



Department of Defense DIRECTIVE

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March 28, 1985
NUMBER 7045.16

AD-A272 262



ASD(C)

SUBJECT: Financial Management Systems

- References:
- (a) Office of Management and Budget (OMB) Circular No. A-127, "Financial Management Systems," December 19, 1984
 - (b) DoD Directive 7045.14, "The Planning, Programing, and Budgeting System (PPBS)," May 22, 1984
 - (c) General Accounting Office (GAO) Policy and Procedures Manual for Guidance of Federal Agencies, November 14, 1984
 - (d) Public Law 97-255, "Federal Managers' Financial Integrity Act (FMFIA) of 1982," September 8, 1982
 - (e) through (l), see enclosure 1

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A. PURPOSE

This Directive implements reference (a) by establishing policy, responsibilities, and procedures to be followed in developing, operating, evaluating, and reporting on financial management systems within the Department of Defense. It does not apply to systems of marginal importance to the financial management decision making process.

B. APPLICABILITY

This Directive applies to the Office of the Secretary of Defense (OSD), the Military Departments, the Organization of the Joint Chiefs of Staff (OJCS), the Unified and Specified Commands, and the Defense Agencies (hereafter referred to collectively as "DoD Components").

C. DEFINITIONS

1. Accounting System. The structure of methods and procedures used to record, classify, and report information on the financial position and operations of a governmental unit or any of its funds and organizational components. It is comprised of the various operations involved in authorizing, recording, classifying, and reporting financial data related to financing sources and gains, expenses, losses and transfers out, assets, liabilities, and equity. It encompasses the procedures and processes from the point a transaction is authorized (initiated) through processing the data (either manually or automatically) to issuance of financial and management information statements and reports containing the data in detail or summary form.

2. Budgetary Accounting. The accounting necessary to support and control the budget execution process. It includes the establishment of accounts necessary to reflect budget operations and condition, such as appropriations realized, unfunded contract authority, anticipated reimbursements-specific apportionment, as distinguished from proprietary accounting.

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3. Financial Management Information. All information expressed in dollar terms on federal spending, collections, assets, liabilities, equity, and related budgetary transactions and balances. This term also includes data used to develop information for decisionmaking regarding unit costs, average pay rates, user charges, etc.

4. Financial Management System. The total of the DoD Planning, Programing, and Budgeting System (PPBS), accounting systems and financial systems, (both manual and automated) for recording and classifying financial data and reporting financial management information, including purchasing, property, inventory, etc.

5. Financial Systems. All other systems, exclusive of PPBS and accounting systems identified in numbers 1. and 4. above, which provide financial information expressed in dollar terms to management, including purchasing, property, inventory, etc.

6. Proprietary Accounting. The accounting necessary to report on financial condition and operations. It includes the establishment of inventory accounts, accounts payable, accounts receivable, as distinguished from budgetary accounting.

D. POLICY

1. The Department of Defense shall maintain a single, integrated PPBS in accordance with DoD Directive 7045.14 (reference (b)). Budget execution and prior year actual financial information shall be obtained from budgetary accounts established in the accounting systems.

2. DoD Components shall establish and maintain a single, integrated accounting system containing all financial information, both budgetary and proprietary. This single system may be supplemented by accounting subsystems to develop special financial management information. Data needed in accounting systems and related subsystems shall be entered only once and transferred to appropriate accounts or subsystems through the use of uniform accounting classification codes.

3. Financial systems that are not part of the PPBS or the DoD Components' accounting systems shall be established only after both the functional and information requirements have been validated, and the determination is made, using the criteria and the procedures for system sharing and exchange found at enclosure 4, that no current DoD financial management system can satisfy the stated requirements.

4. New or substantially revised systems shall be developed on a DoD Component-wide basis and designed to meet the needs of all participating users. Funds for development shall be expended only for financial management systems that meet the requirements of this Directive.

5. Accounting principles, standards, and related requirements issued by the Comptroller General of the United States in the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies (reference (c)) shall be implemented by DoD Components in accordance with guidelines issued by the Director of the Office of Management and Budget (OMB).

E. RESPONSIBILITIES

1. The Assistant Secretary of Defense (Comptroller) (ASD(C)) shall:

a. Serve as the DoD senior official under OMB Circular No. A-127 (reference (a)) for policy guidance, direction, and coordination with DoD Components and other federal agencies on financial management system requirements.

b. Prescribe the principles, standards, and related requirements applicable to DoD Component financial systems.

c. Prescribe procedures for conducting the annual evaluation of accounting systems in operation on September 30 required by the Federal Managers' Financial Integrity Act (FMFIA) (reference (d)), Section 4, and prepare a consolidated accounting report for signature by the Secretary of Defense.

d. Publish an inventory of operating financial management systems by February 28, 1986, and annually thereafter.

e. Prescribe the procedures that shall be followed in establishing financial systems and monitor DoD Component efforts in implementing this Directive.

2. The Inspector General, Department of Defense (IG, DoD) shall:

a. Provide technical assistance and advice in DoD Component efforts to review and improve financial management systems. This assistance shall be in addition to the reviews of financial management systems undertaken at the IG's initiative or at the request of the DoD Component head, and the reports issued as a result of these reviews.

b. Perform, for those DoD Components for which the IG, DoD, has audit cognizance, either requested or self-initiated reviews of the DoD Component's financial management system evaluation to determine whether the DoD Component's evaluation was conducted in accordance with prescribed guidelines and advise the DoD Component accordingly. Performing such IG, DoD, reviews should not be interpreted as preventing the IG, DoD, from providing technical assistance and advice as specified in paragraph E.2.a.

3. The Head of Each DoD Component shall:

a. Appoint a senior management official to be responsible for coordinating the DoD Component's effort of reviewing, improving, and reporting on their financial management system program. This responsibility includes ensuring that the system is established and maintained in accordance with the requirements of this Directive.

b. Conduct an annual inventory and evaluation of operating accounting systems that are in operation at the end of each fiscal year in accordance with ASD(C) instructions

c. Conduct an annual inventory and evaluation of financial systems that are in operation at the end of each fiscal year, and provide this inventory and evaluation to the ASD(C) by January 31.

d. Develop a 5-year plan for a single integrated, efficient DoD Component accounting system. The plan shall provide for the elimination or consolidation of financial systems to the maximum extent feasible, with required financial management information being obtained from the system. The plan shall feature specific milestones, and obligation and outlay estimates for each developmental accounting system. It shall feature a review and change approval process and be coordinated with the information technology 5-year plan. The plan shall be approved by the DoD Component head and accompany each year's budget and management submission to OMB, beginning with the fiscal year 1987 budget.

F. PROCEDURES

1. Procedures applicable to the PPBS are contained in DoD Directive 7045.14 (reference (b)), DoD Instruction 7045.7 (reference (e)), and DoD 7110.1-M (reference (f)).

2. Procedures applicable to accounting systems are contained in DoD 7220.9-M (reference (g)).

3. Procedures applicable to the development and management of automated information systems are contained in DoD Directive 7920.1 (reference (h)).

4. Procedures applicable to the establishment of information and reporting requirements and review of the source of such requirements are contained in DoD Directive 5000.19 (reference (i)).

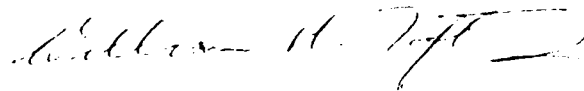
5. Procedures for reporting the annual inventory of financial systems are contained in enclosure 2.

6. Procedures to be used in the evaluation of financial systems are contained in enclosure 3.

7. Criteria for system sharing and exchange are contained in enclosure 4.

G. EFFECTIVE DATE AND IMPLEMENTATION

This Directive is effective immediately. Forward three copies of implementing documents to the ASD(C) within 120 days.



William H. Taft, IV
Deputy Secretary of Defense

Enclosure - 4

1. References
2. Annual Inventory of Financial Management Systems
3. Financial Management System Objectives
4. Criteria for System Sharing and Exchange

REFERENCES, continued

- (e) DoD Instruction 7045.7, "Implementation of the Planning, Programing, and Budgeting System (PPBS)," May 23, 1984
- (f) DoD 7110.1-M, "Department of Defense Budget Guidance Manual," July 8, 1982, as amended, authorized by DoD Instruction 7110.1, October 30, 1980
- (g) DoD 7220.9-M, "Department of Defense Accounting Manual," October 1983, as amended, authorized by DoD Instruction 7220.9, October 22, 1981
- (h) DoD Directive 7920.1, "Life Cycle Management of Automated Information Systems (AIS)," October 17, 1978
- (i) DoD Directive 5000.19, "Policies for the Management and Control of Information Requirements," March 12, 1976
- (j) DoD Directive 5010.38, "Internal Management Control Program," July 16, 1984
- (k) OMB Circular A-123, "Internal Control Systems," August 16, 1983
- (l) DoD Directive 5200.28, "Security Requirements for Automatic Data Processing (ADP) Systems," December 18, 1972, as amended

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DOD COMPONENT NAME
ANNUAL INVENTORY OF FINANCIAL MANAGEMENT SYSTEMS
Fiscal Year Ended 19XX

Part A: Budget System

(This part will be completed by OASD(C).)

Part B: Accounting Systems

(OASD(C) will complete this part based upon the DoD Components' annual FMFIA, Section 4, report (reference (d)).)

Part C: Financial Systems

1. OPERATING FINANCIAL SYSTEMS DEEMED SUBSTANTIALLY IN COMPLIANCE WITH DoD FINANCIAL SYSTEM PRINCIPLES, STANDARDS, AND PROCEDURES

Financial System Name

(List here each financial system, except for the PPBS and the accounting systems reported above, identified from reviewing the internal information and reporting requirements that were symbolized as required by DoD Directive 5000.19 (reference (i)) and deemed in substantial compliance with principles, standards, and procedures as contained in enclosure 3. Footnote each system with the target date that the information and reporting requirements will be replaced by an accounting system.)

2. OPERATING FINANCIAL SYSTEMS NOT IN COMPLIANCE WITH DoD FINANCIAL SYSTEM PRINCIPLES, STANDARDS, AND PROCEDURES

Financial System Name

Date Planned to be Brought into Compliance

(List here each financial system, except for the PPBS and the accounting systems reported above, identified from reviewing the internal information and reporting requirements that were symbolized as required by DoD Directive 5000.19 (reference (i)) and are not in compliance with principles, standards, and procedures as contained in enclosure 3. Footnote each system with the target date that the information and reporting requirements will be replaced by an accounting system.)

FINANCIAL MANAGEMENT SYSTEM OBJECTIVES

DoD Components shall evaluate annually their budget, accounting, and financial systems against prescribed principles, standards, and related requirements and the financial management system objectives listed below. In the absence of specific principles, standards, and requirements, the DoD Components' systems shall be evaluated against these objectives. (Based upon the review performed of financial systems, DoD Components shall prepare Part C of the Component's inventory report (enclosure 2).)

1. System Operations. The DoD Components' financial management system shall use the best of acceptably priced, contemporary technology--including automated data entry and edit, data management, data base dictionaries, electronic communications between systems, flexible report formats, and controlled access to data bases by personal computers and other means--to achieve the following:

- a. Usefulness. Financial management information shall be gathered and processed only when necessary to meet specific internal management needs or external requirements. Reports shall be tailored to specific user needs and if report usage does not justify cost, reports shall be terminated. Usefulness shall be determined in part through consultation with users.
- b. Timeliness. Financial management information shall be recorded as soon as practicable after the occurrence of the event and made available to managers by the fifth working day following the end of the reporting period. Other standards of timeliness may be established where the DoD Component has inventoried reports and set specific standards, with user participation. Final data shall be available in time to meet internal and external reporting requirements.
- c. Reliability and Completeness. Financial management information shall be reasonably complete and accurate. It shall be verifiable and be obtained from the official records and systems. It also shall be no more detailed than necessary to meet the needs of management and external requirements.
- d. Comparability and Consistency. Financial management information shall be recorded and reported in the same manner throughout the Department of Defense, using uniform definitions. Consistency over time shall be maintained. New and revised financial systems shall adopt common, existing definitions and classifications.
- e. Efficiency and Economy. Financial systems shall be designed and operated with reasonable total costs and transaction costs in accordance with DoD guidance. Systems that are excessively costly shall be identified and phased out. This shall be accomplished through installation of effective systems of planning and evaluation, sharing of data, elimination of overlap and duplication, and use of the best contemporary technology, including commercially available packages with proven success in other government agencies or the private sector.

2. Systems Integrity. Financial management systems shall feature reasonable internal controls designed, operated, and evaluated in accordance with DoD Directive 5010.38 (reference (j)), OMB Circular A-123 (reference (k)), and DoD Directive 5200.28 (reference (l)).

3. Support for Budgets. Financial management information shall be recorded, stored, and reported to facilitate budget preparation, analysis, and execution. Data shall be classified uniformly and that classification, at a minimum, shall be at a level of detail that directly supports execution of enacted budgets and formulation of proposed budgets, without excession aggregation or disaggregation. Presidential and congressional decisions shall be recorded precisely and financial management data on results shall be classified to track such decisions. This includes detailed support for external budget reports. Data required for budget and management decisionmaking on unit costs and performance shall be included in the system.

4. Support for Management. Financial management information shall be recorded in a manner to facilitate carrying out the responsibilities of both program and administrative managers. The financial management system shall provide for a coherent, timely, and accurate financial management data base. It should be supplemented as necessary to meet management requirements for administrative data. Accrual accounting information shall be developed only as needed for pricing purposes, comparative cost analyses, and to meet the needs of management or the Congress.

5. Full Financial Disclosure. Financial management information shall be recorded and reported as specifically required by OMB and Treasury to provide for full financial disclosure and accountability in accordance with appropriate budget and accounting principles and standards. Financial disclosure requirements are met through various DoD directives and instructions. Any other financial statements intended for use by the public shall be submitted to OMB for review and approval and shall be evaluated on the basis of costs and benefits and for consistency with the budget.

CRITERIA FOR SYSTEM SHARING AND EXCHANGE

DoD Components shall maximize the sharing of data and avoid the duplication and overlap of redundant system development efforts. Before a DoD Component establishes a new system or a substantially revised system, the DoD Component shall search the inventory for systems that meet the following criteria. (When such a system is found, DoD Components shall take steps to adopt the existing system.)

1. System has the same or similar functions (that is, it can perform the same or similar functions or activities), or can satisfy the same or similar information requirements.
2. System is wide in scope and can be made to accommodate required functions and information needs.
3. System has automated interfaces that will permit exchange of data with the PPBS and accounting systems.
4. System is already being used by one or more DoD Components.
5. System is included in the financial management systems inventory.