill-to DoDAACs and to convert other DoDAAC requisition fund codes to "XP" for non-Interfund billing. ADC 262 implemented DoDAAC authority codes, including DAAS edit for requisitioning and billing. However, there is not a specific DoDAAC authority code for non-Interfund billing. Ms. Sweetser suggested that a DLMS change proposal be considered by FPRC members to establish such an authority code, indicating that potential benefits include helping to prevent non-Interfund bills from coming

through DLA Transaction Services and helping to identify DODAACs using non-Interfund billings that should be going through Interfund.

- **ACTION**: Michael Lane, DLA, verify if the problem between STORES and EBS has been corrected and provide status to FPRC Chair by December 1, 2011.
- **ACTION**: Components and Agencies coordinate with their DoDAAC monitors to assess the applicability of a non-Interfund requisitioner authority code to their processes; report findings to FPRC Chair by December 15, 2011.

9. **MILSBILLS – Credit Adjustment Process.** DLA Enterprise Business System (EBS) is non-compliant with MILS and DLMS in not having fully implemented the financial transactions for billing adjustment requests and replies (MILS FAE/FAF and DLMS 812R/812L). DLA SCR BFI-11-038 correcting this deficiency is scheduled to be implemented by DLA in April 2012. In the interim, a labor-intensive email process is causing delays in processing adjustments. Joshua K. Doroen, Black Belt DFAS Lean 6 Sigma Program briefed an ongoing Lean 6 Sigma initiative between DFAS and DLA to improve the process for resolving "disputed" transactions with DLA. Testing of Lean 6 Sigma interim process is expected to be done in late December. Mr. Doreen is also recommending DFAS accounts payable technicians receive training to improve understanding of when procedures call for a SDR, Quality Deficiency Report or FAE.

- **ACTION:** Michael Lane, DLA, report implementation of DLA SCR BFI-11-038 to FPRC Chair by April 30, 2012.

10 **Defense Logistics Manuals (DLMs) and Combining DLMS/MILSBILLS Manuals.**
a. DODI 4140.01, which is pending signature, designates the publication of MILS/DLMS manuals as Defense Logistics Manuals (DLMs). MILSBILLS (DOD 4000.25-7-M) and the DLMS Manual (DOD 4000.25-M) would be incorporated into DLM 4000.25-M, Volume 4 – Finance. Logistics Management Standards issued Proposed DLMS Changes to update and combine the procedures from DLMS and MILSBILLS into DOD 4000.25-M in order to provide a single reference, address inconsistencies between the manuals, achieve administrative efficiency, and prepare for issuing DLM 4000.25-M, Volume 4.
b. Mr. Hammond summarized merging MILSBILLS and DLMS for PDCs 488 and 490. He noted that that a change to remove suspense accounts from Chapter 5 under ADC 294 is no longer correct, as Treasury issued a waiver in 2008 to permit suspense accounts under certain conditions. Navy acknowledged that they are still using the F3885 suspense account, and so the manual needs to reinsert that language. PDCs 491 and 493 raised more significant questions for FPRC representatives to adjudicate in merging differences between MILSBILLS and DLMS. For these two PDCs the FPRC stepped through the comparison matrix to discuss points where specific questions were asked. Decisions made and input provided will be used to develop a single Approved DLMS Change.

- **ACTION:** DFAS Cleveland provide wording for Chapter 5 to re-insert language for suspense accounts by December 1, 2011.
- **ACTION:** Roxanne Degner, GSA, finalize DoDAAC to be associated with the GSA NSC, by December 1, 2011.

- **ACTION:** Karen Opie-Toler, DLA, validate existing MILSBILLS paragraph C4.2.4.1.5 with DLA Energy by December 1, 2011.
- **ACTION:** Linda Marflak, DLA Transaction Services, review MILSBILLS section C6 and provide current MILSBILLS Billing Inquiry (MILSINQ) processes and screen shots to FPRC Chair by December 1, 2011.

11. <u>Finance Training.</u> Mr. Hammond presented the DLMS Introductory Training Finance Module to assist participants in understanding the DLMS process. DLA and Marine Corps expressed interest in arranging DLMS training; Mr. Hammond identified the location of the training modules on the Logistics Management Standards Website for tailoring training to specific needs, and he will assist in coordinating training, as desired.

10. <u>Status of Open Items from Finance PRC Meeting of November 17, 2010</u>

a. **<u>GSA-Directed Shipments Lost at DLA-Operated Consolidation and Containerization Point (CCP).</u>** GSA directs vendor shipments to customers through the DLA CCPs. If materiel is lost and GSA has transporter proof of delivery (TPD) from the vendor, neither the vendor nor GSA will reimburse the customer. DLA has no policy/process to provide credit for CCP losses based upon submission of a Supply Discrepancy Report (SDR) to DLA. GSA does not accept responsibility for CCP losses. The volume of these types of lost items is small, but users get upset when they don't get credit. Additional time is lost due to lack of published procedures governing this scenario, resulting in repeated follow-ups from the customer seeking resolution. Ellen Hilert (DOD Supply Discrepancy Report Sub-Committee Chair) initiated Draft PDC 314 to propose procedures for GSA to reimburse the customer and to then have DLA reimburse GSA. GSA would bill DLA for the customer's credits. However, GSA noted that a code freeze for their billing system will require a manual process solution on the GSA end until their modernized system is operational in 2013. Proceeding with PDC 314 is awaiting confirmation from DLA that DLA will reimburse GSA. (**STATUS: CLOSED.**)

b. **<u>FAA RIC Problem.</u>** Some FAA billings to Air Force had RIC 570 vice RIC G69. Billie Davis, FAA, indicated that FAA is sending RIC G69. Roxanne Degner, GSA, indicated that a programming change implemented in April of 2011 corrected this issue. (**STATUS: CLOSED.**)

c. **<u>Air Force Billing Problems Resulting from Partial Shipments.</u>** DLA Distribution Standard System (DSS) confirms based on partial shipments, and DLA Enterprise Business System (EBS) bills based on these confirmations (ARO), vice the material release order (A5_). The possibility existed that some bills would appear as duplicate billings. These bills don't contain suffixes on the document numbers. The Air Force finance system had considered the same document number with the same quantity to be a duplicate. Cliff Klein, USAF, reported that a process change has been implemented that resolved the issue. (**STATUS: CLOSED.**)

11. <u>Deferred Agenda Topics.</u> The following planned agenda topics were deferred due to time constraints:
a. DLA Energy Convergence Initiatives, Including Aerospace Interfund Billing,
b. DLMS 810L, 812R, and 812L ERP Implementation,

c. DLMS Supplement 810L Training
   d. DLMS Migration Status, and
   e. Bills Without Fund Codes.

   12. Concluding Remarks. Mr. Hammond thanked all meeting participants for their contributions. He thanked everyone for sharing their experience and knowledge toward addressing current issues and enhancing logistics financial processes and procedures, noting that FPRC meetings provide an invaluable method of enhancing understanding of a wide range of business processes.

_____/s/_____   Approved: _____/s/_____
ROBERT HAMMOND   DONALD C. PIPP
Chair DOD Finance PRC   Director,
                                                 Defense Logistics Management Standards