

2000

# FINANCIAL MANAGEMENT REFORM



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# INSIGHT

**Message from the Honorable Robert H. Hale**  
Assistant Secretary of the Air Force  
(Financial Management and Comptroller)



## **FINANCIAL MANAGEMENT REFORM**

Financial management involves all the systems and processes that we use to pay our people and our contractors and to keep track of how we spend our money.

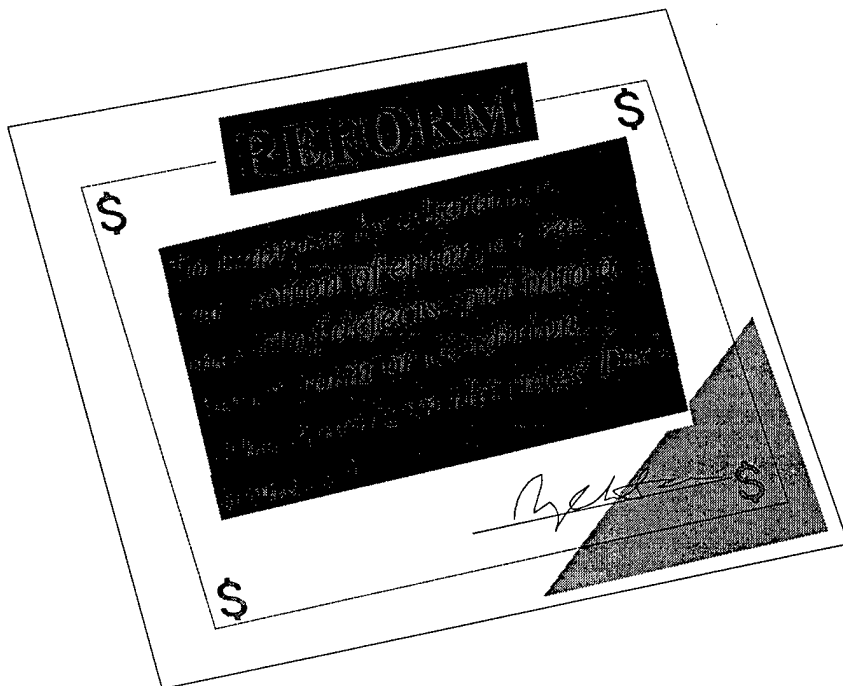
We need to reform financial management in the Air Force for several key reasons. Our current systems and processes don't always provide the information that managers need to operate the Air Force efficiently. Also, these systems and processes do not always permit us to comply fully with financial laws and regulations.

This pamphlet is intended to provide insight into what we are doing to reform financial management in the Air Force and why. Almost everyone in our financial management community has a role to play in financial reform. I hope the pamphlet will emphasize the importance of this effort and encourage you to cooperate. Only with improved financial management can we effectively carry out the five core competencies of Air Force financial management:

- **Exercise fiduciary responsibility.**
- **Formulate, justify, and execute budgets.**
- **Provide financial services.**
- **Provide financial advice and analyses.**
- **Support contingency operations.**

# PURPOSE

## *OUR CHALLENGE AIR FORCE FINANCIAL MANAGEMENT REFORM*



**The purpose of this pamphlet is to provide Air Force managers, both within and outside the financial management function, with knowledge of the content and interrelationships of the many laws, organizations, programs, systems, and initiatives which are part of financial management reform. The pamphlet will address the importance of reform and will discuss the challenges of implementing the reforms throughout the Air Force.**

# REFORM & YOU

A first and obvious question for the prospective reader of this pamphlet is: What do I need to know about Air Force financial management reform? To help answer that question you should know: Why the Air Force is undertaking reform, how will reform help commanders and managers, and what are the areas where we need help in the reform process.



## Why Financial Management Reform ?

- ① **Better information:** Commanders and managers at all levels throughout the Air Force need significantly improved financial information. A senior Air Force leader in the financial management community, when asked what he would want most to improve his business area, replied: “bullet proof books”. Commanders and managers dependent on financial information would echo his reply. As our financial resources decrease concurrently with the increase in demand on those resources, the timeliness and accuracy of our financial information becomes more and more important. For example, ongoing management initiatives in Air Force Materiel Command specify performance plans for Air Logistics Center commanders and Chief Operating Officers. In order to improve management, both timely and accurate budget and cost information is needed. Other commands have initiatives to more accurately and timely project, track, and report costs.

To successfully implement these initiatives, highly flexible and responsive financial systems and reports are essential. Unfortunately, current systems and processes are not always re-

sponsive to the needs. Our current antiquated financial systems and the many feeder systems need to be improved to adequately support modern management and reporting requirements.

Not only must the financial management community be highly proficient in supporting commanders and managers, but these commanders and managers must also be fully capable of using such information.

- ② **Support other reform efforts:** We are constantly looking for ways to improve our business practices - to become more effective and efficient. Acquisition reform and other business reforms, such as: outsourcing and privatization, Commercial Off the Shelf (COTS) initiatives, and management methodology changes taking place in Air Force Materiel Command, will depend heavily on successful financial management reform. Leaders and managers at all levels, working together and communicating effectively, will greatly increase the probability of mutual success and synergistic results. To maintain the world's preeminent aerospace force into and through the 21<sup>st</sup> Century, we can do nothing less.
- ③ **Help restore public confidence:** During recent years, public confidence in government and government managers has declined significantly. All of us in public service need to help restore perceptions of and confidence in our governmental institutions. Financial management reform, standing alone, will not restore public confidence in government. However, along with other reform efforts, success in implementing the Government Performance and Results Act (GPRA), and receiving an unqualified opinion on our CFO Statements, financial reforms will play a strong role in improving the public perception of federal managers. The Air Force community will share the rewards of improved credibility.

- ④ **It is the law of the land:** Regardless of the priorities outlined above, financial management reform is the law! The acts depicted on pages 10 and 11 are highly interrelated and taken together, establish a rigorous road map to federal financial reform. The Air Force and the DoD are focal points of these laws. The acid test will be our ability to produce auditable annual financial statements and to have the statements receive favorable audit opinions. As yet, no major agency within the DoD has met audit requirements. Meeting that test implies a vast array of complex and costly reforms - - from improved, compliant, financial and non-financial feeder systems to the implementation of Federal Generally Accepted Accounting Principles (FEDGAAP).

Coupling the GPRA with the other financial legislation will require us to establish performance goals and then measure the results achieved. Goals, financial and otherwise, will frequently be measured in financial terms. Unit Costing and Activity Based Costing /Management (ABC/M) and eventually embedded cost accounting systems will be essential to measuring progress. SAF/FM and AF/XP will be taking the *lead* in implementing GPRA in the Air Force.

### **How will Financial Management Reform Help Air Force Commanders and Managers?**

The four “whys” for reform, discussed above, if pursued aggressively will yield major improvements for all Air Force decision makers. What commander doesn’t want and need more timely, accurate, and appropriate financial information as a tool to enhance his or her planning, programming, budgeting, and execution?

The various Air Force reform programs are interdependent and are based on excellent financial management support. The ability to present congressional, OMB, and OSD reviewers and auditors with financial information which is timely, error free, meaningful, and audit certified will greatly enhance our credibility with these oversight bodies.

Implementation of the Government Performance and Results Act (GPRA), which will focus more on outputs than inputs, will require much more flexible and sophisticated financial management processes and systems. Financial responsibility and accountability of commanders and managers will be of even greater importance and will go hand-in-hand with mission / program performance as a measure of merit. Taken together, financial management reform initiatives will undergird improvements in results achieved by Air Force commanders and managers during a time of reducing resources and increasing mission demands.

Specific examples of the benefits to commanders and managers include:

- Operating command commanders and managers at all levels will benefit from more accurate and timely status of funds and operating cost information. Improving the accuracy of budgetary estimates, selection of alternative courses of action, and improving visibility of the “real” cost of doing business will help to sustain air and space power with fewer dollars.
- Air Logistic Centers (ALCs) need more accurate and specifically tailored Net Operating Results Statements.
- Our efforts to cope with reduced budgets and personnel end strengths and to improve cost effectiveness will often focus on outsourcing / contracting out / privatizing. We need more accurate and sophisticated financial information to perform the necessary cost comparisons.

## **Areas Where We Need Help**

Just as the dollar is the common denominator of all that the Air Force does, financial management is a cross functional responsibility. Successful financial management reform depends on full support from the interdependent users of financial information. Financial processes and systems are being modernized. Non-financial systems which feed the financial systems will need to be modified to comply with requirements of the Chief Financial Officers Act, Comptroller General standards and the evolving Federal Generally Accepted Accounting Principles (FEDGAAP). Such modifications will take a strong commitment from functional managers. In addition, all commanders, managers, and decision makers will be involved with complex financial reports, systems, and processes and will need to support training programs and new business practices.

As mentioned above, legislation is one of the key driving forces behind financial management reform. Managers need to be familiar with the basic laws and their fundamental provisions. Starting with the Federal Managers Financial Integrity Act of 1982 and continuing through a series of laws enacted in the 90s, legislation has mandated significant improvements in federal financial management, reporting, and accountability. The following two pages summarize the main points of financial reform laws.

# LEGISLATION FINANCIAL MANAGEMENT

## **Chief Financial Officers (CFO) Act 1990**

### Purpose

To improve the general and financial management practices in the federal government.

### Description

- Requires federal financial management status report and five-year plan and system improvement plan.
- Requires annual agency audited financial statements .

## **Government Management Reform Act (GMRA) 1994**

### Purpose

To provide a more effective, efficient and responsive Government.

### Description

- Requires agency-wide audited financial statements for all agencies covered by the CFO act, effective FY 1996; requires a consolidated, government wide report, beginning FY 1997.

## **Chief Information Officers (CIO) Act 1996**

### Purpose

To provide agencies flexibility in acquiring information technology.

### Description

- Mandates that an agency's CIO and CFO work together to develop financial and performance measurement systems.

# FINANCIAL POLICY

## **Federal Accounting Standards Advisory Board (FASAB)**

### Purpose

To consider and recommend accounting principles for the federal government.

### Description

- Nine member board. Develops and publishes recommended accounting standards.

# ATION ON GEMENT REFORM

## **Government Performance & Results Act (GPRA) 1993**

### Purpose

To improve public confidence, federal program effectiveness, and public accountability.

### Description

- Requires agency strategic plans and annual performance plans, effective 1997.
- Requires annual agency reports of actual performance against planned goals.

## **Federal Financial Management Improvement Act (FFMIA) 1996**

### Purpose

To require agencies to develop and maintain financial management systems that comply with federal requirements.

### Description

- Systems are to be audited for compliance. Agency heads must report to Congress on the implementation of actions needed to bring systems into compliance.

These acts have generated new policies and regulatory provisions which have been published by the Office of Management and Budget (OMB), the Department of the Treasury, and the General Accounting Office.

# POLICY GUIDANCE

## **Federal Generally Accepted Accounting Principles (FEDGAAP)**

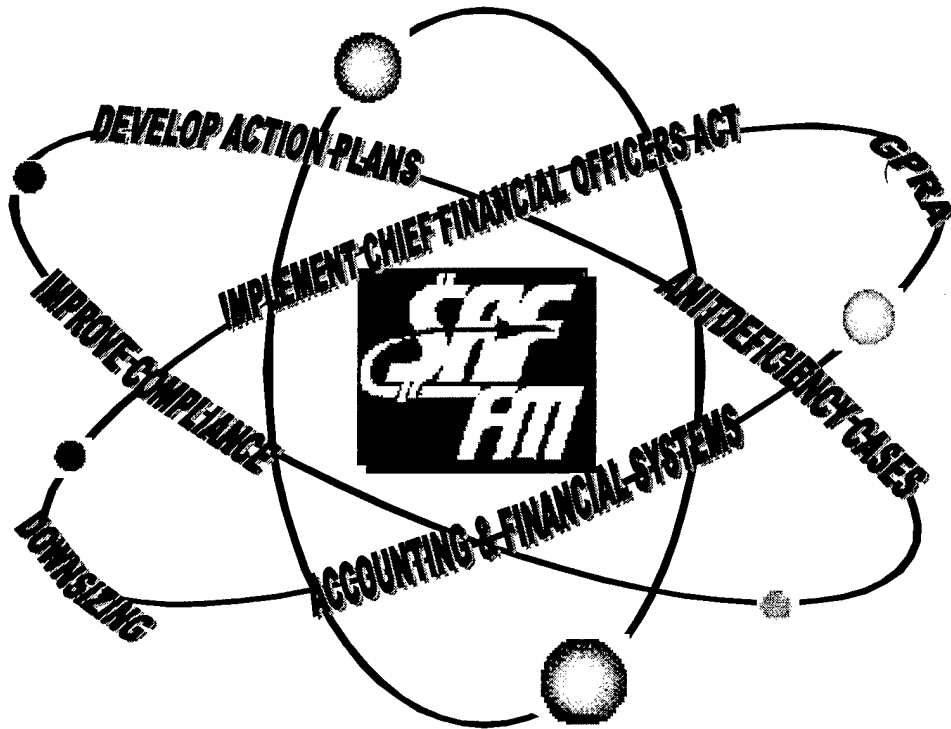
### Purpose

To provide a set of federal accounting concepts, standards, and principles.

### Description

- A new set of accounting concepts, standards, and principles that will promote consistency and accountability across the federal government.

# ELEMENTS OF REFORM



## Improve Accounting and Financial Systems

Automated accounting and financial systems are the foundation, the essential tools, of the financial management process. They provide the “raw material” for fiduciary accountability, analysis, and decision making. Unfortunately, most of our current systems — whether managed by DFAS, controlled by SAF/FM, or owned by other Air Force functional communities — are old and designed more to track budgets than to produce the timely, accurate, and flexible financial management information needed to run the Air Force. Shortfalls in these systems include:

- Systems are not “transaction driven”. So if system A needs data from system B, we often have to reenter the data. That leads to errors and is inefficient. Said another way, an original financial transaction, once entered into the accounting system should flow through the various elements of the system and update the general ledger, without subsequent entries.
- They don’t do double entry bookkeeping.
- They don’t use the Government-wide standard general ledger of accounts, a requirement if we are to compare data and have auditable statements.
- System changes are complex and often not responsive to management needs.
- They don’t comply with Federal Generally Accepted Accounting Principles (FEDGAAP).

Major efforts are currently underway to remedy these problems. Ultimately, all systems, including feeder systems, must be compliant with the FEDGAAP. This is an essential prerequisite to certified annual financial statements. Ongoing and planned migratory system development programs are summarized as follows:

**General Accounting and Finance System (GAFS), sometimes called BQ:** A modern transaction driven, general ledger based, general funds accounting system is the fundamental building block in the systems reform area. The Air Force and the Defense Finance and Accounting Service – Denver Center (DFAS-DE) continue their cooperative development of an accounting system for general funds. DFAS plans to upgrade BQ in phases. During the first phase, they plan to install a standard general ledger, a key step toward CFO compliance. The Air Force Audit Agency will be asked to help ensure that any other compliancy issues are addressed. In

subsequent steps, DFAS plans to convert BQ to an open systems architecture, install a relational database, etc. This will make BQ easier and cheaper to maintain. While satisfying CFO requirements is important, the primary goal of BQ is to meet its customers' needs for financial information, including both cost and accounting information. Input from the field is the only way to ensure that we achieve this objective.

**Standard Materiel Accounting System (SMAS):** The Standard Materiel Accounting System is being modified and modernized by DFAS-DE to provide retail accounting support for the Air Force's segment of the Integrated Logistics System - Supply (ILS-S), logistics modernization program. All accounting functionality will be placed in SMAS. SMAS will have a relational database, Graphical User Interface (GUI), and be Open System Environment (OSE) and Defense Information Infrastructure - Common Operating Environment (DII COE) and year 2000 (Y2K) compliant, when completed. The current Initial Operational Capability (IOC) will be late 1998 with Full Operational Capability (FOC) following in late 1999 or early to mid 2000. The wholesale supply accounting system, Financial Inventory Accounting and Billing System (FIABS), used by Air Force Materiel Command, is to be merged with SMAS with an estimated completion date of FY 2001.

**Departmental Cash Management System (DCMS):** Improving our ability to manage cash and to produce departmental level information is an important aspect of systems reform. The Departmental Cash Management System manages and reconciles all cash disbursements, reimbursements, collections, and receipts department-wide. DCMS replaces several older systems. It provides for direct By and For Others transactions, which will

essentially eliminate "intransit" transactions and will help reduce disbursements which are unmatched with the appropriate obligation. DCMS should be completed by late 1998.

**Defense Departmental Reporting System (DDRS):** The Defense Departmental Reporting System will support both General and Working Capital Funds. DDRS will provide direct reporting from installation to the DDRS. The system will have two databases: one to support status of funds reporting and one to support the DoD Standard General Ledger. It will also serve as the corporate database for departmental reports and a warehouse for military department / service-level data.

**Defense Industrial Financial Management System (DIFMS):** The NAVAIR Industrial Financial Management System was selected by the Air Force and DFAS for general ledger, job control, and fund control at Air Force depots. DIFMS deployments are scheduled to begin in mid 1999.

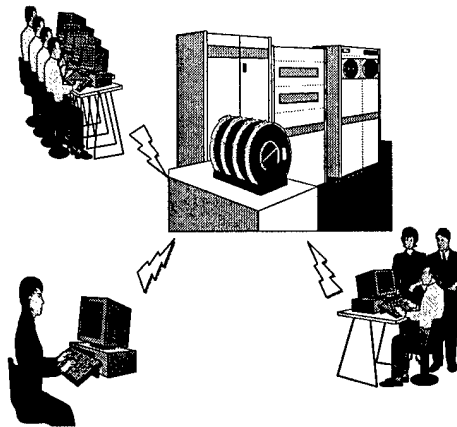
**Defense Travel System (DTS):** The Defense Travel System is a new concept in which the DoD will contract out its travel process to the private sector. All travel arrangements and settlements will be made through the system. We anticipate the contract will be awarded in mid 1998, with testing of the new concept starting shortly thereafter.

**Financial Information Resource System (FIRST):** This program will integrate the Air Force's numerous budget systems: Base Budget Automated System (BBAS), Microcomputer Budget Automated System (MicroBAS), Command Budget Automated System (CBAS), and the Automated Budget Interactive Data Environment System (ABIDES). Several major change decisions were made during 1998 to improve and accelerate delivery of the system.

## Improve Feeder Systems

We also have many non-financial feeder systems. Much of the data that we need for financial management comes from systems operated by other functional communities. Data on supply costs, for example, come from the Standard Materiel Accounting System and the Standard Base Supply System and soon from the new Integrated Logistics System - Supply (ILS-S). Data on the value of real property come from the Work Information Management System (WIMS) and data on maintenance costs come from the Integrated Maintenance Data System (IMDS).

These systems are owned by their respective functional communities. But in order to have accurate financial information and to comply with the Chief Financial Officers Act, we must improve the financial aspects of these feeder systems. To that end, we have picked key systems and formed teams that include people from the functional area involved, our financial community, the audit community, and DFAS. We are concentrating on fixing the systems as the functional manager makes improvements in order to minimize or avoid added costs.



## Improve Business Practices

In addition to enhancing financial systems, we need to take advantage of supporting technologies. Accordingly, the Air Force continued to work on the Automated Business Services System (ABSS) and the DFAS initiatives: Electronic Data Access (EDA) and Electronic Document Management (EDM). These systems are absolutely essential to our productivity in light of ongoing and programmed staffing reductions.

**ABSS:** This Electronic Commerce / Electronic Data Interchange based system includes the capability to generate electronic forms and funding documents, user specific pick screens/lists for form data population, automatic routing for internal and external coordination, electronic signature, automated commitments, and automated upload of our standard contracting systems. We expect the single data entry capability provided by ABSS to significantly reduce problem disbursements. It will provide additional productivity benefits of: reduced paper processing, shorter cycle times, enhanced document traceability, and more efficient reconciliation by DFAS. Air Force-wide deployment began in FY 1998 and should be complete by FY 2001.

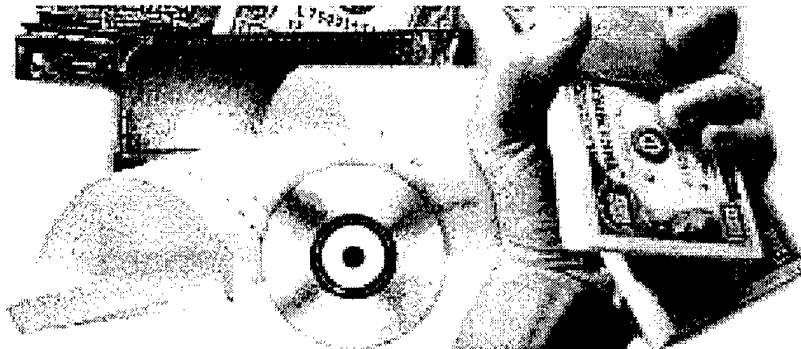
**EDA/EDM:** The Electronic Document Access and Electronic Document Management systems are being developed separately and will be integrated in the future. EDA eliminates print products and allows shared access to documents by authorized parties. DoD users will have on-line, real time access to post award contracts, contract modifications, Government Bills of Lading (GBLs), and payment vouchers using the World Wide Web. The "electronic file cabinet" will eliminate the paper trail, increase transaction productivity, and generate personnel and monetary savings. It is being deployed Air Force-wide in 1998. EDM converts paper documents to electronic images and enables them to be routed electronically for processing. The EDM test system at DFAS' Omaha Operating Location (OPLOC) successfully supported fiscal year-end closing. The Omaha OPLOC is also testing an EDA/EDM integrated solution. In this system contracts will be stored in EDA. New contracts will be identified by broadcast message and then electronically indexed into EDM. The accounting technician will view the contract on EDA and process it on EDM. Testing is ongoing.

## Improve Data Classification

**Budget and Accounting Classification Code (BACC):** The Budget and Accounting classification architecture provides the means to record all financial transactions within the Department using a standard budget and accounting classification code structure that includes general ledger pro forma postings at the time transactions are recorded in the accounting system.

- The BACC architecture will assist in providing consistent financial information from each of the Department's financial systems, thereby significantly aiding the Department's managers in compiling and comparing financial data.
- It will significantly aid in the communication of data between financial systems, as well as between financial and non-financial feeder systems.

BACC supports uniform financial management information requirements, identifies responsible funded and accounting organizations, and provides clear audit trails to supporting documents and transactions. Collectively, this concept will aid in establishing common business practices, assist in meeting the DoD's Chief Financial Officer Act reporting, and support the budget process. BACC will not be implemented in legacy systems.

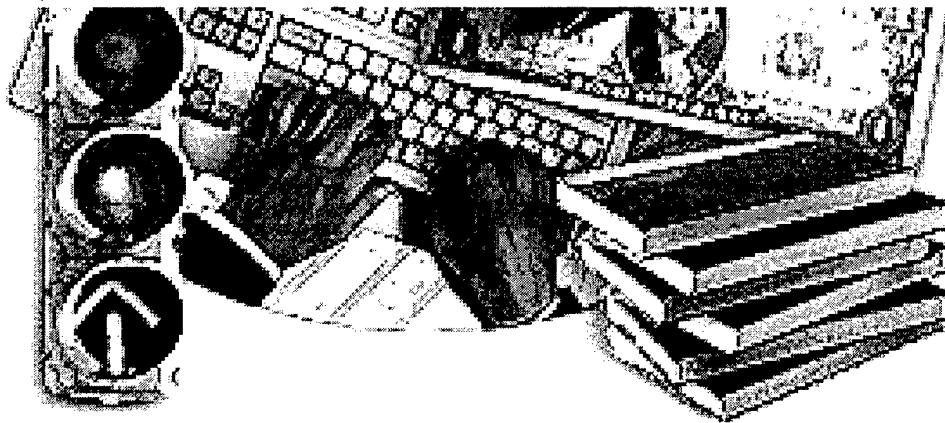


## Increase the Usefulness of Annual Financial Statements



CFO reports are important because they are our “window” to the outside world. They are the public documents that determine the way others see not only the Air Force and its financial management processes, goals, and improvements, but also the path the Air Force is taking to meet the challenges of air and space dominance in the 21st century.

We need to make our CFO reports more useful. We must do them by law, but today few people outside the financial and audit communities use them. As part of the GPRA law just discussed, we will be using these documents to report on progress in meeting performance measures. They also will document progress in meeting the performance goals mandated by the Chief of Staff for working capital fund activities. In these ways, we hope the reports will become more useful to Air Force commanders.

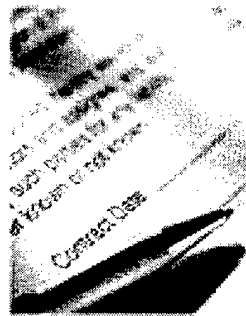


By law, we must soon add a net cost statement to our CFO reports, documenting what our commands and activities cost. We plan to work with commands to make this new statement as useful as possible.

In addition to making CFO statements more useful to commanders, we need to do at least as well as every successful public corporation in America. We must have financial statements that are auditable. Today, seven years after being required by law to produce auditable statements, neither the Air Force, nor any other service, has a major statement that passes audit muster — primarily because of problems with our financial systems, as discussed above.

The Air Force, working in concert with DFAS and our auditors, made a significant effort for the FY 1997 reports to develop a Statement of Budgetary Resources. We are hopeful that audit officials will agree that the statement is auditable and be able to render, at least, a qualified opinion.

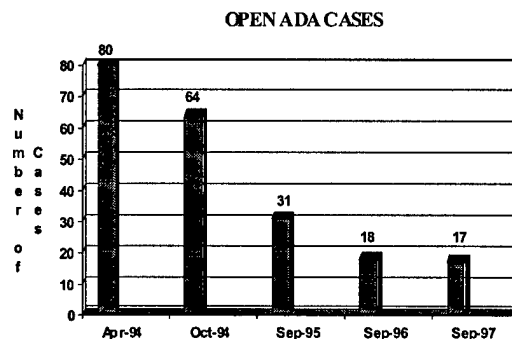
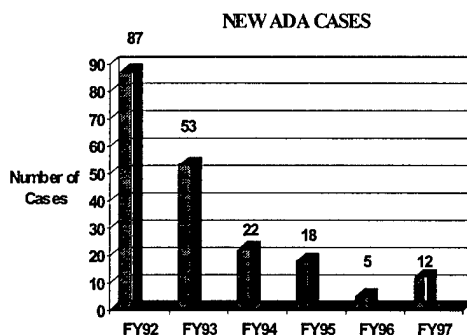
During FY 1997, the Air Force placed a great deal of emphasis on improving its compliance with financial laws and regulations. Better compliance is expected to not only improve financial operations, but also result in more favorable findings from regulatory agencies and enhanced public opinion. Some of the key issues we are working on are discussed in the following section.



## Reduce Antideficiency Act Cases

The Antideficiency Act (ADA) sets various rules governing the obligation and expenditure of public funds. Simply stated, it is a violation of the Act to obligate or expend funds for purposes or in amounts in excess of that authorized and appropriated as to purpose, time, and amount. Antideficiency violations are reported to the President, Office of Management and Budget, and the Congress.

The Air Force has placed considerable emphasis on reducing the number of ongoing ADA investigations as well as preventing such violations. We have reduced our ADA cases from 80 in 1984 to 17 at the close of FY 1997. The significant drop in violations is attributable to: new ADA guidance, improved screening of suspected violations, and increased ADA awareness training. The following charts depict the status of the Air Force's ADA activity during the past several years.



## **Reduce Problem Disbursements**

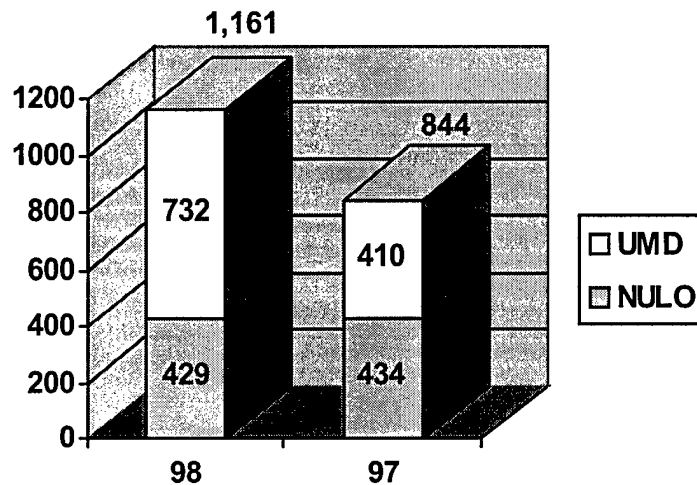
Problem disbursements fall into two categories: Unmatched Disbursements (UMDs) and Negative Unliquidated Obligations (NULOs). A UMD is a financial disbursement that

cannot be readily matched to a recorded obligation. A NULO is a financial disbursement that appears to exceed the obligation to which it has been matched. NULOs are frequently the result of accounting errors related to antiquated system capabilities or numerous human processing errors.

The Air Force works hand-in-hand with the DFAS to reduce the overall level of problem disbursements by using the Automated Reconciliation System and instituting procedures for Defense Accounting Offices (DAOs)/OPLOCs to correct payment notice rejects and NULOs. Reporting criteria have changed and were standardized during the OPLOC conversion process. In June 1996, the GAO mandated that DAOs and OPLOCs implement procedures to correct contract payment notice rejects. During FY 1997, work in process data began to be counted as NULOs.

## **Increase Flexibility for Acquisition Managers**

The Undersecretaries for Acquisition & Technology and Financial Management & Comptroller set up a team to examine ways that financial reform could support acquisition reform. A few of the initiatives identified by that team have been put into effect. For example,



we have been able to modify current law and extend the time we can use funds to pay bills for certain programs. This permitted us to avoid obligating twice for programs, including B-2 Block 30 modifications and on-orbit incentive fees for satellites. But many of the initiatives identified by that team have not been put into effect. We believe that these initiatives and others like them are still worth pursuing.

### **Improve Compliance**

We are working to improve compliance with the Federal Managers' Financial Integrity Act. The Air Force Audit Agency has several initiatives related to internal controls in Financial Services Offices, computer security, and inventory management.

Attention to improving compliance is not just "putting out fires", but is being institutionalized. It is a continuing agenda item at FM Executive Sessions with periodic follow up letters to MAJCOM FMs. "Triannual Reviews" have also been mandated to ensure accounting records are in good order. This has resulted in freeing up obligation authority.

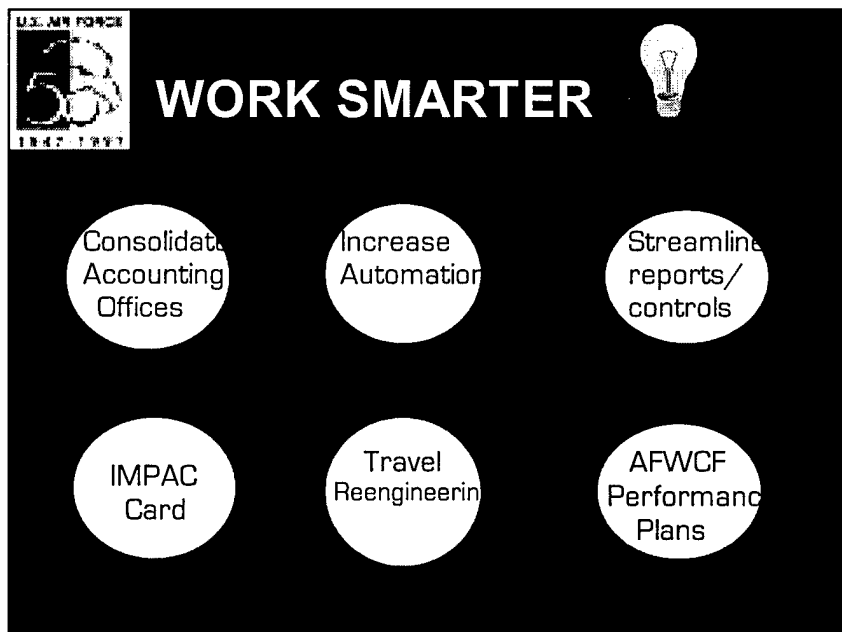
### **Better Management**

In this era of perennial downsizing, we are all looking for ways to work smarter and thus reduce our need for Air Force resources. Consolidating our accounting offices at the regional centers run by DFAS is one such step. It has caused considerable turbulence, but it should save money.

Another example would be working with the Air Force contracting community to make greater use of the IMPAC card, a credit card used to make purchases under \$2500 in value. We are currently in the process of streamlining and automating our processing of IMPAC card transactions.

In the management area, the Air Force has established specific performance plans for the management of our Air Force Working Capital Funds. Continued emphasis is being placed on tracking and resolving CFO related audit recommendations through a joint DFAS/AF tracking system. The chart below identifies other working smarter initiatives.

We have also developed a professional relationship with the Financial Executives Institute, a group of private-sector CFOs that do pro bono work for the government. We have benefited from their advice, and they helped us demonstrate to external organizations that we are seeking to improve Air Force financial management. We have also outsourced a number of specific CFO projects to contractors.



# FINANCIAL PLANS

In order to succeed at financial reform, we must have an efficient and well trained financial management community. That means we must plan for more than financial management reform.

To that end, Air Force FM has developed both mid-range and long-range strategic plans to guide the course of its operations into the future. Included within the larger scope of these plans is a road map for Air Force financial management reform.



## **AIR FORCE FM MID-RANGE PLAN**

This plan is designed with goals, which are broad and ambitious, to provide a conceptual orientation within which specific plans may be built and implemented. The broad goals in support of our core competencies, which Mr. Hale mentioned in his letter in this pamphlet, are:

- ✓ **Enable our people to excel through training, education, and core guidance**
- ✓ **Organize to carry out core competencies effectively**
- ✓ **Help shape and implement a revolution in business practices to improve efficiency and effectiveness**
- ✓ **Increase emphasis on analytical decision making**
- ✓ **Improve ability to support contingency operations**
- ✓ **Improve communications among all Air Force FM personnel**

SAF/FM will update these plans periodically as the dynamic reform environment changes. Similar financial management reform segments of other functional area plans may be helpful as the Air Force community moves ahead with these vital reform initiatives.



# SUMMARY OF FM REFORM

A summary of the various issues discussed in this pamphlet is shown in the chart below. It also provides an assessment of progress on each one of the issues.

First, in the Air Force view, we are making progress. We are beyond the planning stage on every initiative and in some cases have made significant progress.

Second, we have a long way to go before we have a world-class financial system. Some of the changes, such as system improvements, will take many years to complete.

Finally, we need the help of many different functional area experts, commanders and all FM people. **Financial management reform is a joint effort.**

