

**SECTION II**

**CONCEPT OF OPERATIONS**



## CONCEPT OF OPERATIONS

### **Purpose and Scope**

The “National Defense Authorization Act for fiscal year (FY) 1998” mandated that the Department of Defense (the DoD) develop a Biennial Financial Management Improvement Plan. The National Defense Authorization Act requires the biennial plan to include a Concept of Operations detailing how future financial management will be conducted. The Concept of Operations (Concept) describes how the DoD will structure and manage its future financial operations to comply with legislative and regulatory requirements.

The “Chief Financial Officers (CFO) Act of 1990” requires federal agencies to improve their financial management and reporting operations by developing an integrated financial management system. The integrated financial management system is to comply with applicable principles and standards and provide complete, reliable, consistent, and timely financial information.

The “Federal Financial Management Improvement Act of 1996” (FFMIA) requires federal agencies to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) federal accounting standards, and (3) the United States Government Standard General Ledger (USGSL) at the transaction level. In addition, the DoD must comply with other legislative and regulatory requirements, such as the “Federal Managers’ Financial Integrity Act of 1982” (FMFIA).

The Concept addresses almost all aspects of the DoD’s financial management operations, including the feeder systems that generate the majority of the data used by the DoD’s finance and accounting systems. The Concept also discusses systemic interrelationships and financial management responsibilities for the following organizations:

- The Office of the Under Secretary of Defense (Comptroller) (OUSD(C))
- The Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) (OUSD(AT&L))
- The Office of the Under Secretary of Defense (Personnel & Readiness) (OUSD(P&R))
- The Military Departments (the Army, the Navy, and the Air Force)
- The Defense Finance and Accounting Service (DFAS)
- Other Defense Agencies and DoD Field Activities (e.g., the Defense Logistics Agency (DLA) and the Defense Information Systems Agency (DISA)).

The DoD uses this Concept to guide the evolution of its financial management systems, financial management polices and oversight

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requirements, and infrastructure improvements by describing the elements necessary to achieve an integrated financial management system. Because of the broad scope of the DoD's financial management responsibilities, this Concept presents the framework the DoD requires to achieve sound financial management practices. The appropriate DoD operational and financial management communities augment this Concept with the specific operational details, policies, and procedures they require to meet their specific areas of responsibility.

While the Concept is intended to lay a stable foundation upon which to build financial management improvement, the DoD expects to update the Concept should additional legislative, regulatory, or management directed requirements emerge. Although the OUSD(C) ultimately is responsible for the Concept, the entire DoD financial management community is responsible for helping to achieve its goals.

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**Organization**

The Concept is presented in five sections that describe the DoD's evolution of financial management operations into an integrated financial management system. First, the Concept identifies the processes, mechanisms, and functions for an integrated financial management system as defined by the Joint Financial Management Improvement Program (JFMIP). Second, the Concept conveys how the DoD's processes and mechanisms are related to, and derived from, the JFMIP processes and mechanisms. The third section describes the financial management policy and oversight roles and relationships of the organizations within the financial management community. Fourth, the Concept describes the DoD's financial management operating infrastructure, which consists of the organizations, personnel, and internal control mechanisms required for an effective and efficient environment to perform financial management activities. Lastly, the integrated financial management section details and explains the DoD's integrated financial management system. This section ties all of the concepts, goals, and requirements together and is the DoD's end state.

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## Joint Financial Management Improvement Program (JFMIP) Financial Management Requirements

**Joint Financial Management Improvement Program** The JFMIP defines federal financial management system specifications by publishing such documents as the Core Financial Systems Requirements and the Framework for Federal Financial Management Systems. The Core and Framework documents stipulate the processes, mechanisms, and functions for an integrated financial management system. An integrated financial management system consists of two overall processes:

- Program delivery/financing (program management)
- Financial event processing (financial management).

**Program Delivery/Financing (Program Management) Process** The program delivery/financing (program management) process is comprised of three sets of mechanisms: federal assistance, financing, and government operations. The DoD does not appreciably perform these first two mechanisms; however, it does perform the government operations mechanism. The JFMIP describes government operations as:

“Mechanisms necessary to run the basic operational activities of the government and to provide services such as law enforcement and national defense, which are non-monetary in nature. Agencies carry out government operations through the use of personnel and/or government supplies, equipment, facilities, and contracts with outside parties.”

The JFMIP specifies the following functions as necessary to carry out basic government operational activities:

- Acquisition
- Personnel
- Property management
- Inventory management.

The DoD carries out basic government operational activities through acquiring, managing, allocating, transporting, using, and disposing of various resources.

**Financial Event Processing (Financial Management) Process** The financial event processing (financial management) process consists of budget formulation, financial accountability, and transaction tracking. The DoD performs all three of these mechanisms. The budget formulation is performed as a part of the Planning, Programming and Budgeting System (PPBS). The Department’s finance and accounting systems provide crucial data to support annual budget formulation processes. Data maintained in those systems, particularly budget execution information for past accounting periods, serves as the foundation for developing budget estimates and funding requests for future accounting periods. Historical and trend data, such as

obligations and expenditures incurred in relation to missions and activities undertaken, serve as “barometers” of the funding levels required to carry out planned critical missions and support activities. For example, the budget execution data (e.g., obligations, expenditures, and outlays) that are categorized, summarized, and reported using the standard object classification codes maintained in the accounting systems, are used by DoD managers to estimate future funding requirements based on projected “levels of need.”

Budget formulation systems are not currently included in this Plan. The Department has various budget formulation processes and systems, ranging from electronic spreadsheets and manual processes to automated information systems. The Department’s approach is to determine what efforts are required to address budget formulation systems once its finance, accounting, and feeder systems are, overall, compliant with applicable requirements. Once these systems comply with requirements, then the accuracy of related data in budget formulation systems would improve. As a result, the amount of effort required to address budget formulation systems will be significantly reduced.

As discussed within this Plan, the DoD’s critical accounting systems have been modified--or are in the process of being modified--to implement the USGSQL at the transaction level. As such, the DoD systems will maintain budgetary accounts that cover the spectrum of the DoD’s funding and revenue sources, as well as all incurred costs and outlays. The budgetary accounts serve as the baseline or “starting point” in the budget formulation process. Budgetary data from the accounting systems will serve as the primary source used by the DoD’s managers to develop credible budgets.

The JFMIP specifies the following functions as necessary to carry out financial accountability activities:

- Budget execution
- Financial accounting
- Cash management
- Cost accounting.

The JFMIP specifies the following functions as necessary to carry out transaction tracking activities:

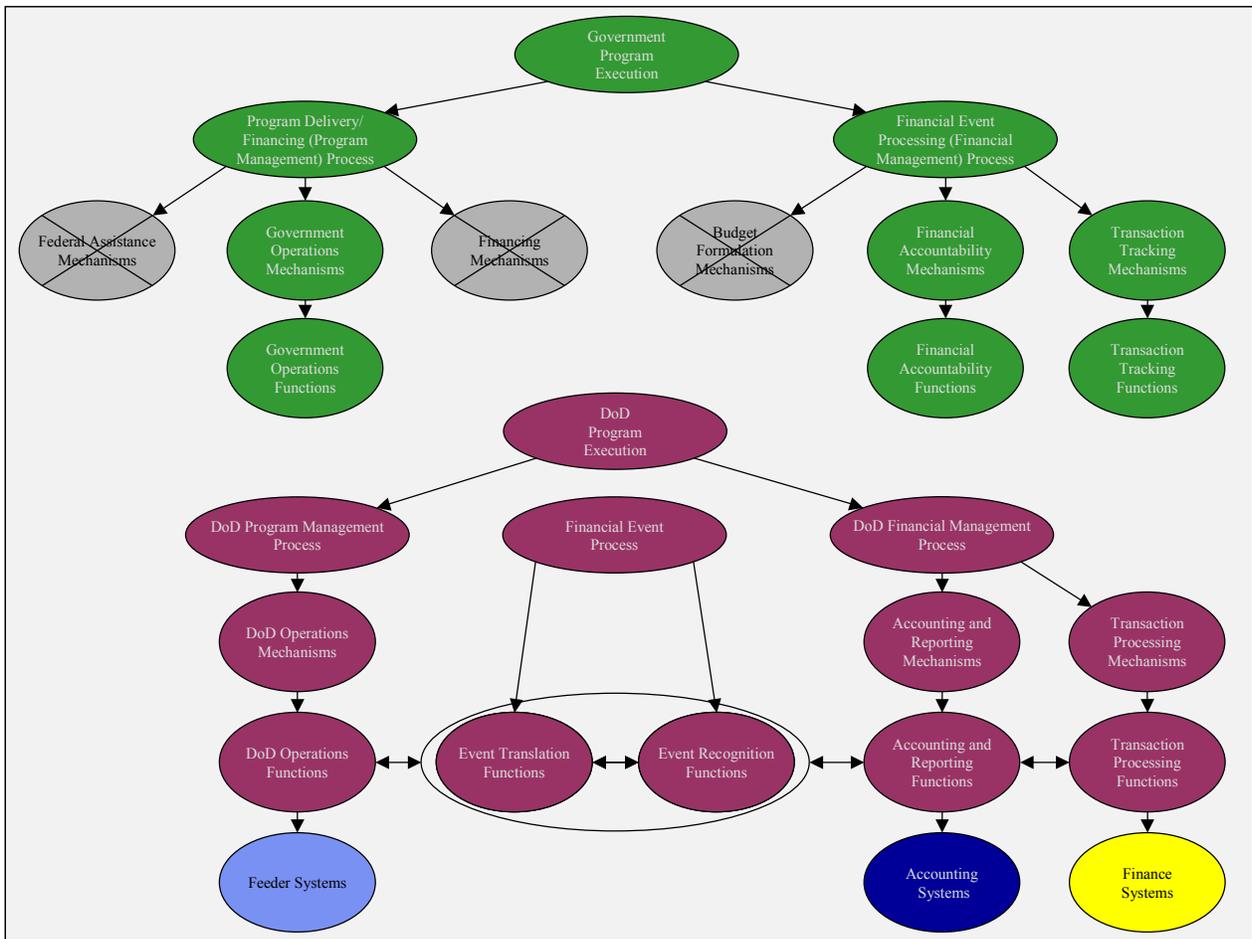
- Receivables/collections
- Payables/disbursements
- Payroll
- Travel
- Property accounting
- Inventory accounting.

## DoD Financial Management Systems Requirements

### Introduction

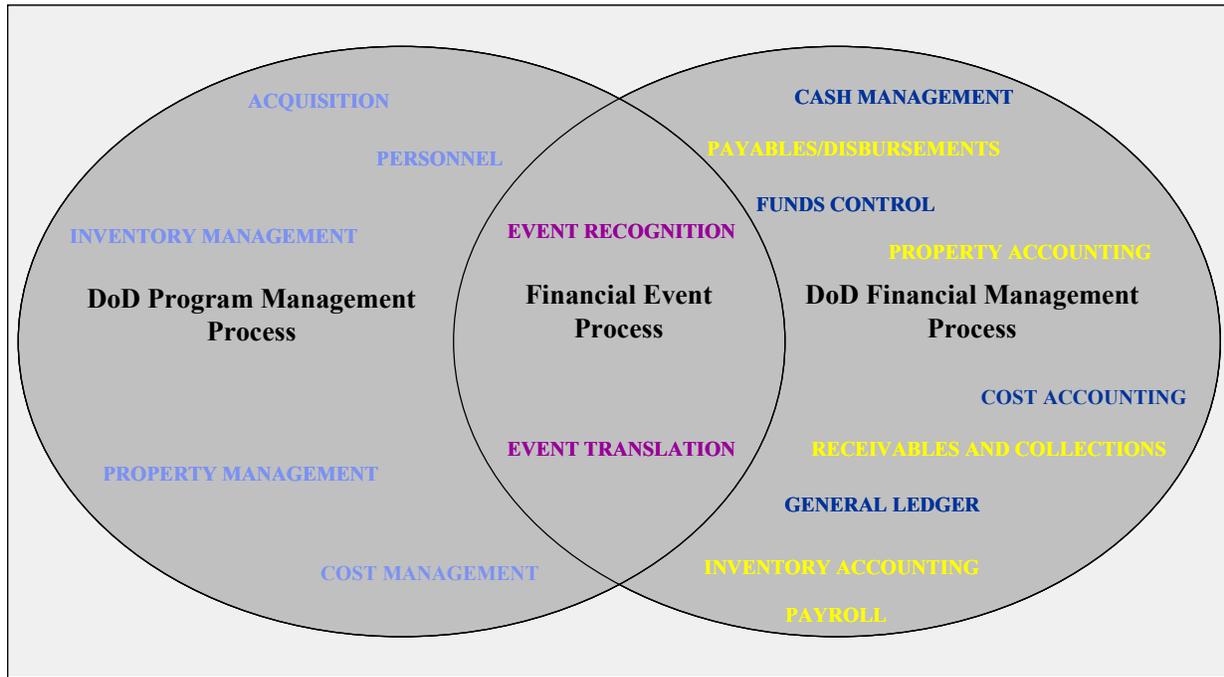
The DoD’s program management and financial management processes described in this Concept mirror the JFMIP processes of program delivery/financing (program management) and financial event processing (financial management). This Concept describes an additional process, the financial event process, to illustrate the importance of event translation and recognition within the DoD. The financial event process is the DoD’s link between its program management process and its financial management process.

The following figure depicts the general relationships of the DoD’s processes, mechanisms, and functions to the JFMIP processes, mechanisms, and functions.



**JFMIP/DoD Financial Management Relationship**

**DoD’s Interaction** The DoD Components (i.e., the Military Departments, Defense Agencies, and DoD Field Activities) are responsible for the majority of the DoD’s program management processes. One of the Defense Agencies, the Defense Finance and Accounting Service (DFAS), is responsible for the majority of the DoD’s financial management processes. All of the DoD Components are responsible for the financial event process. The figure below depicts the interaction of the DoD’s three processes.



**Interaction of the DoD’s Three Processes**

**DoD’s Program Management Process** The DoD’s program management process primarily is composed of its operations mechanism, which performs five basic functions. The DoD Components perform these functions anytime they acquire, allocate, transport, manage, use, or dispose of any resource. The financial effects of these functions are, for the most part, captured in the DoD Components systems and “fed” or input into finance and accounting systems.

**Operation Mechanism** The following are the five functions that generate financial management information for the DoD:

1. Acquisition. The acquisition function is performed to obtain the goods or services required to support DoD programs. Acquisition information is collected throughout all phases of contracting (i.e., selection of contracts, writing, administration, payment, reconciliation, and closeout). The financial impacts of acquisition events are translated into financial events such as recording obligations, expenditures, and payments.

2. Personnel. The personnel function processes time and attendance information and collects and maintains payroll and benefit information about employees' benefits, retirement contributions, and pension plans. The time and attendance systems also track the labor hours by project for working capital fund organizations. Labor hours apply to direct, indirect or general, and administrative cost codes used to develop rates for billing customers. Personnel events that occur must be translated into financial events necessary to perform the payroll function. Payroll and cost accounting cannot be accurately performed without the necessary feeder system data from personnel organizations.
  3. Cost Management. The cost management function provides relevant, internal cost measurements for operational managers and decision-makers to continuously improve operations. The cost management function tracks the cost of performing a certain program or service and reports the full cost of programs and activities. Cost functions are required for operating within the working capital funds environment for unit cost and fee for service support. In these cases, cost is integrated with the accounting system to provide the required management information and unit cost reports. General fund operations also use cost information to determine how efficiently and effectively programs are being administered. This information must be translated into financial information necessary to perform transaction-processing functions.
  4. Property Management. The property management function relates to the use and status of real and personal property (e.g., investment, land, computer equipment, and government-furnished equipment and material). As property is managed (i.e., purchased, maintained, destroyed, or transported), events occur for which financial data must be recorded.
  5. Inventory Management. The inventory management function tracks operating materials and supplies, inventories, and their location. As inventory is managed (i.e., received, stored, and distributed), events occur for which financial information must be recorded in order to effectively minimize and account for inventories.
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**DoD's  
Financial  
Management  
Process**

The DoD's financial management process is composed of the central processing mechanisms that perform the basic finance and accounting functions. These mechanisms are synonymous with the stewardship of dollars and traditionally are the mechanisms that a financial management support agency performs. The two mechanisms that comprise the DoD's financial management process are transaction processing and accounting and reporting.

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Transaction Processing	<p>Transaction processing mechanisms record the results of financial events in the DoD's financial systems. A "financial event" is any factual happening, both internal and external to the DoD, which has financial consequences for the DoD. Such events include payments to DoD personnel, retirees and annuitants, and contractors and vendors, as well as recording and tracking funds received by the DoD and managing property and inventory. Transaction processing produces data that must be recorded in various reports and which is often transferred between feeder systems and finance and accounting systems. Overall, the DoD fulfills five principle transaction processing functions:</p> <ol style="list-style-type: none"><li data-bbox="433 598 1433 703">1. <u>Receivables and Collections</u>. The receivables and collections function supports activities associated with the recognition of amounts owed to the DoD, billing, tracking, and collecting funds.</li><li data-bbox="433 745 1433 924">2. <u>Payables/Disbursements</u>. The payables/disbursements function includes all support activities used to establish an obligation of funds, create an accounts payable upon the receipt of goods and services, and disburse funds. This includes transactions for the payment of goods and services received, travel payments, and prepayments.</li><li data-bbox="433 966 1433 1176">3. <u>Payroll</u>. The payroll function supports civilian, military, and retired and annuitant pay. Payroll functions perform the entitlement determination and compensation activities for military and civilian employees. Time and attendance data resulting from personnel functions and systems that include information, such as address and tax changes, are supported by the DoD Components.</li><li data-bbox="433 1218 1433 1501">4. <u>Property Accounting</u>. The property accounting function records and controls the financial and accounting elements of capitalized property and controlled property. Detailed accounting data is maintained concerning fixed assets and other property maintained on an individual basis throughout the life of the asset or property. This function accounts for many types of assets including land, buildings, personal property, contractor held property, and equipment. Property management information is translated to property accounting information.</li><li data-bbox="433 1543 1433 1871">5. <u>Inventory Accounting</u>. The inventory accounting function records and controls the financial and accounting elements of inventories and operating materials and supplies. Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale, (3) to be consumed in the production of goods for sale or in the provision of services for a fee, or (4) in-transit. Feeder systems must be able to record inventory at historical cost or latest acquisition cost as required by policies set for managing inventory. Examples of inventory include operating materials and supplies, seized items, and stockpiled items.</li></ol>
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<b>Accounting and Reporting</b>	<p>Accounting and reporting mechanisms account for and report the availability and utilization of the DoD's resources. The accounting mechanisms record, categorize, and summarize data while the reporting mechanisms generate required financial reports, both internal and external to the DoD. The functions that comprise the DoD's accounting and reporting mechanisms involve, but are not limited to, Defense Working Capital Funds (DWCF), General Funds, Nonappropriated Funds, and Security Assistance. Accounting and reporting is done primarily by the DFAS using its accounting systems, and is dependent upon the input of information from various finance and feeder systems. The four accounting and reporting functions are:</p> <ol style="list-style-type: none"> <li>1. <u>General Ledger Accounting</u>. The general ledger accounting function provides the ability to track the effects of financial events by summarizing information into USGSGGL accounts from transaction-driven systems. It uses a standardized data format to read the data and post the results through the accounting systems. This function ensures that all events are recorded accurately and by consistent definitions. The results of all the DoD's financial events must be reported in trial balances and eventually in the DoD's financial statements.</li> <li>2. <u>Funds Control</u>. The funds control function records the results of budget execution in order to maintain and account for appropriations. It can provide reports on the status of funds to the appropriate level (e.g., the Air Force command level). It also produces budgetary reports.</li> <li>3. <u>Cash Management</u>. The cash management function tracks cash positions and produces the necessary reports for managing the Department's funds.</li> <li>4. <u>Cost Accounting</u>. The cost accounting function collects and records costs for management to develop customer billing rates, fees, and pricing structures. Cost accounting can produce managerial information for performance measurement to track, classify, and distribute type costs to cost centers or activity groups.</li> </ol>
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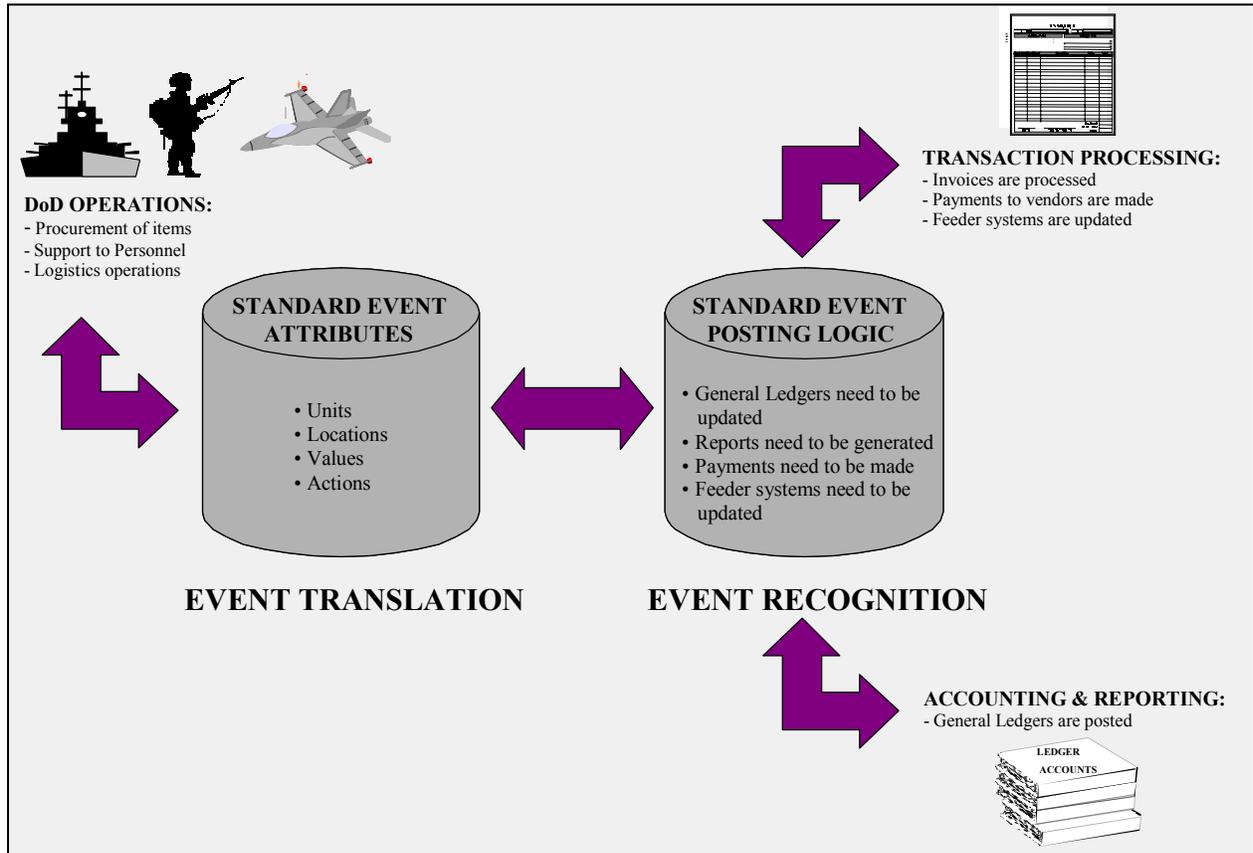
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**DoD's  
Financial  
Event Process**

The DoD delineated the financial event process to serve as the link between its program management process and its financial management process. This link is important, because it allows the DoD to identify, track, and reconcile data in its finance and accounting systems back to the DoD Component's feeder systems.

The financial event process consists of two interrelated functions, event translation and event recognition. The event translation mechanism is linked to the DoD operations functions through the translation of operational event data into standard event attributes. The event recognition function is linked

to the accounting and reporting functions and the transaction processing functions through the recognition of standard general ledger transactions into standard event posting logic. The execution of these two events occurs simultaneously within the financial event process environment. The following figure depicts the interrelationships of the DoD’s event translation and event recognition functions.



**Event Translation and Recognition Functions**

**Event Translation** The event translation function translates DoD operations event data such as (1) receiving repair parts, (2) storing repair parts at depots (3) determining the purchase price of repair parts, and (4) transferring ownership or stewardship of repair parts, into standard event attributes. These standard event attributes, which consist of data elements such as (1) number of units ordered, (2) location of a unit, (3) value of a unit, and (4) ownership of a unit, are captured and translated into an appropriate format that can be used by the DoD’s finance and accounting systems.

**Event Recognition** The event recognition function recognizes the standard event attributes of DoD operations events and creates general ledger transactions for those events that must be recorded in the DoD’s finance and accounting systems. The event recognition function uses standard event posting logic to (1) create standard fiscal codes which update the appropriate standard general ledger,

(2) generate reports if required, (3) generate payments if required, and  
(4) update feeder systems if required.

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<b>Responsibilities</b>	The overall responsibilities for each DoD Component supporting the DoD's program and financial management activities are listed below.
Feeder System Functions Responsibilities	<p>The effects of many of the DoD's financial management events are captured in the DoD Components' feeder systems. As a result, a majority of the DoD's financial information is derived from feeder systems. Therefore, it is imperative that the DoD maintains an accurate inventory of its feeder systems and that those systems are validated in accordance with the DoD Financial and Feeder Systems Compliance Process.</p> <p>The DoD Components responsibilities are to:</p> <ul style="list-style-type: none"> <li>• Work with the DFAS to identify all critical feeder systems and to ensure that those systems comply with applicable financial systems criteria</li> <li>• Maintain their respective feeder systems in accordance with applicable requirements, criteria, or standards</li> <li>• Fund any upgrades required to their respective feeder systems</li> <li>• Ensure that adequate processes and controls are in place to capture the financial effects of all DoD operations</li> <li>• Ensure the reliability of the financial data in the feeder systems and maintain appropriate audit trails</li> <li>• Transmit required financial data in the appropriate formats.</li> </ul> <p>The DFAS responsibilities are to:</p> <ul style="list-style-type: none"> <li>• Maintain the DoD's system compliance requirements for financial management systems</li> <li>• Convert feeder system transactional data to create proper general ledger posting.</li> </ul>
Event Translation Responsibilities	The DoD Components, as well as the DFAS, shall ensure that their systems translate the financial data associated with DoD operations into standard event attributes.
Event Recognition Responsibilities	The DoD Components, as well as the DFAS, shall ensure that their systems recognize standard event attributes as financial data that must be recorded in the DoD's finance and accounting systems.
Transaction Processing Responsibilities	The DFAS, as well as other DoD Components, has certain transaction processing responsibilities.

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The DoD Components shall work with the DFAS to reconcile problems resulting from transaction processing functions.

The DFAS responsibilities are to:

- Perform transaction processing functions
- Work with the DoD Components to reconcile corrections to out-of-balance situations.

Accounting and Reporting Responsibilities

Responsibilities for accounting and reporting mechanisms are assigned to organizations within the financial management community. Both the OUSD(C) and the DFAS have responsibilities.

The OUSD(C) responsibilities are to:

- Establish and oversee the execution of uniform departmental policies, principles, and procedures
- Interact with the DoDIG, the GAO, and the Congress on audits and reporting.

The DFAS responsibilities are to:

- Ensure that adequate processes and controls are in place to record the financial effects of all DoD operations
- Ensure that newly created general ledger accounting transactions are posted correctly
- Maintain audit trails from the general ledger back to the feeder system
- Test compliance requirements for financial management systems
- Maintain its finance and accounting systems in accordance with applicable requirements, criteria, or standards.

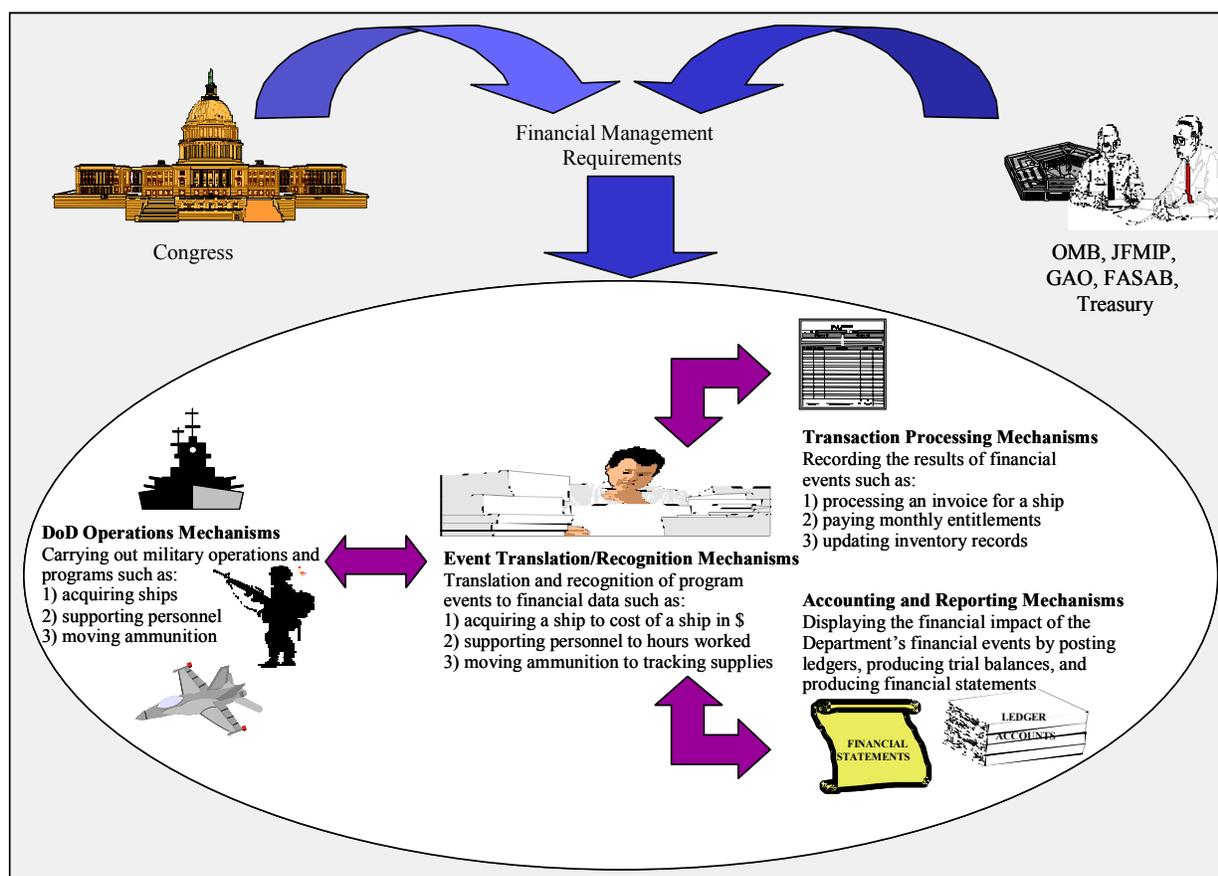
**Integrated Approach to Financial Management**

The processes, mechanisms, and functions that comprise the DoD's financial management Concept represent an integrated approach to financial management. This approach relies on operational commanders and program managers to recognize and translate financial events into standard transactions.

In order to adequately support this integrated approach, the DoD must achieve a state in which its feeder systems can reliably record the financial effects of events in accounting records. Verifiable audit trails also need to be maintained to support the veracity of recorded data and to support any reconciliation. For example, a logistics system should record and track the date and amount of materials furnished by a DoD activity to a contractor to conduct repairs on a ship. The contractor could use the materials to replace or

repair parts on the ship, return the materials to the DoD activity in their original state, or dispose of the materials. The outcome of the contractor’s use of the materials constitutes data that must be recorded in the DoD’s financial records.

The figure below describes the functions performed by the organizations within the federal financial management community. The Congress, the OMB, the Treasury Department, the FASAB, and the JFMIP are represented as providers and interpreters of regulatory requirements for financial management.



**Integrated Approach to Financial Management**

**Internal Controls**

Strong internal controls for the DoD’s financial management systems environment are necessary in order to process transactions and produce information that is accurate and reliable. All phases of the Concept incorporate internal controls to help ensure the proper recording, processing, and maintenance of finance, accounting, and feeder system information so that:

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- Laws and regulations are followed
  - Programs achieve intended results
  - Fraud, waste, and abuse are minimized
  - System data are maintained and accurately reported.
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## DoD Policy and Oversight Requirements

**Introduction** This section describes the financial management policy and oversight roles and relationships among the organizations within the DoD financial management community. The primary functions are:

- Financial management policy development
  - Systems oversight, compliance definition, financial improvements, and financial reporting
  - Promulgation and implementation of managerial internal controls.
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**Financial Management Policy Development** Financial management policy development includes developing regulations and guidance to ensure that the DoD's financial management processes, procedures, operations, and resources comply with federal requirements. This includes federal generally accepted accounting principles and federal financial standards and systems requirements. Within each successively lower organizational unit, these policies sometime may be augmented with guidance and procedures associated the units operational requirements.

**Policy Development Responsibilities** Responsibilities for policy development are assigned to organizations within the financial management community. The OUSD(C), the OUSD(AT&L), the OUSD(P&R), the Military Departments, the DFAS, and other DoD Components each has certain responsibilities. Collectively, these communities establish policies and procedures and shall:

- Ensure that the DoD's finance, accounting, and feeder systems and other information systems are designed, developed, maintained, and used effectively to provide reliable financial data for decision-making and financial reporting
- Ensure that financial and related feeder system information is reported on a reliable, consistent, and timely basis to the DoD's financial management systems
- Ensure that financial statements support (1) assessments and revisions of mission-related processes and administrative processes of the DoD and (2) performance measurements of investments made by the DoD in information systems.

The USD(C) is the DoD's CFO and the principal advisor and assistant to the Secretary and Deputy Secretary for budgetary and fiscal matters and shall issue regulations and promulgate other guidance relating to:

- Financial management laws enacted by the Congress
  - Regulations and other government-wide financial management principles
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established by the OMB, the Treasury Department, the GAO, and other entities concerned with financial management, such as the FASAB.

The OUSD(AT&L) and the OUSD(P&R) shall assess the impact of financial management laws, regulations, guidance, and policies on their applicable functional areas and provide guidance where cross-organizational implementation is appropriate.

The DoD Components may in some instances, augment, promulgate, and implement the details of financial management laws, regulations, guidance, and policies within their respective Components.

The DFAS responsibilities are to:

- Produce procedural guidance for financial management
- Propose changes to the DoD's Financial Management Regulation ("DoDFMR"), DoD 7000.14R.

**Systems Oversight, Compliance, Definition, Improvements, and Financial Reporting Function**

The systems oversight, compliance definition, improvements, and financial reporting function apply to all of the DoD's financial management systems. The function includes ensuring that the systems used to support financial management meet requirements for processing and recording financial information. All financial management systems must comply with governmental requirements from such federal entities as the OMB, the FASAB, the Treasury Department, and the JFMIP.

Responsibilities for systems oversight, compliance definition, improvements, and financial reporting are assigned to organizations within the financial management community. The OUSD(C), the OUSD(AT&L), the OUSD(P&R), the DFAS, and the other DoD Components each has responsibilities that must be performed for successful financial management.

The OUSD(C) responsibilities are to:

- Establish and supervise the execution of uniform departmental financial management policies, principles, and procedures
- Advise and assist the Secretary and Deputy Secretary of Defense on administration and organization of the contract audit functions within the DoD
- Oversee the design, development, and installation of finance and accounting improvement programs and systems throughout the DoD
- Promulgate guidance and policy regarding the education, training, and career development of comptroller and financial management personnel

- Convene and chair regular meetings of the DoD's Senior Financial Management Oversight Council to facilitate appropriate changes that further the DoD's Financial and Feeder Systems Compliance Process
- Develop, publish, and report progress on the DoD's Financial Management Improvement Plan.

The OUSD(AT&L) and the OUSD(P&R) responsibilities are to:

- Assess the impact of compliance requirements on the applicable functional areas and provide corrective action guidance where cross-organizational implementation is appropriate
- Select, implement, and report on financial management improvement initiatives within financial management systems and functions that apply to the Under Secretaries' cross-organizational functional areas (e.g., the procurement, logistics, and medical communities).

The DoD Components responsibilities are to:

- Assess and report on the compliance of their feeder systems
- Assess, deter, and report fraud within programs and functions and initiate appropriate legal actions, when necessary
- Select, implement, and report on financial management improvement initiatives related to the feeder systems
- Determine and report material weaknesses on internal controls within feeder systems and respond to audit findings by identifying corrections to deficiencies.

The DFAS responsibilities are to:

- Promulgate specific guidance on finance and accounting system requirements
  - Assess and report on the compliance of finance and accounting systems
  - Promulgate compliance definition, assessment, and corrective expertise to other DoD organizations
  - Track and report on applicable finance and accounting related audit findings for the DoD
  - Assess, deter, and report fraud within the finance and accounting systems and initiate appropriate legal actions, when necessary
  - Maintain the Defense Finance and Accounting Data Model
  - Select, implement, and report on financial management improvement initiatives within the finance and accounting systems
  - Determine and report material weaknesses that affect internal controls within financial management systems and respond to audit findings by identifying corrections to deficiencies.
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**Managerial  
Internal  
Controls**

Internal controls are vital to the accurate reporting and reliability of information on financial statements. Managerial internal controls provide an environment conducive to producing accurate information and are integrated into the operating infrastructure to ensure:

- Regulations are followed
- Programs achieve intended results
- Resources are properly utilized
- Fraud, waste, and abuse is minimized
- Program goals are consistent with the DoD's goals.

Management intends to use strategic planning, forecasting, and qualitative and quantitative methods to identify and assess the risk of financial management functions. The DoD's financial management community intends to monitor factors affecting internal controls, such as the development of new technology and performance measures, which may be used to link a program's objectives to actual results.

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## DoD Infrastructure Requirements

**DoD Infrastructure Requirements** The DoD's financial management infrastructure is composed of its financial and operational facilities (e.g., bases, centers, camps, etc.), the human resources which work within the financial management community, the financial management systems and technical applications which support financial management functions, and the internal controls which help detect and prevent fraud. The DoD's infrastructure, which helps operate and manage the DoD's financial management systems, consists of the following three separate, but interrelated parts:

1. Financial operations infrastructure
2. Technical information infrastructure
3. Internal controls.

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**Financial Operations Infrastructure** The DoD's financial operations infrastructure consists of the operating locations and human resources required to perform financial management activities in an effective and efficient manner.

**Operating Locations** The DoD's operating locations consists of DoD Component installations, including the DFAS Centers and operating locations.

The first level of operating locations is composed of the DoD's installations (i.e., bases, posts, camps, and stations). These installations manage resources by supporting operational commanders and program managers at all organizational levels in acquiring, managing, allocating, transporting, using, or disposing of DoD resources. The actual process of managing these resources results in financial events, which must be tracked in the DoD's financial and/or feeder systems.

The second level of operating locations includes the DFAS, which was created, among other purposes, to consolidate, standardize, and modernize, the DoD's finance and accounting systems. The creation of the DFAS has resulted in a reduction of the number of DoD finance and accounting offices, personnel, and systems. As the number of finance and accounting systems is reduced, the number of separate operating locations necessary to operate these systems is reduced.

While this Concept describes actions that already have reduced (and will continue to reduce) the number of operating locations, it does not attempt to define specific future operating locations or staffing levels. The process for determining the DoD's optimal number of operating locations and staffing levels is to regularly assess the employment of human and material resources through competitive sourcing and other methodologies. Each change should

be based on sound cost-benefit analyses and consolidation and staffing decisions and should result from business case assessments. While these business assessments could result in outsourcing selected services to other federal agencies or the private sector, the DFAS will continue to operate at multiple locations in a configuration that (1) best supports the DoD's mission, (2) is the most cost effective, (3) provides the best reliability, (4) ensures quality, and (5) maintains high standards of customer service.

**Human  
Resources**

The CFO Act requires that financial management personnel attain certain competencies. This provision is applicable to financial personnel at all levels, both military and civilian, and in any organizational component performing financial management functions.

The JFMIP has published guidance on competencies for financial management personnel. Competencies for financial management positions relate to the knowledge, skills, and abilities that accountants, budget analysts, and financial managers should possess at different stages of their careers. These competencies can be met through on-the-job training, formal training courses, and professional development activities.

The DFAS will have a program to ensure that its personnel meet key competencies and requirements based on the JFMIP competencies for financial management. The DoD Component financial management offices will have a comparable program for their financial personnel, military and civilian, tailored to meet their financial management roles and responsibilities. The objectives of the programs should be to address professional education, training, and career development, as well as ensuring that generic key competencies are developed and maintained throughout the DoD's financial community.

**Technical  
Information  
Infrastructure**

Technology is one of the major forces enabling the DoD to achieve desired cost and quality improvement targets in its financial management community and process. In addition to regulatory requirements for financial management, the DoD has developed an information infrastructure to support its information technology needs.

**Defense  
Information  
Infrastructure**

The Defense Information Infrastructure (DII) facilitates the transmission of mission critical information, including financial services, necessary to sustain operations. The DII serves as a framework for delivering seamless and secure information products and services to the DoD's users.

DII Common Operating Environment

The conceptual model for the migration and evolution of finance, accounting,

and feeder systems also includes the establishment of a DII Common Operation Environment (DII COE). The DII COE will serve as an integrated software infrastructure that offers interoperability, portability, and scalability and facilitates the migration and implementation of functional mission applications and integrated databases across information systems. The overall objective of the DII COE is to provide common integrated services that can be shared by the entire DoD. This will be accomplished by addressing the direct needs of each functional area, as well as end-user and systems requirements as they continue to evolve.

### Joint Technical Architecture (JTA)

The JTA establishes a set of standards that supports seamless operations among the DoD's information systems. The objective is to enable interoperability among information systems by leveraging technological advancements to improve resource sharing via transparency in data format and access. This approach shall facilitate (1) interoperability across DoD functional areas and command levels, (2) open standards-based systems, and (3) shorter technology insertion cycles by using modular packaging techniques to implement system components.

#### Technical Information Infrastructure Building Blocks

The DoD is developing a technical information infrastructure to harmonize its financial systems using an architecture template within the DII COE, which achieves concurrence with JTA requirements. The DoD's technical information infrastructure, which is described below, is based on the conceptual model of a system architecture, system applications, system interfaces, and standard data elements that support one another.

#### System Architecture

As part of its systems architecture, the DoD will establish a corporate database and corporate data warehouse. These will help the DoD to achieve its systems integration objectives and migratory strategy.

### The Corporate Database

The corporate database will help eliminate unmatched disbursements, negative unliquidated obligations, and problems and time delays associated with prevalidation. Data contained on source documents will be entered into feeder systems and accounting systems to conduct an internal funds validation (by comparing the data received from both the feeder system and the accounting system). Once this data has been prevalidated, the data can interface with a transaction processing system to make a payment and disbursement (if necessary). All disbursement data will be posted to the corporate database, which will share the information with all other finance and accounting systems, thereby eliminating many types of potential problem disbursements (e.g., intransits and intra-departmental cross disbursements).

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The corporate database will be a logically defined database that:

- Utilizes standard processes and data elements
- Supports financial reporting and financial management analysis
- Provides a global edit capability
- Offers a transaction-driven USGSGL
- Provides accurate cash accountability
- Increases internal controls
- Provides an end-to-end audit trail that spans the life of a transaction.

#### The Corporate Data Warehouse

The corporate data warehouse will receive its data primarily from the corporate database. It will be based on a comprehensive and consistent data model with data definitions and a physical database structure. Data in the warehouse will:

- Provide documentation for all changes to data
- Support data analyses
- Allow for comparisons between reporting periods
- Be optimized for queries and reporting.

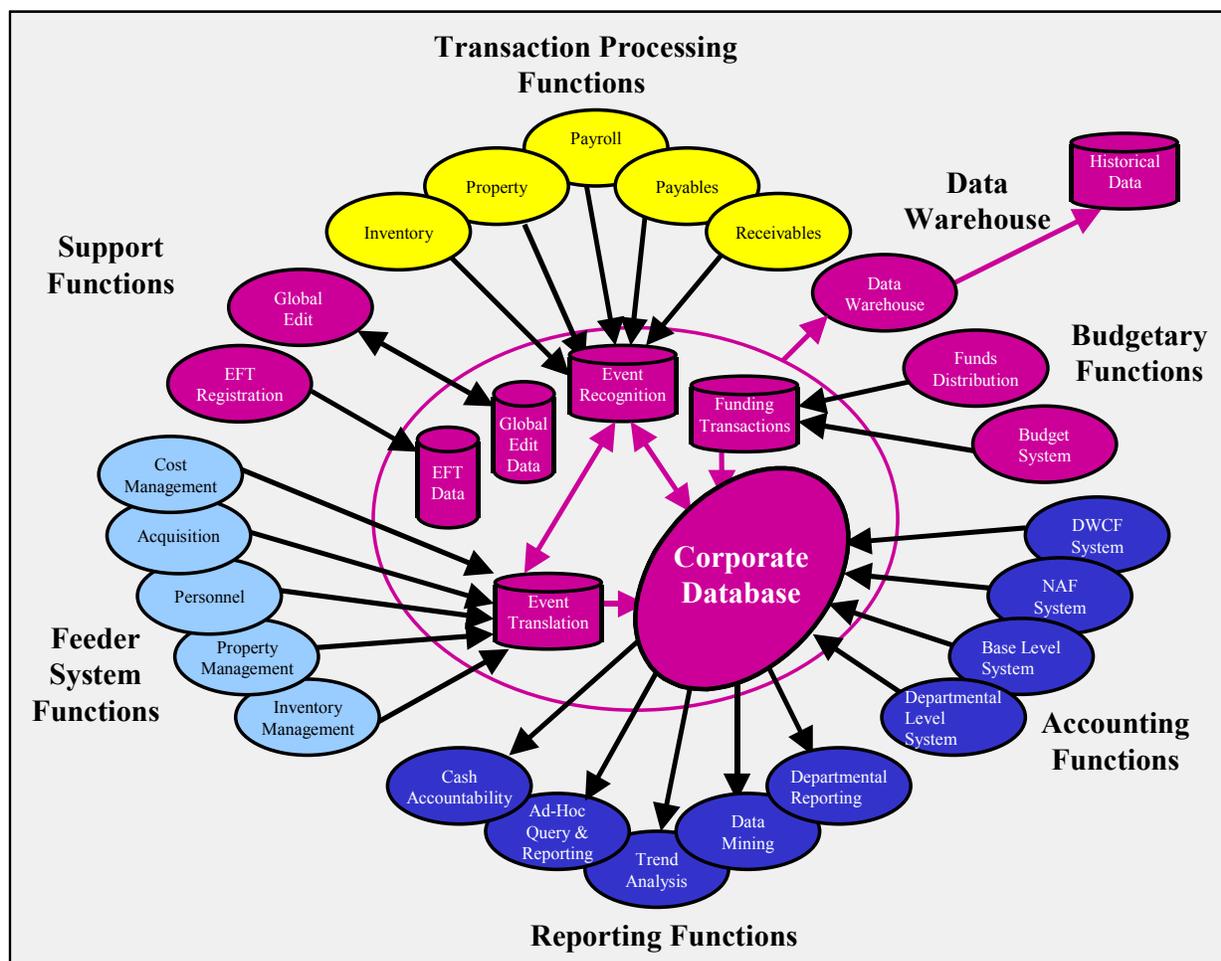
The figure on the following page depicts the DoD's corporate database and the corporate warehouse information flow.

#### System Applications

The focus of system applications covered by this document is financial event processing, transaction processing, and accounting and reporting functions.

The systems needed to support transaction-processing functions and accounting and reporting functions will be reduced to the minimal number per function needed to ensure effective and efficient financial management support. Each transaction processing function should be supported by a single DoD system. For example, payments to vendors, currently performed separately from contract pay, no longer will be customized for each user.

The payroll system will be interrelated with the necessary personnel and time and attendance systems. All interfacing personnel systems should be automated and integrated with the appropriate civilian or military pay system. Systems' capacity then will be sufficiently scalable to handle pay data changes without delay. The personnel or time and attendance systems will support all types of pay events (e.g., promotions and separations).



**DoD's Corporate Database and Corporate Warehouse Information Flow**

Property and inventory accounting systems will maintain detailed accounting information concerning fixed assets and other property on an individual asset/item basis throughout the life of each asset. The property and inventory accounting application will operate in an integrated system used to control all types of property, plant, and equipment, while allowing for daily actions, such as transfer of property, to be reported to general ledger accounts. This will reduce the amount of manual reconciliation and eliminate the necessity for updating unique systems.

Accounting and reporting systems will provide the overall control infrastructure. The DoD will operate with standard DoD-wide systems for general funds and working capital funds. This will not occur until consolidation to a standard software suite by the DoD. As a result, the number of specific DoD Component feeder systems, such as those reporting property management information, will be reduced. Defense departmental reporting will use one standard departmental reporting system. Reports for the Treasury Department will be produced using the USGSGL from this system. The production of CFO financial statements will be consolidated, as will the DoD's fiduciary responsibilities. Although the DFAS is responsible

for the majority of the DoD's finance and accounting systems in the target architecture, the DFAS is not responsible for the systems that produce much of the DoD's financial data and feed information to the DoD's finance and accounting systems. The DoD Components' feeder systems, which support acquisition, property, logistics, and personnel functions, originate and process a significant amount of financial data that ultimately is reported on the DoD financial statements. Valid data from those feeder systems are imperative for the production of reliable financial statements that are auditable to the source transaction.

## Systems Interfaces

Systems interfaces are the electronic medium for transferring data from one system to another. The DoD's interface strategy is to:

- Separate data from applications
- Migrate to standard transactions
- Redirect the flow of selected system interfaces through the corporate database
- Simultaneously convert the interface data using edit tables and standard data structures.

The systems interfaces will provide seamless, efficient, and transparent data exchange among applications using local and wide area computer networks. Examples of some of the interfaces that the DoD will utilize are electronic data interchange (EDI), electronic document management (EDM) and electronic data access (EDA).

Electronic data interchange is a standard method for accurate, reliable, and timely computer-to-computer exchange of all business transactions including financial information. The DoD will fully implement EDI technology into the vendor and contract pay systems and other finance and accounting business systems (e.g., garnishment and travel systems).

Building on the computer-to-computer exchange of business transaction concept, the DoD will expand the use of web-enabling applications that allow for the transmission of free form data on the Internet (e.g., the Web Invoicing System and Wide Area Work Flow).

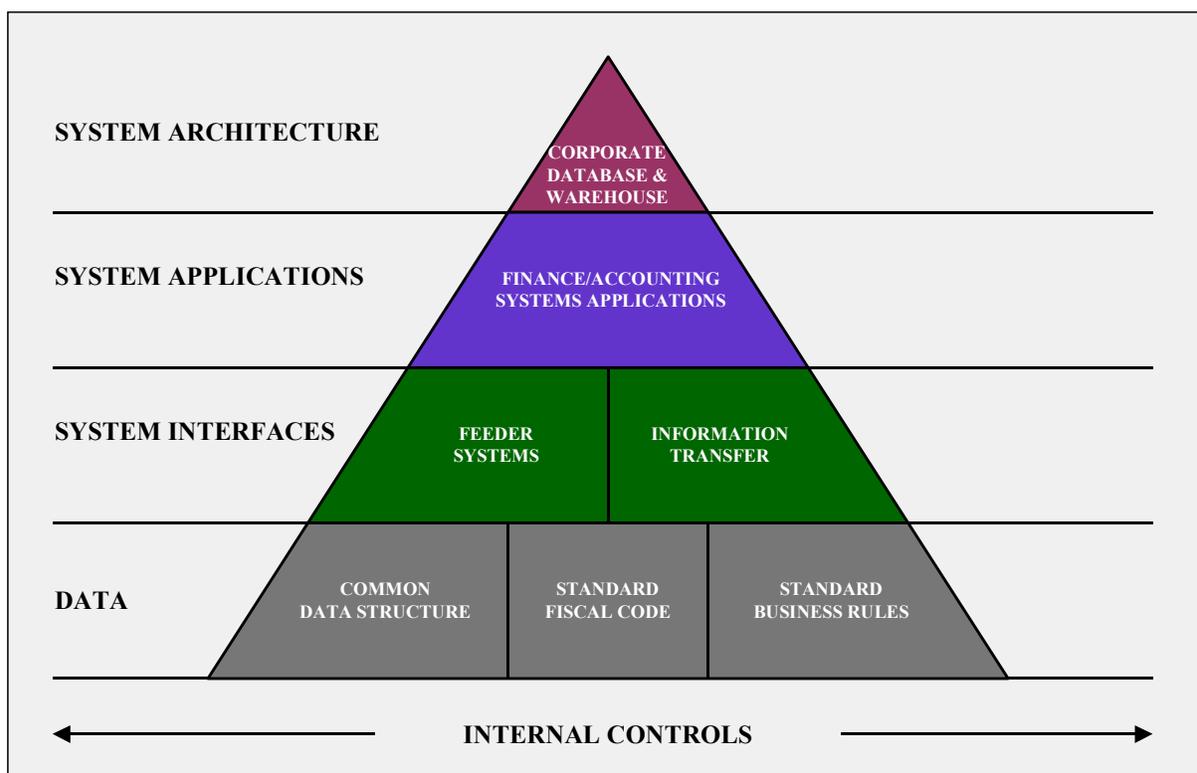
Both EDM and EDA access will enable DoD activities to receive and process documents electronically. These two applications, working together, will reduce the dependency on paper, especially for contract and vendor payments and garnishments. Also, both EDM and EDA can be expanded virtually to any document used in high volume and enables the electronic storage and retrieval of documents, thus reducing the need to print, mail, file, and manage paper. Designed to integrate with other electronic document initiatives, EDM/EDA will be a DoD-wide virtual file cabinet.

**Standard Data Elements** The standardization of financial and other data will be facilitated through the use of a DoD-wide data dictionary, which includes standard finance and accounting data elements. The DoD will achieve standardized financial data through the adoption of a common accounting classification data structure and standard general ledger account codes.

The structure, with its subordinate elements and codes, is the language used to capture, store, manage, and report financial information. The data structure will be the official common language for inter-relating programming, budgeting, accounting, and manpower. The common accounting classification data structure is expected to be implemented into financial management systems where business case analyses justify the investment.

General ledger account codes will be used to standardize transaction processing for the USGSGGL. The CFO Act requires such transaction control, and the DoD will work diligently to comply with that requirement. The DoD will standardize general ledger account codes so that manually cross-walking transactions between systems will no longer be necessary.

The following figure depicts the four building blocks of the DoD’s technical infrastructure.



**The DoD’s Technical Infrastructure Building Blocks**

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**Internal Controls**

New technological developments, training on new procedures, and such fraud detection and prevention processes as data mining, will be implemented to ensure the DoD's financial management activities are protected. The potential disruption of information systems and changes from manual to automated procedures will continue to be high risk factors that require adherence to sound internal controls.

As a minimum, the DoD's financial operations and technical information infrastructures must cover the following internal control requirements:

- Environmental access control
  - Physical access control
  - Information security
  - Communication security
  - Data modification.
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## DoD Integrated Financial Management System

### Introduction

In conformance with the United States Government's financial management systems policy, the DoD is moving toward an integrated financial management system in which its financial management functions will operate. As stipulated in the OMB Circular A-127, an integrated financial management system must provide complete, reliable, consistent, timely, and useful financial management information on operations that enable decision-makers to carry out their fiduciary responsibilities; deter fraud, waste, and abuse; and facilitate efficient and effective delivery of programs through relating financial consequences to program performance.

The DoD's integrated financial management system primarily will be comprised of critical finance and accounting systems, as well as, the critical feeder systems owned by the DoD Components.

These systems will comply with the following applicable accounting principles, standards, and related requirements:

- United States Government Standard General Ledger at the transaction level
- Federal accounting standards
- Federal systems requirements.

These systems also will conform with:

- Internal control standards
- Information resource management policy
- Operating policies and related requirements.

The target architecture of an integrated financial management system also includes policy and oversight requirements that promote efficient and effective financial management operations.

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### Definition

The four parts to the DoD's target architecture for an integrated financial management system are:

1. Critical Finance and Accounting Systems. These systems perform the DoD's (1) accounting and reporting and (2) transaction processing functions by recording the DoD's disbursements, collections, and the impact of all of the DoD's financial events.
2. Critical Feeder Systems. These systems perform the DoD's operations functions by capturing the acquisition, allocation, transportation,

management, use, or disposal of resources. The capturing of these events creates financial data that must be entered in the DoD's finance and accounting systems.

3. Policy and Oversight Initiatives. These initiatives include the financial management policy and oversight roles, as well as the relationships among organizations within the financial management community including:
    - Financial management policy development
    - Systems oversight, compliance definition, improvements, and financial reporting
    - Promulgation and implementation of managerial internal controls.
  4. Infrastructure Initiatives. These initiatives consist of the organizations, personnel, and internal control mechanisms required to operate and manage the DoD's financial management systems.
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