



Department of Defense Financial Management Functional Strategy for Fiscal Years 2020-2024

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Executive Summary

The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) is the principal organization tasked with reform to build a simplified, standardized, and data-driven target financial management (FM) environment. This reform aligns with the National Defense Strategy and supports leadership's drive for the Department of Defense (DoD) to become more productive, effective, and streamlined.

For the first time in history, the Department conducted a full financial statement audit in FY 2018, and now more recently, the subsequent audit in FY 2019. The financial statement audits resulted in findings from many different functional areas, and the remediation of these findings will be a significant part of the Department's FM improvement strategy and an accelerator for achieving a target environment that is data-driven, standards-based, technology-enabled, affordable, secure, and auditable.

Rooted in fiscal accountability and financial improvement, the DoD FM Functional Strategy FYs 2020-2024 will lead to strategic outcomes essential for meeting the Department's national security mission.

FM Strategic Outcomes:

- Stewardship and public trust of taxpayer funds through transparency
- Audit corrective action sustainability
- Strengthened mission capabilities
- Authoritative, accurate, and timely information for decision making
- Informed, trained, and productive workforce
- Affordable and secure Financial Management environment
- Robust internal control environment which will support and sustain an unqualified audit opinion

The following five goals are written to facilitate the strategic outcomes.

FM Functional Strategy Goals:

- GOAL 1 – Continue to enhance and implement financial policies and processes to improve, simplify, and standardize the FM business and systems environment.
- GOAL 2 – Develop and strengthen a well-trained financial workforce that has the knowledge skills, and abilities to support business reform and auditability in DoD.
- GOAL 3 – Develop a standardized planning, programing, budget and execution (PPBE) process that enables end-to-end (E2E) funds traceability, limits the use of feeder systems, and links data between planning, budgeting, and execution.



- GOAL 4 – Achieve a sustainable unmodified audit opinion by improving financial processes, controls, and information via audit remediation.
- GOAL 5 – Maximize the use, extent, and performance of the Department’s Defense Business System(s) (DBS) capabilities where practicable and economically feasible; minimizing the population of systems and resources required to satisfy the mission of the FM community, to include increased cooperation and coordination among business system owners to facilitate timely and effective transformation.

The approach to achieving the goals of the FM Functional Strategy complements the Department’s audit remediation strategy. Both strategies place the FM community at the focal point for not just policy and financial reporting, but also operational, performance, and risk management. To meet this demand, the FM community must consider expanding its “business partnering” opportunities within DoD and federal government, whereby the focus is upon improving strategic and operational decision-making reliant upon data and analytics. Business partnering is more so collaboration and potential leveraging of current and future capabilities that should align with one or more of the five stated goals. Twelve FM Enterprise Initiatives are underway to improve, standardize, and simplify existing processes and systems and establish a foundation for accurate, reliable, and timely data.

By working to implement the FM Enterprise Initiatives and achieve the FM Functional Strategy goals, the FM community will transform to a data-first culture and add significant strategic value to DoD decision-making. A “data first” culture places strong emphasis upon aggregation and cultivation of prioritized data and analytics needed by leadership and staff to manage the organizational business environment in achieving its defined goals and objectives. **Figure 1** shows the data-first approach. By better leveraging the power of data, FM leaders can help transform the organization’s ability to predict outcomes, plan, and respond appropriately. Not only will this radically enhance enterprise decision-making, it will significantly increase the FM function’s ability to contribute strategic value to the Department.

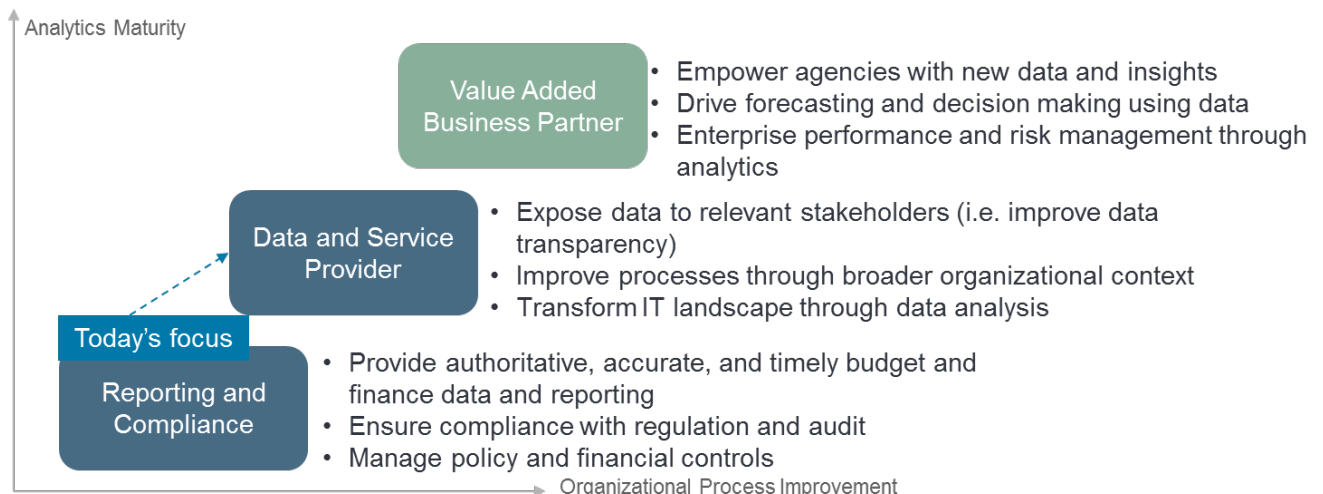




Figure 1 – FM Data-First Approach

The FM Functional Strategy, depicted in **Figure 2**, offers FM direction and guidance for the Principal Staff Assistants (PSAs), Military Departments (MILDEPs) and Other Defense Organizations (ODOs) as the Department builds for the future. It also provides a foundation on which to base FM investment decisions that support the FM strategic outcomes.

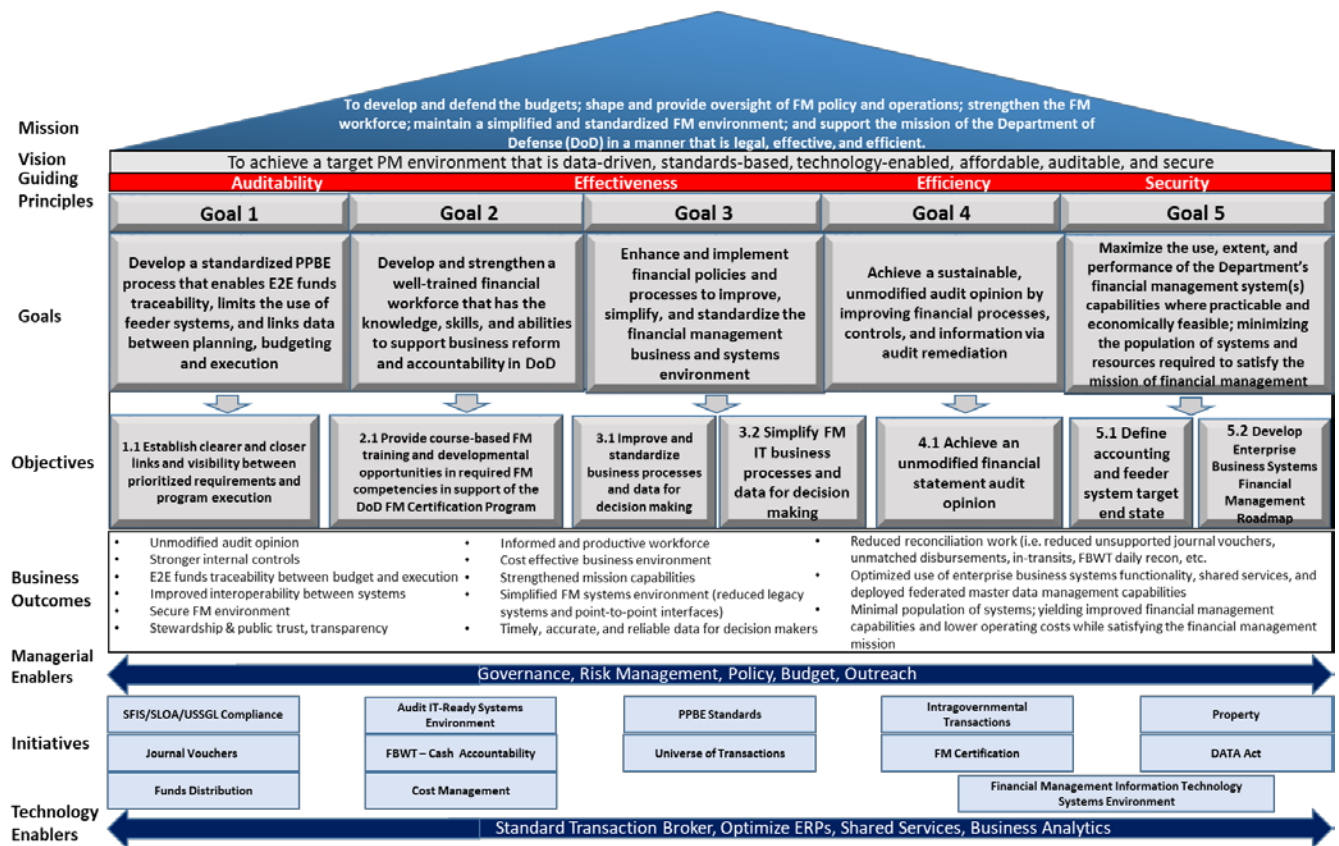


Figure 2 – FM Functional Strategy

PSAs, MILDEPs, and ODOs should use the FM Functional Strategy during planning and implementation to ensure:

- A shared vision of FM across the Department that is consistent with DoD’s vision, mission, and business goals.
- Alignment of FM initiatives with business and audit priorities.
- Dissemination of knowledge about FM-related critical issues and solutions.
- Compliance with DoD’s process and data requirements through strong governance and informed decision-making.
- Achievable FM milestones that incrementally advance the Department to achieve its target environment.



- Effective implementation of Corrective Action Plans (CAPs) aligned with the FM Functional Strategy that produce sustainable results.
- Reduction of FM legacy, antiquated systems unable to support audit requirements.
- Reduction of point-to-point interfaces to minimize complexity and risk.
- Integrates with respective PSA functional strategy initiatives.

Introduction

The Department of Defense provides combat- military forces needed to deter war and protect the security of the nation. To accomplish this mission, the National Defense Strategy defines three lines of effort. The FM Functional Strategy aligns with the first and third lines of effort. The first line of effort aims to restore readiness to defeat enemies and achieve sustainable outcomes that protect the American people and our vital interests. The third line of effort, to reform the Department’s business practices for greater performance and affordability, aims to remedy what the Defense Strategy describes as DoD’s “increasingly unresponsive” environment by transitioning to a “culture of performance where results and accountability matter.” It charges the DoD to:

- Deliver performance at the speed of relevance,
- Organize for innovation,
- Drive budget discipline and affordability to achieve solvency,
- Streamline rapid, iterative approaches from development to fielding, and
- Harness and protect the National Security Innovation Base.

The OUSD(C) is leading DoD’s workforce management transformation as well as the reform of FM operations into a more standardized and simplified target environment. The DoD FM Functional Strategy for FY 2020-2024 defines the goals, objectives, and related enterprise initiatives for achieving a data-driven, standards-based, technology-enabled, affordable, secure, and auditable systems environment.

The OUSD(C) also leads the annual full financial statement audits, which began in FY 2018. The audits—likely the largest audits ever undertaken—resulted in findings that DoD leaders are using to prioritize and focus remediation work. Audit remediation of systems and processes is foundational to DoD FM evolving from a transactional focus to a *value-adding, strategic focus*.

END STATE VISION:

Achieve a target FM environment that is data-driven, standards-based, technology-enabled, affordable, secure, and auditable.

FINANCIAL MANAGEMENT MISSION:

Develop and defend budgets; shape and provide oversight of FM policy and operations; strengthen the FM workforce; maintain a simplified and standardized FM environment; and support the mission of the DoD in a manner that is legal, effective, and efficient.



Figure 3 shows how the target approach to achieving the FM Functional Strategy complements the Department’s audit remediation strategy and incrementally builds on audit successes.

Build to the Future (FY 2024+)

- * Enable interoperability between systems
- * Manage via financial management, performance management, risk management, and cost management analytics
- * Standardize shared service environment
- * Strengthen the foundation of audit and internal controls best business practices

Strengthen the Surroundings (FY 2021-2023)

- * Fix critical feeder/reporting systems
- * Aggressively sunset legacy systems
- * Implement direct treasury disbursing, intra-governmental transactions, cash accountability, and procure-to-pay “handshakes” initiatives
- * Reduce point to point interfaces (via DoD Global data Exchange (GEX) or Application Program Interfaces (APIs)
- * Automate processes (e.g. robotics)
- * Implement big data and analytics technologies

Strengthen the Foundation (FY 2020)

- * Achieve compliance with USSGL/SLOA/SFIS standards
- * Finalize data strategy
- * Continue shift to annual audit culture and remediation (NFR and CAP tracking and resolution)

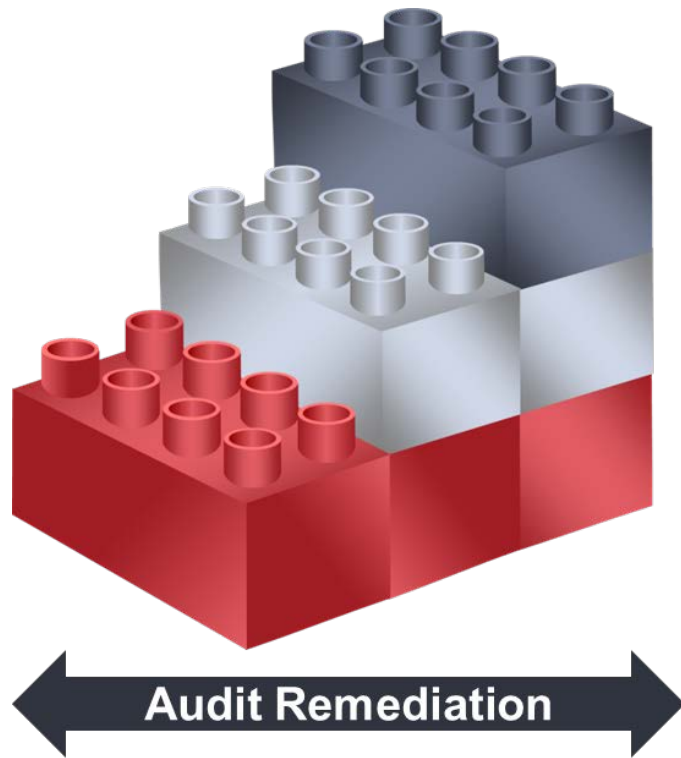


Figure 3 – Target Approach

The focus on remediating audit findings will accelerate FM reform by standardizing and improving information at all levels of data management and governance as shown in **Figure 4**. By better leveraging the power of data, FM leaders can help transform FM ability to predict outcomes, plan, and respond appropriately. Actionable data intelligence will radically enhance Department-wide decision-making and significantly increase FM’s contribution to the overall National Defense Strategy.

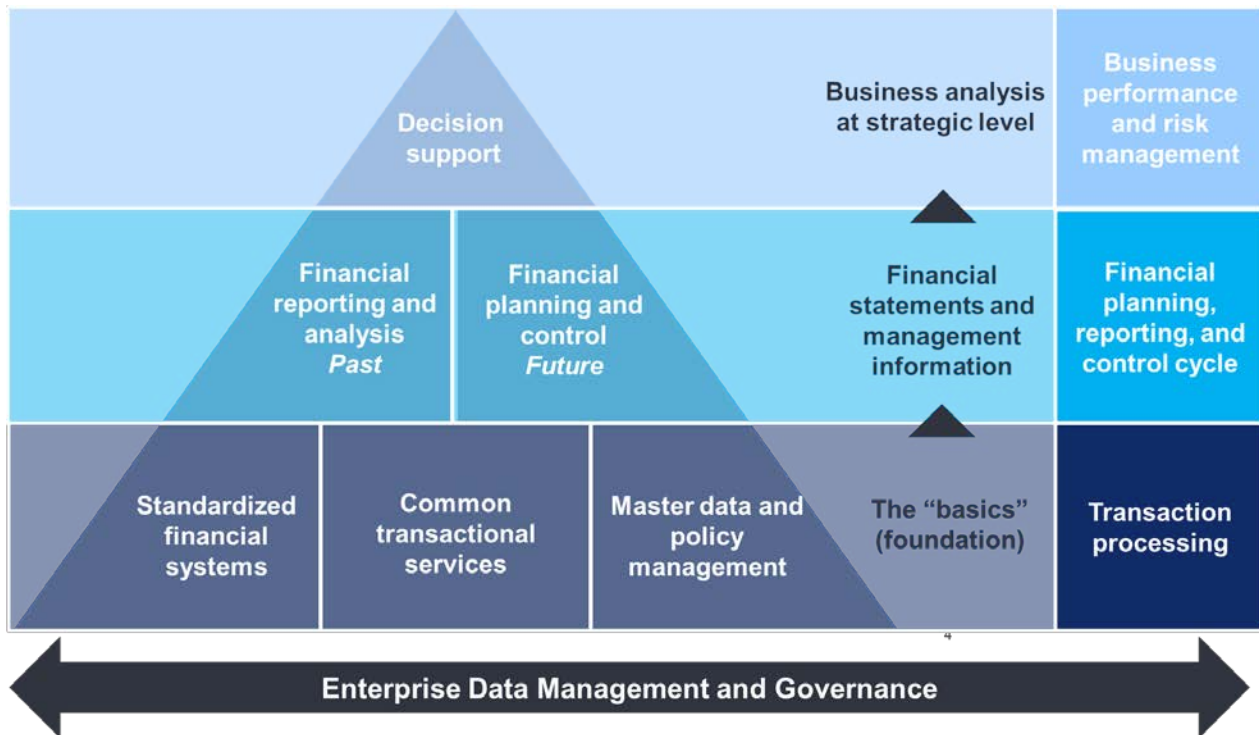


Figure 4 – FM Data-First Approach

The FM Functional Strategy was developed to meet the needs and requirements of multiple audiences including FM executives, analysts, and system program managers. The recommendations are based on rigorous analysis, including consultation with other federal agencies, benchmarking against leading commercial practices, and results of multiple pilot efforts currently underway in the DoD. The strategy addresses specific material weaknesses and critical issues that adversely affect the way the Department conducts business. It also provides direction and guidance to the MILDEPs and ODOs for portfolio-based investments, the DoD’s FM vision over the next five years, and a prioritized focus on remediating audit findings to achieve an unmodified audit opinion.

Section 1 of the FM Functional Strategy defines five high-level goals and expected business outcomes of achieving each goal. Supporting objectives add focus to each goal. Actions the Department must take to meet each objective and possible success indicators are also described. Related FM Enterprise Initiatives, such as improving cost management, are listed for each objective. Section 2 of this strategy presents a more detailed overview of each of the 12 FM Enterprise Initiatives. A list of terms and acronyms are included in Appendix A and B.



Section 1. Goals and Objectives

Today’s FM community faces myriad challenges from leveraging data and information to make critical investment decisions to making progress toward achieving an unmodified audit opinion. Issues such as non-standard processes and technology applications and interfaces, and difficulties in finding and retaining the right skill sets continue to slow progress in DoD achieving its FM target state.

The five FM Functional Strategy goals and corresponding objectives as shown in **Figure 5** provide a framework for how the financial community will achieve its data enabled target state.

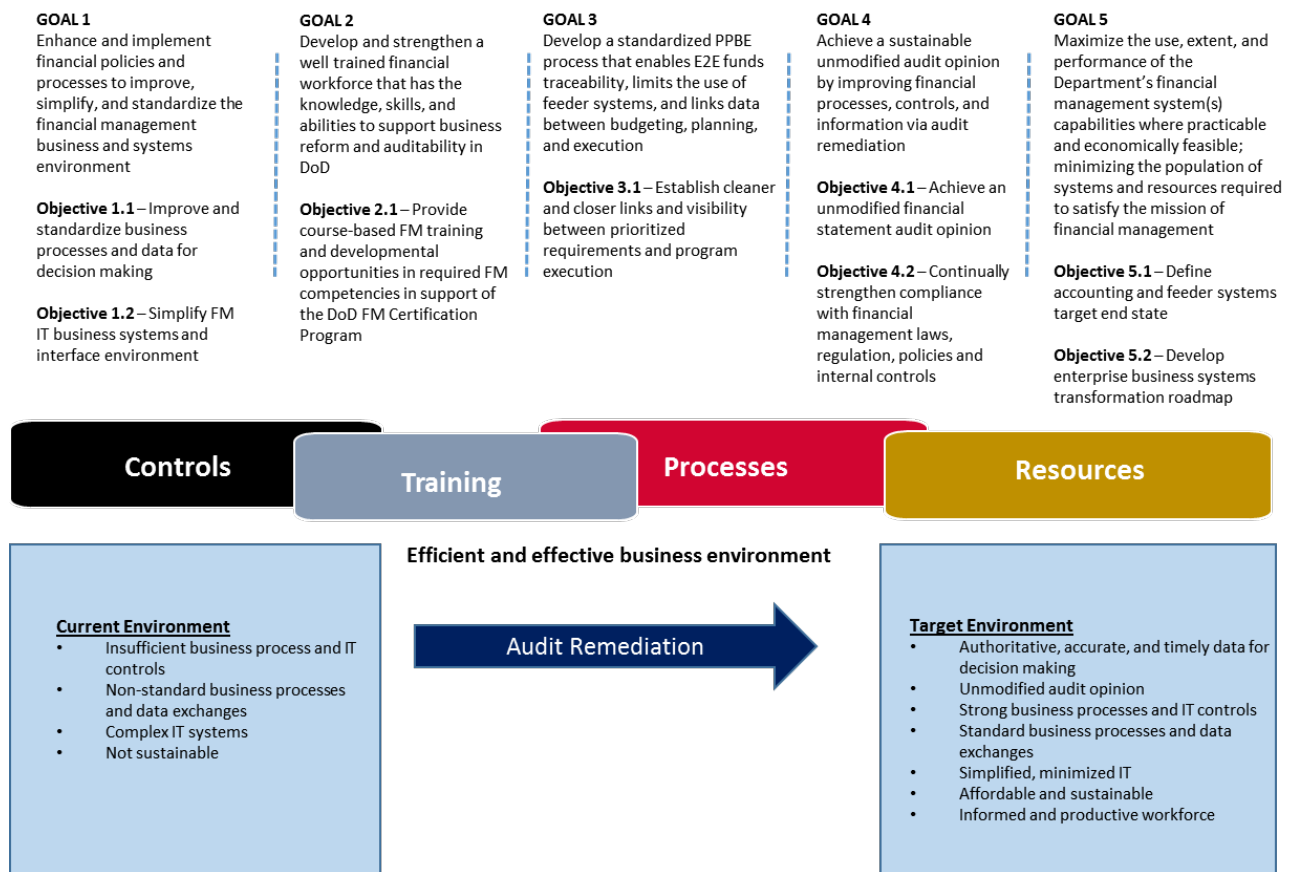


Figure 5 – FM Functional Strategy Goals and Objectives



GOAL 1 – Enhance and implement financial policies and processes to improve, simplify, and standardize the FM business and systems environment

Without continual improvement, achieving an unmodified audit opinion may not be efficient or sustainable. Objectives 1.1 and 1.2 support the achievement of a standardized and simplified FM business and systems environment. The first steps are to define and improve business processes to conform to financial policies, then define the data environment, and, finally, implement the technology. Advances in technologies such as process automation using robotics and big data, and analytics will give DoD leaders real-time access to strategic data and allow the workforce to focus more on analysis and less on transaction processing. Tone from the top must promote a strong internal control program as a top priority from senior management.

Expected Business Outcomes: reduced reconciliation work to identify, cultivate, and assemble data; supportable transactions; stronger internal controls; timely, accurate, and reliable financial data and cost tracking; improved interoperability between systems; E2E funds traceability between budget and expenditures; and cost effective business environment

Objective 1.1 – Improve and standardize business processes and data for decision making

The complexity and differences in business processes and data across the Department make it difficult for an auditor to understand DoD’s business and for a financial manager or program manager to implement or execute those processes efficiently and effectively. The Department must continue its drive toward a culture of continual improvement with a focus on standardizing and simplifying E2E processes.

The lack of fully implemented data standards makes it difficult for the Department to be interoperable and communicate effectively across the enterprise. The implementation and enforcement of data standards and business rules will improve the timeliness, accuracy, and reliability of financial data, allow for better decision making, and reduce costly reconciliation work.

To meet this objective, the Department must:

- Develop, implement, and enforce data standards (e.g., United States Standard General Ledger (USSGL), Standard Line of Accounting (SLOA), Standard Financial Information Structure (SFIS), Purchase Request Data Standard (PRDS), and Procurement Data Standard (PDS))
- Conduct standards assessment reviews on audit critical FM systems
- Focus on E2E process improvement and business process re-engineering
- Apply business best practices already implemented in the DoD



- Establish business performance metrics and action plans with focus on root cause resolution
- Eliminate non-value added process steps
- Focus on continual process improvement
- Leverage data analytics technologies
- Use data to make critical, strategic, and operational business decisions

Related FM Enterprise Initiatives: USSGL/SLOA/SFIS compliance, PPBE standards, funds distribution, Intragovernmental Transactions (IGT), ADVANA, Fund Balance with Treasury – Cash Accountability and Traceability (FBWT – CASH), and cost management

Possible Success Indicators:

- Percent of systems compliant with USSGL/SLOA/SFIS
- Percent of SFIS elements available without any data transformation or crosswalk
- Percent of accounting systems compliant with PDS and PRDS
- Percent of entitlement systems compliant with PDS
- Percent of transactions compliant with SLOA using the SLOA validation service
- Percent of key data exchanges using the SLOA validation service
- Percent of DoD organizations that have implemented the DoD cost management framework
- Percent of source system attributes that carry forward to accounting event
- Percent of appropriations that use Enterprise Funds Distribution (EFD) to track to the lowest level of distribution by budget allotment line item identifier

Objective 1.2 – Simplify FM IT business systems and interface environment

The number and variety of DoD business and financial systems as well as the level of effort and cost to achieve an unmodified audit opinion are significant. Systems material to audit include DBSs, custom-built legacy systems, financial systems, micro-applications, and non-financial feeder systems.

Systems also vary widely in technology and function. Financial systems include budget, accounting, and finance systems, as well as business feeder systems, such as personnel, logistics, and property systems where most financial transactions originate. Despite the progress made, there are still dependencies on point-to-point interfaces multi-tiered interfaces, super feeders that consolidate transactions, and legacy systems built prior to current data standards and laws, regulations, and policies, such as FFMIA, USSGL, SFIS, and the Treasury Financial Manual.

It is difficult to reconcile financial statements to the specific business events due to the lack of standard business processes; data exchange standards; use of non-accounting feeder system; and reliance on point-to-point interfaces. These legacy systems and point-to-point interfaces often lack controls as identified in DoD-wide recent and past DoD financial statement and systems



audit results. The complexity of DoD's business systems environment has made the audit challenging. Shared-common, standardized, brokered services streamlining data standards compliance are key alternatives for the Department to leverage to fullest extent possible in lieu of upgrading these applications to be compliant, which will be costly and time consuming.

Implementing standard business processes and data, big data and analytics technologies, automation via robotics, reducing the number of legacy systems and point-to-point interfaces, and utilizing existing compliant FM target systems will simplify the business environment.

To meet this objective, the Department must:

- Retire legacy systems, especially non-value added feeder systems that consolidate transactional data
- Maximize the use and functional footprint of DBSs, when appropriate, to reduce the number of systems, interfaces, handoffs, and customizations in order to leverage proven existing controls
- Establish and enforce data standards and exchanges
- Utilize the GEX as a Standard Transaction Broker (STB) or Application Programming Interfaces (APIs) to reduce point-to-point interfaces, improve interoperability between systems, and strengthen interface controls
- Leverage process automation (e.g. robotics)
- Implement big data and analytics technologies
- Move toward DoD (federal, when appropriate) shared service solutions with standardized systems, processes, and governance
- Leverage existing FM target system capabilities to consolidate systems with duplicative and similar capabilities

Related FM Enterprise Initiatives: FM IT systems environment; USSGL/SLOA/SFIS compliance; FBWT – CASH; PPBE standards; and IGT

Possible Success Indicators:

- Percent reduction of legacy FM business systems
- Percent of source business events entered directly into financial system
- Percent of USSGL, SLOA, and SFIS compliant systems
- Percent of accounting systems that have implemented PRDS/PDS
- Percent of entitlements systems that have implemented PDS
- Percent of accounting transactions that carry trading partner information
- Percent of duplicate master data for suppliers
- Percent of duplicate master data for customers
- Percent of interface exceptions based on historical reconciliations



- Percent of transactions entered by automated means via business event
- Evidence and proof of interface controls and audit reports
- Number of labor hours saved via automation

GOAL 2 – Develop and strengthen a well-trained financial workforce that has the knowledge, skills, and abilities to support business reform and auditability in DoD.¹

People are an organization’s most important asset, and there must be a concerted effort to retain and attract talented leaders and analysts to the DoD FM community.

Expected Business Outcomes: requisite knowledge, skills, and abilities to perform effectively in all FM career series; closure of identified competency gaps; improved analytic capability across the workforce; and improved audit and remediation capabilities.

The DoD Financial Management (FM) Workforce

The DoD FM workforce is comprised of approximately 54K civilian and military personnel of various FM disciplines. The FM workforce is broadly defined as DoD military and civilian personnel who perform FM work and are assigned to FM positions. Personnel in FM positions include military and civilians who perform, supervise, or manage work of a fiscal, financial management, accounting, auditing, cost or budgetary nature, or work that requires the performance of FM-related work. The Under Secretary of Defense (Comptroller) (USD(C)) is responsible for the professional development of the FM workforce. The Financial Management Office of the Secretary of Defense Functional Community Manager (OFCM) serves as principal advisor to the USD(C) on workforce development matters and is assisted by the FM Component Functional Community Managers (CFCM).

The Department has many FM workforce initiatives to further develop and sustain a well-trained FM workforce that has the requisite FM knowledge, skills, and abilities to effectively meet the Department’s FM workforce strategic objectives, which are captured in the FY 2019-2023 DoD FM Strategic Workforce Plan (SWP). The FM workforce provides critical enabling support to the Department’s FY 2018 National Defense Strategy (NDS) line of effort one (Rebuild military readiness as we build a more lethal Joint Force), and line of effort three (Reform the Department’s business practices for greater performance and affordability). The FY 2019-2023 FM SWP is aligned to both lines of effort. The FM workforce supports line of effort one of the NDS through strategies and initiatives in the OUSD (P&R) Human Capital Operating Plan. Additionally, the FM workforce supports the Department’s strategic objective 3.3 (Improve the quality of the budgetary and financial information that is most valuable in managing the DoD).

¹ Department of Defense Financial Management Workforce Strategic Workforce Plan FY 2019-2023



Key initiatives in the FM workforce portfolio align with the guidance in the President's Management Agenda (PMA) and the DoD Agency Reform Plan.

The FM workforce strategic initiatives include the FY 2019-2023 DoD FM SWP, an FM competency gap assessment, a DoD FM Workforce Dashboard, a Department-wide FM focused developmental assignment program, and the DoD FM Certification Program (DFMCP). These initiatives are all designed to build and maintain the technical and leadership competence of individual FM members.

- The FY 2019-2023 DoD FM SWP is a four-year, forward focused document that sets forth the goals and objectives that will enable the FM Community to recruit, train, develop, and retain a strong, agile, and responsive FM workforce ready to meet future Department requirements. The FM SWP was developed collaboratively with FM and human capital subject matter experts from across the DoD FM Community.
- OUSD (P&R), in collaboration with the DoD FM Community, conducted a comprehensive competency gap assessment of the DoD FM competencies via the Defense Competency Assessment Tool. The DoD community, in coordination with FM subject matter experts, also conducted a revalidation of the DoD FM competencies. All FM competencies were revalidated. Workforce competency gap assessments are essential elements in workforce planning, and DoD FM competencies are the foundation of the FM workforce portfolio. Results from the competency gap assessment indicated no significant competency gaps in the FM workforce and will be used to inform future workforce improvement strategies for FM personnel.
- The DoD FM workforce dashboard is a comprehensive visualization and analytical tool that incorporates Department-wide FM workforce data (workforce demographics, DFMCP, Federal Employee Viewpoint Survey results, Department-wide FM training/course data, FM direct hire, and competency assessment data) from various sources, and provides OUSD(C) and the Components with a decision making tool that was not previously available. The FM workforce dashboard provides FM leaders with automated, accessible and reliable data in a very short period of time.
- FM STARS, a developmental assignment program is designed to foster a Strong, Trained, Agile and Ready (STAR) workforce. The purpose of the program is to provide opportunities for members of the DoD FM civilian workforce to advance their breadth of knowledge and experience through three to six month developmental assignments in other DoD Components. A pilot was conducted in the 4th quarter of FY 2018 and approval to proceed to a formal program was granted in FY 2019. FM STARS is also an FM workforce retention tool.
- The DoD FM Community published its first year-in-review, the DoD FM FY 2019 Year-in-Review, which highlights the accomplishments of the FM Functional Community relative to functions of the financial management community.



The goal of the FM workforce portfolio is to improve DoD financial management capabilities through training and development that is focused on DoD FM competencies, to include decision support and analysis competencies.

The DoD FM Community published its first year-in-review, the DoD FM FY 2019 Year-in-Review, which highlights the accomplishments of the FM Functional Community relative to

Objective 2.1 – Provide course-based FM training and developmental opportunities in required FM competencies in support of the DoD FM Certification Program.

The Department has integrated multiple FM development efforts across the DoD into a mandatory cohesive program that educates, trains, and certifies FM personnel (civilian and military). The foundational framework consists of 24 enterprise-wide FM competencies, with associated proficiency levels, and selected leadership competencies. A landmark initiative for the DoD FM community, the program ensures that the FM workforce has course-based training in the requisite FM and leadership competencies to prepare them to perform FM functions now and in the future. This course-based program, known as the DoD FM Certification Program (DFMCP), began as a pilot in 2013 and is now fully implemented and at steady state.

The DFMCP continues to be the mechanism to ensure that the FM workforce receives required FM and leadership focused training and development.

Ensuring the FM community has a broad, enterprise-wide perspective, and standard body of knowledge throughout the Department is important to overall FM workforce readiness. The Department is working to execute its mission with fewer resources. Budgetary uncertainties compound the Department's fiscal challenges and have the potential to negatively affect mission readiness. To respond to these challenges, the DoD emphasizes a more disciplined use of resources and strong FM. The Department must make future choices based on timely, accurate, and reliable data and is focused on preparing for the future by rebalancing defense efforts in a period of increasing fiscal constraint. This focus, coupled with ongoing audit remediation and process and data standardization efforts, informs key FM initiatives that seek to address challenges and strengthen the FM workforce to produce better information for decision-making.

The DoD FM Certification Program:

- Guides FM professional development
- Provides a workforce with the right skill sets
- Establishes a mechanism to encourage key training in:
 - DoD audit and remediation
 - Decision support and analysis,
- Encourages career broadening and leadership
- Transitions the workforce to a more analytical orientation



To meet this objective, the Department must:

- Ensure the workforce has the continued opportunity to achieve the required certification at the appropriate level
- Ensure adequate training sources are available
- Recruit and retain talented individuals for the FM workforce

Related FM Enterprise Initiatives: FM certification

Possible Success Indicators:

- Percent of FM Workforce Members in Good Standing. This metric represents the percentage of FM members who are compliant in both initial certification and continuing education training.
- Percent of FM civilian workforce retained

GOAL 3 – Develop a standardized PPBE process that enables E2E funds traceability and data linkage between planning, budgeting, and execution

The DoD PPBE process determines which programs are funded to meet defense strategy requirements. The DoD uses the PPBE process to prioritize and allocate resources in alignment with carrying out the Department’s national security objectives. The FM community contributes to the PPBE process by translating the Department’s priorities into fiscal requirement by way of budget formulation and justification, on through apportionment and allocation, and obligation and execution of monetary resources.

The Department cannot meet national defense objectives without adequate resources. The status of resources, or lack thereof, directly impacts force development, mission capabilities, and capacity. The FM community must plan, program, budget and execute prudent and justifiable budgets that achieve U.S. national defense objectives. This goal ensures that the FM community ensures adequate resources are available and funding requests do not exceed the minimum amounts required to meet defense objectives within reasonable risk. The limited resources entrusted to the FM community from the American taxpayer demands innovative budgetary and financial stewardship.

Expected Business Outcomes: timely, accurate, and reliable financial data for decision makers; supportable transactions; E2E funds traceability between budget and expenditures; and cost effective business environment



Objective 3.1 – Establish clearer and closer links between prioritized requirements and program execution

To ensure confidence in the institution’s budgeting system, the Department’s enterprise-wide PPBE process will yield more transparency by linking expenditure, revenue, and related metrics. This will facilitate execution reviews of past decisions and actions. Recommendations from these reviews will be linked to decisions on future resource allocations.

To optimize funding, the DoD needs to develop clearer and closer ties between prioritized requirements and mission execution. Clear traceability between the budget and execution will provide critical insight to DoD decision makers when formulating budget requests. Timely, accurate, and reliable budget and execution data is critical in making resource decisions.

The Department continues its effort toward a standard PPBE process with the implementation of modern budget formulation systems, EFD, further exploration of the budget capabilities within DBSs, cost management, and improved E2E procure-to-pay and budget-to-report capabilities to provide enterprise-wide PPBE visibility.

To meet this objective, the Department must:

- Develop, implement, and enforce data standards (e.g., USSGL/SLOA/SFIS, PRDS, PDS)
- Develop and implement a standard PPBE enterprise-wide process and system; these include funds distribution, budget planning and submission, cost management framework, and E2E procure-to-pay capabilities/standards

Related FM Enterprise Initiatives: USSGL/SLOA/SFIS compliance, PPBE standards, funds distribution (e.g., EFD), cost management

Possible Success Indicators:

- Percent of systems compliant with USSGL/SLOA/SFIS
- Percent of appropriations that use EFD to track to the lowest level of distribution by budget allotment line item identifier
- Percent of transactions that carry budgetary elements on all transactions without transformation or crosswalk
- Percent of budget executed at component versus sub-allotted
- Run rate of budget execution across life of appropriation
- Percent of quarterly review variances that are not supported by normal business events



GOAL 4 – Achieve a sustainable unmodified audit opinion by improving financial processes, controls, and information via audit remediation

FY 2019 was the second year of a department-wide, full-financial statements audit that included the MILDEPs and ODOs. More than 24 stand-alone audits were completed, including of the intelligence organizations, in addition to a consolidated audit of the Fourth Estate. DoD Inspector General or external auditors issued 3,244 notices of findings and recommendations (NFRs), including 1,767 NFRs that were repeated or reissued from FY 2018. During FY 2019, the Department closed over 20 percent of the FY 2018 NFRs. The new, modified, or reissued NFRs arose from continued or increased testing (in some cases, breadth and depth of testing increased, while in others a shift from judgmental to statistical sampling occurred). NFRs were also reissued or modified when CAPs were implemented too late for testing during the FY 2019 audit.

The Secretary of Defense provided strategic audit guidance for the FY 2019 audit to help prioritize the NFRs and corresponding CAPs and address underlying causes of the disclaimers of opinions issued for stand-alone audits and the consolidated audit. The FY 2019 audit priorities include the four areas identified in FY 2018 Real Property, IT (Access Controls), Inventory and Operating Materials & Supplies (OM&S), and Government Property in the Possession of Contractors. The FY 2020 priorities added FBwT, Financial Reporting Internal Controls, the Joint Strike Fighter Program, and Audit Opinion Progression. These areas were selected for increased attention by the Services, ODOs, and at the consolidated level. As a result, leadership across the Department involved with these eight areas are working to develop and implement solutions with a focus on downgrading or removing material weaknesses.

To develop objectives and strategies for fiscal years 2020 through 2024, the Department assessed the first two years of audit; the material weaknesses identified by the DoD IG, external auditors and OUSD(C); and their root causes of the identified material weaknesses; and the steps required across the enterprise to receive unqualified audit opinions by the Services and Components. The Department is working toward an efficient, sustainable, and auditable business environment that demonstrates good stewardship of taxpayer funds. Corrective actions that provide the most value to the warfighter are the priority. For more information regarding the Department's audit strategy, please refer to the DoD Consolidated Audit Strategy².

Expected Business Outcomes: auditable business environment; timely, accurate, and reliable property, inventory, and financial data for decision makers; supportable transactions (eliminations); reduced reconciliation work (daily FBWT reconciliation, JVs, open obligations, etc.); improved interoperability between systems; stronger internal

² <http://comptroller.defense.gov/FIAR.aspx>



controls; strengthened mission capabilities; enhanced stewardship and public trust; and unmodified audit opinions.

Objective 4.1 – Achieve an unmodified financial statement audit opinion

The Department is marching toward achieving an unmodified full financial statement audit opinion. The OUSD(C), MILDEPs and ODOs are prioritizing initiatives and resources as part of audit remediation. The Department’s objective is to receive an unmodified audit opinion and institute sound FM practices to safeguard taxpayer dollars and improve analytical capabilities.

To meet this objective, the Department must:

- Accurately account for all Real Property (buildings and structures) and Inventory as well as Government-property in the possession of contractors and the Joint Strike Fighter Program.
- Develop and reconcile a universe of transactions including sensitive activities
- Execute successful reconciliation of FBWT
- Support unsupported JVs as well as work toward eliminating system and manual JVs that could be supported by transactional detail
- Comply with the USSGL, SLOA, and SFIS³ to align with federal data standards and controls to improve support of open obligations; existence, completeness, and rights and obligation of assets; valuation of assets; and environmental and disposal liabilities
- Follow Generally Accepted Accounting Principles (GAAP)
- Implement U.S. Treasury’s IGT solution, G-Invoicing, to support eliminations
- Provide a capable and sustainable audit infrastructure
- Resolve material weaknesses and ensure effective implementation of CAPs
- Provide standard E2E business process documentation

Related FM Enterprise Initiatives: FM IT systems environment, FBWT – CASH, ADVANA, property, JVs, sensitive activities guidance, and IGT

Possible Success Indicators that will increase the number of DoD organizations with unmodified audit opinions:

- Percent of transactions are reconciled to general ledger systems
- Percent of transactions are reconciled from feeder source systems to the general ledger
- Percent of Component Trial Balances reconciled to Principal Financial Statements
- Decrease in percent of abnormal balances
- Increase in percent of dollars reconciled to Treasury (Statement of Differences and Cash Management Report)

³ <http://dcmo.defense.gov/Products-and-Services/Standard-Financial-Information-Structure/>



- Decrease in percent of overaged undistributed transactions (in-transit and unmatched)
- Decrease in overaged transactions in suspense accounts
- Validation of deposit fund activity
- Improved distribution of aged payables
- Improved distribution of aged receivables
- Decrease in aging of unfilled customer order balances
- Decrease in aging of unliquidated obligation balances
- Decrease in percent of negative accounts payable
- Decrease in percent of unsupported JVs
- Increase in percent of journal voucher root cause analysis, followed by corrective actions (i.e. correcting the posting logic)
- Increase in percent of supportable financial statement lines by compliant business process versus journal adjustment
- Mission critical assets existence and completeness baseline for general equipment, real property, internal use software, and inventory and operating material and supplies
- Reduction in dollar amount and percent of adjustments after physical inventory counts
- Increase in dollar amount and percent of inventory reconciled between DLA and the Services
- Increase in percent of total dollar amount of supported eliminations

Objective 4.2 – Continually strengthen compliance with financial management laws, regulations, policies, and internal controls

The Department is committed to responsible stewardship of its resources and continues to focus efforts on strengthening processes to comply with FM laws, regulations, policies, and internal controls. Senior leadership’s posture, also referred to as ‘tone at the top,’ toward internal controls sets the tone throughout an organization and establishes a culture of awareness as to how leadership views its mission and objectives. When senior leadership demonstrates that strong internal controls are critical to the entity’s function and operation, this attitude permeates throughout the organization. MILDEPs and ODOs must implement and maintain strong internal controls. The following areas are critical and require management attention and accountability:

- Governance
- Policy and procedures
- Training
- Fraud risk assessment and prevention



- IT general controls (e.g., SSAE No. 18⁴ and Federal Information System Controls Audit Manual (FISCAM))⁵
- NFR tracking
- Office of Management and Budget (OMB) Circular No. A-123⁶
- OMB Circular A-136
- Chief Financial Officers Act of 1990
- Government Management Reform Act
- Government Performance and Results Act
- Statement of Assurance process
- USSGL, SFIS, and SLOA compliance
- Federal Financial Management Improvement Act of 1996 (FFMIA)
- E2E process documentation
- Digital Accountability and Transparency Act of 2014 (DATA Act) implementation

To meet this objective, the Department must:

- Focus upon achieving and sustaining a strong internal control program (without which the Department will not be able to obtain and sustain an unqualified audit opinion)
- Tighten IT security measures so systems safeguard sensitive data from unauthorized access and misuse
- Maintain complete, accurate, and up-to-date E2E process documentation Department-wide and at individual reporting-entity levels
- Maintain documentation and adhere to controls that help auditors understand entity-level controls, control environment, control objectives, and detailed business processes across the Department
- Achieve and maintain unmodified SSAE 18 audit opinions
- Standardize and comply with DoD guidance, data standards, and business rules
- Resolve critical NFRs and complete CAPs

Related FM Enterprise Initiatives: USSGL/SLOA/SFIS compliance; sustaining an auditable IT systems environment; and DATA Act.

⁴ SSAE No. 18 is an attestation standard put forth by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants that addresses engagements undertaken by a service auditor for reporting on controls at organizations (i.e., service organizations) that provide services to user entities, for which a service organization's controls are likely to be relevant to a user entities internal control over financial reporting.

⁵ The FISCAM presents a methodology for auditing information system controls in federal and other governmental entities. This methodology is in accordance with professional standards.

⁶ OMB Circular No. A-123 defines management's responsibility for internal control in federal agencies. A re-examination of the existing internal control requirements for federal agencies was initiated in light of the new internal control requirements for publicly-traded companies contained in the Sarbanes-Oxley Act of 2002. Circular A-123 and the statute it implements, the Federal Managers' Financial Integrity Act of 1982, are at the center of the existing federal requirements to improve internal control.



Possible Success Indicators:

- Increase in the number of shared service providers with unmodified SSAE 18 opinions
- Increase in the number of accounting systems compliant with USSGL/SLOA/SFIS
- Increase in the number of accounting systems compliant with FFMIA
- Increase in the number of feeder systems compliant with USSGL/SLOA/SFIS
- Increase in the percent of obligations and outlays dollars submitted by object class and program activity (DATA Act)
- Increase in the percent of obligation dollars submitted by award ID (DATA Act)

GOAL 5 - Maximize the use, extent, and performance of the Department’s Defense Business System(s) capabilities where practicable and economically feasible; minimizing the population of systems and resources required to satisfy the mission of the FM community, to include increased cooperation and coordination among business system owners to facilitate timely and effective transformation.

The Department’s FM information system technology landscape is one of significant complexity and investment. The FM landscape is comprised of over 340 financially relevant accounting and business systems representing a total spend of \$16.2 Billion in the Fiscal Years Defense Plan (FYDP) 2020-2024. At the same time accounting and feeder systems are undergoing planned migrations, the Department is seeking to achieve a favorable audit opinion. Together, these factors present the Department with an unprecedented opportunity to simultaneously address both functional and IT requirements with potential cost avoidance and savings if an integrated and collaborative business transformation approach is taken.

Expected Business Outcomes: optimized use of DBS FM functionality, shared services, streamlined end-to-end processes and controls, reduced reliance upon non-DBS, deployment of a federated master data management model.

Objective 5.1 – Define Accounting and Feeder System Target End State

The DoD spends a significant amount of money on its accounting and financially relevant business systems, operations, and reporting. These systems account for numerous accounting and control deficiencies which results in unreliable financial and operational information. Process-related system integration gaps and inconsistent implementation of financial data standards (FDS), to include the SFIS, are inherent issues throughout the complex environment of FM-related systems, along with an ineffective enterprise-wide governance structure.

The Department must define its accounting and feeder system target end state in order to transform its complex systems and data environments into a target state that ultimately results in reliable financial and operational information.

To meet this objective, the Department must:



- Establish an integrated, multidisciplinary work group team of Department stakeholders to define a DoD-wide DBS target end state for FM capabilities that federates all DoD master data and consumes transactional data to perform real-time data analytics and reporting.
- Define accounting and feeder systems target end state. Develop a target end state operating model, promoting transitioning of accounting systems to designated DBS, eliminating where practicable, the current population of 341 financially relevant business feeder systems. The model must capture the common E2E capabilities of the six DBSs, Treasury Shared Services, and the federated FM and master data management capabilities.
- Take the approach feeder system transactions will originate from the enduring DBSs, except H2R process
- Designate a single-source DBS be utilized for all funds (General Fund, Working Capital Fund, and Transactional fund)
- Mandate policy changes and BPR are implemented first before customizing a system
- Outsource where appropriate to a federally shared service provider (e.g. Treasury Shared Services)
- Create data once and replicated it many times; establish one authoritative source for each unique business master data source, and establish a single location for all transactional data
- Implement enhanced tiered accountability structure/tiered data governance structure
- Refrain to the extent possible, customization in the current and future DBS

The target end state needs to reflect a simplified DBS landscape which leverages modern and advanced technologies – facilitated through business, IT system, and vendor integration – to deliver both functional and compliant system capabilities, managed by a robust cross functional governance structure, leveraging the federated FM capabilities and master data approach. Through integrated and enhanced business process reengineering (BPR), the consolidated system landscape reduces the cost of compliance while also increasing enterprise visibility, reporting and analytic capabilities.

Related FM Enterprise Initiatives: USSGL/SLOA/SFIS Compliance, FBWT, IGT, ADVANA, Property, JVs, Financial Management Information Technology Systems Environment, Funds Distribution, Cost Management, PPBE Standards (*Procure-to-Pay*), DATA Act, and TDD.

Possible Success Indicators:

- Percent reduction of systems within the Department FM mission portfolio(s); identification of “savings/avoidance” contributing to organizational resource management decisions
- Percent of FM-related functionality utilized in core DBSs
- Reduction of point-to-point interfaces, and related cost savings/avoidance
- Reduced number of system data configuration and control audit findings
- Reduced costs associated with auditing due to fewer systems



Technology Benefits

- Optimized IT staffing through reduced system footprint
- Simplified IT solution, by streamlining and/or standardizing business processes
- Visibility into data from MILDEPs and 4th Estate, enabled by single integrated enterprise reporting and analytics capability
- Increased internal control quality and enforcement of authoritative source master data
- Reduced extensive redundant systems and points of combatant access

Enterprise / Business Benefits

- Master data harmonization; enablement of centralized process execution and reporting
- Right-time data reporting and analysis enabled by speed of in-memory processing capability
- Reduced long-term costs associated with parallel and redundant systems to include development, testing, operations & support, sustainment costs
- Ability to develop enterprise solutions for complying with Laws, Regulations, and Policies (LRPs)
- Streamlined and/or standardized business processes
- Robust Governance Model with configuration control board accountability
- Resolved gaps and inconsistencies in the current stove-piped DoD business domains' data standards

FM Benefits

- Improved traceability/internal controls by simplifying and consolidating business processes and data flows
- Increased implementation of FDS; improving data quality in both core accounting & feeder systems
- Improved decision support, enabled by OSD-owned enterprise BI capability
- Streamlined and standardized FM & business processes
- Lowered cost of financial / business operations and reduces footprint for IT/FM remediation
- Reduction / elimination of system "handshakes" and required internal controls
- Lowered E2E business process complexity
- Reduced number of cross walks between systems
- Reduced number of supported and unsupported JVs

Objective 5.2 - Develop Defense Business Systems Financial Management Roadmap

The FM systems target end state requires a transformation roadmap (Figure 6) that captures the prioritization of movements to transform the current governance structure, implementation of Federated FM capabilities and the master data management approach, and transition of legacy accounting and financially relevant business systems.



The DBS FM Roadmap, aka ‘enterprise roadmap,’ must embrace the collaborative opportunities that this transformation journey presents. The enterprise roadmap will capture the enterprise-focused target operating model, which leverages core capabilities, reducing costly customization.

The target operating model will include a transition phase for implementing courses of action. Within every Chart of Account (CoA) series, the following components exist:

- **Governance** – Comprised of strategic and operational governance that sets the vision, ensures value delivery, and aligns organizational and functional requirements, along with IT services, to the DoD FM objectives. Also, identifies the specific controls that are in place to manage the in-scope portfolio of systems, mitigate operational and financial risks, and provide governance to manage data, processes and other assets.
- **Process** – For FM capabilities and systems, outlines how specific process steps are related to system-specific OAs, organizational and functional roles and responsibilities.
- **Technology** – The foundational tools and capabilities that are at the core of the transformation.

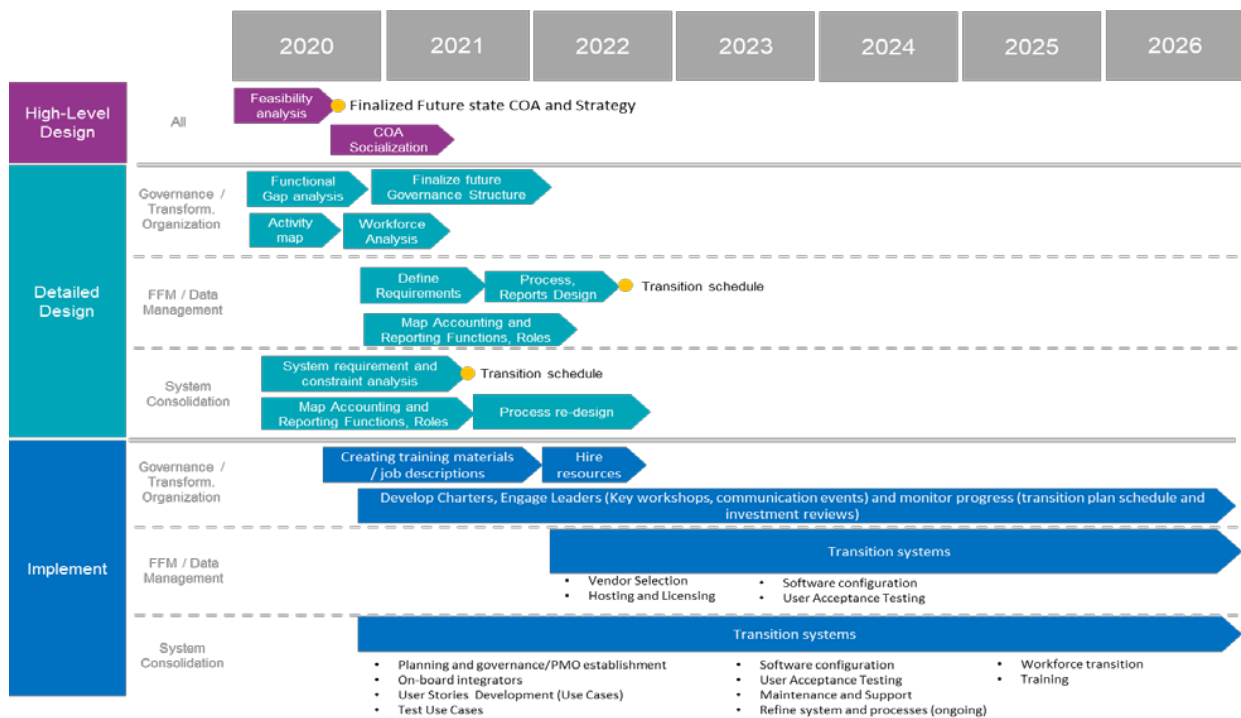


Figure 6 – “Notional” Defense Business Systems FM Transformation Roadmap

To meet this objective, the Department must:

- Collaboratively leverage, to the extent practicable, Department-wide opportunities towards shared services environment, standardized data standards and systems configuration, and governance themes as key contributing factors in developing the core enterprise systems roadmap



- Maximize use of FM functionality inherent in core enterprise systems, hence, minimizing a ‘need’ for non-core enterprise systems solutions
- Establish a transformation implementation governance structure to manage the enterprise system roadmap

Related FM Enterprise Initiatives: USSGL/SLOA/SFIS Compliance, FBWT, IGT, ADVANA, Property, JVs, FM Information Technology Systems Environment, Funds Distribution, Cost Management, PPBE Standards (*Procure-to-Pay*), DATA Act, TDD

Possible Success Indicators:

- Approved Department enterprise business FM systems roadmap
- Percent reduction of systems within the Department FM mission portfolio(s)
- Actual dollars identified as “savings/avoidance” resulting in an approved resource management decision
- Reduction of point-to-point interfaces and identification of associated fiscal resources
- Reduced number of system control audit findings
- Reduced costs associated with auditing fewer systems

Section 2. Financial Management Enterprise Initiatives

OUSDC(C) developed 12 critical FM Enterprise Initiatives to achieve and sustain the target state. These initiatives also directly support audit remediation and will evolve and be refined overtime.

FM Enterprise Initiatives:

- ADVANA (formerly, Universe of Transactions (UoT))
- USSGL/SLOA/SFIS Compliance (Reform Initiative)
- FBWT – Cash Accountability and Traceability
- IGT
- Property
- JVs
- Financial Management Information Technology Systems Environment
- Funds Distribution
- Cost Management
- Planning, Programming, Budgeting and Execution Process Standards
- DoD Financial Management Certification Program (DFMCP)
- DATA Act



The FM Functional Strategy Target Equation, as shown in **Figure 7**, is the framework used to achieve the target FM environment and should be used when executing the FM strategic initiatives. Each organization must optimize those variables most critical and material to them to reach the target state. If the FM community performs business correctly, the outcome will be a sustainable, data-driven, and auditable business environment.

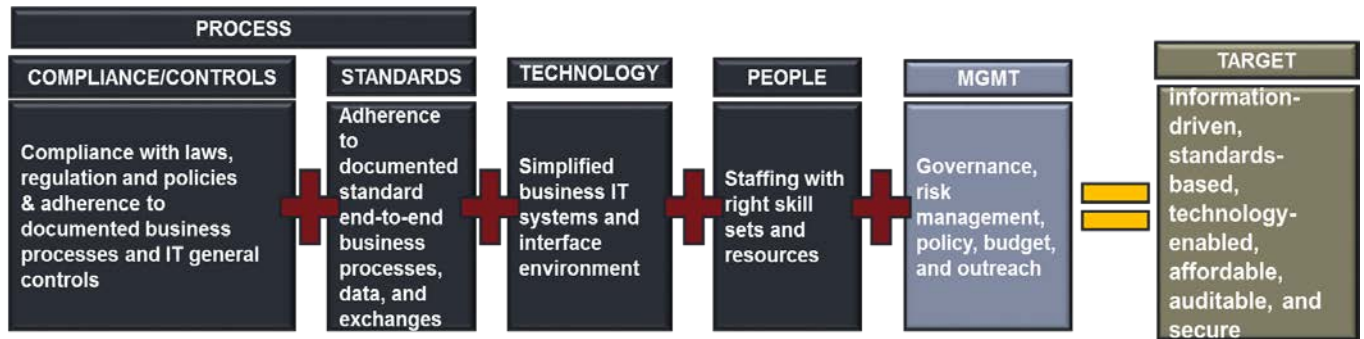


Figure 7 – FM Target Equation

1. **ADVANA** (formerly, *Universe of Transactions*)

Due to the number of and complex amount of systems with the Department, it has been a challenge to not only identify and define a complete population of transactions, but also reconcile these transactions to the Department’s financial statements. This is necessary not only to be in compliance with the DATA Act, but also to achieve auditable financial statements. To overcome these challenges, the OUSD(C) DCFO developed the ADVANA platform. The purpose of ADVANA is to create a central repository for the DoD’s vast FM data in order to define a complete UoT and use this universe to inform FM decision making and remediation efforts. As of the end of FY 2019, ADVANA is ingesting data from over 100 systems and standardizing the data using a common data taxonomy.

To support a financial statement audit, the Department requires, at a minimum, the following capabilities within the ADVANA platform:

- Proof of the existence of all data contained within the financial statement balances
- Proof of the completeness of all transactional data reported within the feeder systems
- Ability to extract a subset population bound by desired attribute(s) including the processes and controls applicable to the subset population
- Ability to secure, maintain proper access, and protect the data within the ADVANA platform

To date, the ADVANA platform has been a successful undertaking and has demonstrated measurable benefits, including:



- Standardized financial data across the DoD in order to complete reconciliations and perform Department wide analytics
- Provide all audit workbook reconciliations for the TI-97 consolidated audit, as well as Tier 2 entities
- Provide an auditor the ability to sample TI-97 financial transactions across the entire Department
- Undertaking the UoT solution for both the Army and Navy
- Develop Financial Statement Drilldown capability, to include Unadjusted to Adjusted Trial Balance reconciliation for the Department
- Become the official TI 97 FBWT Reconciliation tool
- Deployed an enhanced obligations monitoring tool to identify accounts at risk of expiring and cancelling in support of the new DAR-Q process
- Deployed the NFR and CAP database
- Improved analytic and root cause capabilities where users can move easily between summarized balances and detailed transactions
- Develop FM monitoring dashboards and tracking metrics to include JVs, Tie Points and Abnormal Balances
- Simplification of the analytic infrastructure, with fewer moving parts to configure and manage
- Reduced development and analytic processing time
- Potential to reduce current financial reporting systems that leverage the same data set

Finally, by using the FM audit requirements as the gateway, ADVANA has further evolved into the DoD enterprise analytics shared service provider with the mission of providing enterprise business insights to include, budget, cost analysis, contracts, and more. By building the capability on a standard open source platform, the solution is portable to the DoD cloud architecture.

| FY 2019 ACHIEVEMENTS | | |
|--|---|---|
| <ul style="list-style-type: none"> • Supported three FY2019 audits (SOCOM, DHP, and Tier 3 & 4) • On boarded Army and Navy Financial Management offices to support the FY20 Audit • Ingested over 11 billion transactions • Added over 5,000 users • On boarded all DoD to the NFR/CAP database • Operationalized over 50 TI-97 Feeder Reconciliations • Expanded the DAR-Q user base and enhanced functionality to support larger services such as the Navy and Marine Corps | | |
| BUSINESS OUTCOMES | CHALLENGES | RISKS |
| <ul style="list-style-type: none"> • Consolidated audit portfolio • Unmodified audit opinion • E2E funds traceability between budget and execution • Timely, accurate, and reliable data for decision makers | <ul style="list-style-type: none"> • Budget constraints increase risk to audit remediation timelines • System change requests need to be developed/approved to achieve capability | <ul style="list-style-type: none"> • Inability to gain clean audit opinion on DoD financial statements • Inability to trace source transaction to the USSGL |



| <ul style="list-style-type: none"> Reduced reconciliation work | <ul style="list-style-type: none"> Adoption of DoD-wide ADVANA solution over individual tools | |
|---|--|--------------|
| MITIGATIONS | | DEPENDENCIES |
| <ul style="list-style-type: none"> Undergoing SSAE 18 audit in FY2020 Utilize inherent DBS transaction traceability wherever possible Non-compliant systems and data should utilize GEX translation services | <ul style="list-style-type: none"> USSGL/SLOA/SFIS system compliance Reduction in legacy systems Consolidation DoD accounting systems | |

Table 1 – ADVANA Overview

2. USSGL/SLOA/SFIS Compliance

The purpose of this initiative is to ensure all DoD FM systems comply with the DoD SCOA and USSGL, which are the foundation for the DoD FM target environment. SFIS is the Department’s common financial business language that standardizes data elements, business rules, and the transaction posting logic used in DoD financial systems. To establish data standards between trading-partner systems, the MILDEPs and ODOs are implementing a single SLOA and accounting classification to all applicable transactions. In time, the use of SLOA will improve interoperability between systems, and help reduce the need for systems interfaces via use of the SLOA data exchange, leveraging the Standard Transaction Broker. This will improve controls and assist financial managers and auditors with tracing transactions across multiple systems. The OUSD(C) Office of the Deputy Chief Financial Officer (ODCFO) will assess key FM systems and data exchanges to help ensure compliance with standards.

| FY 2019 ACHIEVEMENTS | | |
|--|--|--|
| <ul style="list-style-type: none"> Reviewed all audit NFRs to determine effect of SFIS / SLOA on Department financial statement auditability. Developed cost model to project likely future costs for Audit NFRs based on SFIS / SLOA non-compliance. Reviewed all SFIS compliance assessments to determine enterprise SFIS / SLOA compliance trends. Continued SFIS compliance assessment testing for select target accounting systems. | | |
| BUSINESS OUTCOMES | CHALLENGES | RISKS |
| <ul style="list-style-type: none"> Unmodified audit opinion E2E funds traceability between budget and execution Improved interoperability between systems Timely, accurate, and reliable data for decision makers Reduced reconciliation work Supportable transactions | <ul style="list-style-type: none"> Legacy systems are antiquated and it would be too costly to upgrade them to USSGL/SLOA/SFIS compliance Systems become compliant at different times creating a “hybrid” environment; this degrades interoperability between systems System change requests need to be scheduled and developed to achieve compliance Inability to transform legacy data to be compliant | <ul style="list-style-type: none"> Inability to gain clean audit opinion on DoD financial statements Insufficient accountability of DoD resources Continued information system control weaknesses Failure to implement common business language resulting in component-level financial statements and/or DoD-level financial statements to have inconsistent data Systems may be recording transactions incorrectly and reporting incorrectly |
| MITIGATIONS | | DEPENDENCIES |



| | |
|--|--|
| <ul style="list-style-type: none"> • OUSD(C) monitors FIAR activity to assess and migrate risk to achieve unmodified audit opinion; using the FIAR governance process as a mechanism to review solutions, best practices, and other remedial actions • Conduct business-process re-engineering to eliminate legacy systems that are not capable of being USSGL/SLOA/SFIS compliant • For systems that are USSGL/SLOA/SFIS compliant, ensure there is a plan to maintain compliance to USSGL/SLOA/SFIS updates on at least an annual basis • Resource material FM systems to be SFIS compliant • Non-compliant systems and data should utilize GEX translation services • Utilize inherent DBS transaction traceability wherever possible | <ul style="list-style-type: none"> • DoD-wide participation is needed to achieve an unmodified audit opinion • Proper planning between the FM community and the system Program Management Offices (PMO) • GEX translation capabilities availability for legacy systems and data • Reduction of legacy systems • Defense Repository for Common Enterprise Data (ADVANA) for continuous compliance monitoring. • Treasury’s USSGL is updated annually; DoD reporting CoAs and transaction library is updated afterwards to ensure compliance |
|--|--|

Table 2 - USSGL/SLOA/SFIS Overview

3. Fund Balance with Treasury – Cash Accountability and Traceability

FBWT is an asset account that shows the available budget spending authority of federal agencies. Appropriation warrants (new budget authority generally received annually), non-expenditure transfers (budget authority given from one agency to another), collections, disbursements, and related adjustments reported to the Treasury may increase or decrease the FBWT account balance. Treasury requires that agencies reconcile their FBWT account on a regular and recurring basis to ensure the integrity and accuracy of their internal and government-wide financial reporting data. The DoD Components must reconcile their records of available budget spending authority to Treasury. Each reporting entity must be able to perform a detailed reconciliation of the balances to the source systems and accounting records. These reconciliations are essential to supporting the budget authority, outlays, and cash reported on their Statement of Budgetary Resources and Balance Sheet. During the recent independent audit of the DoD, the auditors noted several deficiencies in the design and operation of internal controls for FBWT that resulted in a DoD-wide material weakness. Currently, the Department is unable to ensure the completeness and accuracy of its FBWT account. Unreconciled variances and unsupported adjustments to FBWT seriously undermine the integrity and reliability of DoD’s financial statements. While important for audit, cash balance is more importantly the foundation of good business practices.

3A Daily FBWT Activity – Cash Accountability and Traceability (CASH)

Implementing daily FBWT reconciliation to the Department’s current monthly reconciliation process improves the overall accountability and traceability of cash. The Department has implemented an active Enterprise initiative to transition DoD Components to daily FBWT reconciliation through becoming a Treasury Disbursing Office (TDO) agency. As DoD is migrating to TDO, the current process of disbursing using DoD disbursing systems is called Non-Treasury Disbursing Office (NTDO). The TDO solution ensures that all DoD disbursement



and collection transactions are accounted for, properly documented, and auditable from inception through reporting. It provides for traceability and timeliness of financial transaction processing and helps establish an environment based on complete and accurate reporting. The Department is working towards a CASH target environment where it can reconcile cash daily and directly between the ERPs and Treasury. This will streamline and centralize DoD's systems and processes while further advance the retirement of its legacy systems.

Recent successful TDO deployments across the Department have resulted in several benefits. First, it has allowed the deployed components to conduct regular, automated cash reconciliations with minimal manual intervention. This significantly increases the components' visibility into their cash position supporting accurate cash balances. Second, transitioning to a Treasury shared services has reduced DoD's need to perform these functions internally, simplifying daily cash reporting while leveraging modernized and centralized Federal shared solution. Third, improved data controls and edit checks, incorporated through direct and standardized exchanges with Treasury allowed DoD to resolve any differences in a timely basis while reducing the number of tools and systems involved.

The Department's business processes and system footprint are extremely complex. The current environment includes numerous systems and subsystems, each with a different set of processes, data standards, and internal controls. Further complicating FBWT, DoD is currently utilizing four disbursing systems under NTDO. The complexity has resulted in an unmanageable and ineffective processes and system infrastructure. Transitioning to a single, Federal shared service solution under Treasury to perform all disbursement and collection will assist DoD in achieving auditability and sustainability for FBWT.

In contrast, the target systems' infrastructure will leverage streamlined processes, data standards, and internal controls. This will result in a more effective and efficient CASH environment that leverages Treasury shared services and standardized DoD systems. The target TDO end-to-end processes include data standards for disbursement and collection information exchanges from the front-end, funds distribution process to the back-end, reporting and reconciliation processes. The set of data exchanges are referred to as the Defense Enterprise Exchange Data Standard (DEEDS). The DEEDS leverages SLOA and SFIS as its baseline to help validate and ensure consistency with enterprise-wide financial reporting. The end-to-end TDO processes also provide on-boarding phases with detailed requirements to deployments ensuring consistent implementation across the Department.

Implementation of daily FBWT reporting will require a phased approach for both TDO and NTDO states. The deployments are being implemented concurrently as follows:

- Interim solution under NTDO transactions; DoD disbursing systems will deploy the Payment Information Repository (PIR), Collections Information Repository (CIR), and Intragovernmental Payment and Collection System (IPAC) files to Treasury with transactions



executed outside of Treasury. Treasury will process these files into the Central Accounting and Reporting System (CARS) achieving daily FBWT reconciliation and reporting.

- Enterprise solution under TDO; components will continue to migrate NTDO transactions out of the four DoD disbursing systems into the ERPs for Treasury to directly perform disbursement and collection under TDO achieving daily FBWT reconciliation and reporting.
- The four DoD legacy disbursing systems and their subsystems will be retired as transactions are fully migrated to the Federal shared service under Treasury.

3B Reconciling the Balances in DoD Accounts with Treasury - FBWT Reconciliation

In addition to the initiatives to implement daily reconciliation of FBWT disbursements and collections activities under TDO discussed above, DoD is implementing needed improvements in the policies, business processes and internal controls affecting the Department's inability to reconcile FBWT in the financial systems to Treasury's records. This also includes developing effective tools, internal and external to the ERPs, to conduct FBWT reconciliation.

Funds Balance with Treasury Reconciliation Mechanism/Tools: The Department has thousands of open Treasury accounts (bank balances) that must each have their balances reconciled to multiple DoD Components' balances in their general ledgers (book balances) within numerous systems. Therefore, the Department needs an automated way to validate that the two sets of records agree. The tools must reconcile FBWT at the detailed transactions level (voucher level). Additionally, all outstanding differences must be supported at the detailed transactions level. This reconciliation is equivalent to a private sector company reconciling its book (cash) balance to its bank statements. Treasury serves as the bank in the case of federal agencies. The Department is in various stages of developing effective tools to conduct the FBWT reconciliation. Each Military Service has developed and continues to improve its FBWT reconciliation tool. This capability is also being developed centrally in ADVANA for DoD.

Improvements in Business Process/Controls: Business processes involving the disbursing officers reporting Statement of Differences (SOD), suspense and deposit accounts (temporary holding accounts), undistributed transactions (unprocessed transactions) and the management of DoD shared appropriations need improvement under NTDO. The DoD Components and DFAS are improving their business processes to streamline reporting, reduce differences to an immaterial amount, and support account reconciliations until migration to TDO. The Department is implementing control procedures to develop and sustain a universe of transaction for each group of transactions to adequately support DoD's FBWT. The Department successfully piloted a project assessing the feasibility of using ADVANA for the Defense-Wide FBWT reconciliation. The Department is also continuing to build reconciliations in ADVANA to compare transactions initiated in the source systems to the accounting systems and Treasury's balances. These reconciliations will improve internal control over FBWT transactions



Department-wide. The ODCFO uses its NFRs Database dashboard and other internal tools to monitor the Department’s overall status in addressing FBWT NFRs and aged balances in temporary accounts and unprocessed disbursements and collections. The ODCFO also uses the Dormant Account Review-Quarterly (DAR-Q) application in ADVANA to monitor open dormant obligations.

Until the NTDO PIR, CIR, and IPAC files are deployed and transactions are fully migrated to TDO, there is an interim effort to resolve discrepancies in DoD shared appropriations between the DoD Treasury Index-97 (TI-97) cash balances and Treasury using the Cash Management Report (CMR). The CMR is a single, internal DoD report that presents the FBWT for all Defense-wide (TI-97) organizations and programs. These individual organizations’ FBWT are summed in this report to compare and reconcile to Treasury’s ODOs’ summary appropriation accounts TI-97. The CMR equates to the ODOs’ “checkbook.” The CMR differences are unresolved FBWT differences between DoD and the TI-97 appropriation accounts. These differences result in material unsupported JVs to bring the Department’s balances into agreement with Treasury’s records. All differences are identified at a summary appropriation level making it difficult to trace back to the detailed transactions. The OUSD(C) and DFAS are continuing to work on resolving material differences and improve business processes.

| FY 2019 ACHIEVEMENTS | | |
|---|---|--|
| <ul style="list-style-type: none"> Exceeded FY 2019 TDO target by 12% with TDO disbursement at \$66B DoD featured in Treasury’s Future of Financial Management Transformation Stories Streamlined and completed standards and requirements for TDO Disbursement Initiated and completed standards and requirements for TDO Collection/Debt Management Initiated and completed NTDO daily reporting standards and requirements for PIR, CIR, and IPAC Completed TDO minimum data element matrix requirement baselined to SFIS/SLOA USN Navy ERP deployed TDO capability USN OnePay deployed TDO domestic and international capabilities USMC deployed additional Military Pay TDO transactions and on target to deploy all transaction types except JROTC in FY 2020 DHRA deployed TDO for travel pay under the Defense Travel Modernization effort Deployed exchange SLOA validation service for DDRS and Tie-Point requirements Deployed non-buy/sell IPAC bulk upload OUSD(C) piloted the ADVANA reconciliation tool for FBWT with USSOCOM. The pilot resulted in an increased match rate from 78.6 to 95.3 percent in current year funds. The CMR enterprise-wide initiatives and corrective action plans improved controls and mitigating risks for the Department’s TI-97 FBWT, directly impacting more than 50 defense agencies | | |
| BUSINESS OUTCOMES | CHALLENGES | RISKS |
| <ul style="list-style-type: none"> Supportable transactions, daily cash balancing with Treasury Maximized use of Treasury disbursing shared service at no cost to DoD Strengthened internal controls - smaller SSAE 18/SOC footprint | <ul style="list-style-type: none"> Inconsistent tone from the top Status quo mindset and lack of TDO knowledge FM systems timeliness of implementing system changes required to deploy TDO and interim NTDO solution | <ul style="list-style-type: none"> Inability to gain clean audit opinion on DoD financial statements Failure to implement interim NTDO daily reporting in CARS Failure to implement daily cash reconciliation |



| <ul style="list-style-type: none"> for audit results with significant cost savings • Reduced reconciliation work, minimized the number of reconciliations between disparate systems • SOD is eliminated from reporting in the TDO environment • Increased data integrity using system controls • Unmodified audit opinion • E2E funds traceability from budget and fund distribution to reporting • Cost effective business environment • Strengthened mission capabilities • Timely, accurate, and reliable data for decision makers | <ul style="list-style-type: none"> • Budget constraints increase risk to implementation and audit readiness timelines | |
|--|---|--------------|
| MITIGATIONS | | DEPENDENCIES |
| <ul style="list-style-type: none"> • Complete development of TDO and NTDO implementation standards, governance and guidance • Centralize and standardize working groups • Ensure strict waiver process • Complete development of centralized FBWT reconciliation tools (ADVANA) • Streamline and improve business processes and controls to support Enterprise solution • Leadership continuous monitoring of FBWT sustainment progress and metrics | <ul style="list-style-type: none"> • Reduction/retirement of legacy systems • USSGL/SLOA/SFIS system compliance • Defined E2E daily cash reconciliation process • Proper planning between the FM community and the system PMOs • Exchange translation capabilities for legacy systems and data | |

Table 3 – FBWT CASH Overview

4. Intragovernmental Transactions

The purpose of this initiative is to properly account for, reconcile, and eliminate IGT imbalances from the consolidated financial statements. Reconciled balances between federal entities should be in agreement and must be subtracted out, or eliminated, from the financial statements when consolidated. An IGT results when business is conducted between two federal entities. Both entities must accurately record the event in the same reporting period and match the buying and selling documentation. Imbalances occur when the federal entities are unable to account for and reconcile differences. These differences in recording the buying and selling of goods and services from one another often lack proper documentation. The Department is working closely with Treasury to implement a standard E2E business process and data exchanges using the Treasury’s G-Invoicing system (formerly known as Invoice Processing Platform or IPP) and the GEX.



| FY 2019 ACHIEVEMENTS | | |
|---|--|--|
| <ul style="list-style-type: none"> • Deployed G-Invoicing Release 3.1 with capability for entities to continue entering GT&Cs with enhanced functionality • 90% of entities are now classified by Treasury as capable of inputting agreements • Developed and socialized end to end process from GT&C creation to financial reporting • Stood up a G-Invoicing Systems Implementation Group to disseminate information, capture challenges, and share ideas related to systems implementation. • Continued to support DoD components onboarding to G-Invoicing Conducted “Roadshows” with each major system owner to discuss implementation timeliness and challenges • Hosted Department-wide executive summit and user forums • Successful tested GEX retrieving GT&Cs from the G-Invoicing Tool • Took the lead in identification of risks and Information Technology General Controls required for the G-Invoicing tool to support a SSAE 18 compliance assessment for submission to Treasury • Identified required system changes for DCAS (settlements) and WAWF(performance) to support Departmental strategic approach to interfaces to and from G-Invoicing • Created a system implementation checklist for DoD Components to use for ERPs/financial systems testing to the G-Invoicing tool • Lead accrual methodology and posting logic analysis for G-Invoicing | | |
| BUSINESS OUTCOMES | CHALLENGES | RISKS |
| <ul style="list-style-type: none"> • Central repository documenting evidence of all intra-agency agreements, performance and receipt • Elimination of “IPAC pay and chase” saves time and improves accuracy of reporting • Standardized general terms and conditions, policy, and service catalog streamlines the buy/sell process • Reduce unsupported buyer/seller elimination JVs | <ul style="list-style-type: none"> • Entity commitment to plan, fund, and execute required system changes • Uncommitted DBS vendor support • Shifting implementation schedules due to Treasury changes and workforce resistance. • Cross-Functional engagement | <ul style="list-style-type: none"> • Inability to support eliminations • Inability for programs to get funding to make required system changes • Uncommitted DBS vendor support |
| MITIGATIONS | | DEPENDENCIES |
| <ul style="list-style-type: none"> • Implement IGT framework. Reengineer E2E business processes to support eliminations • Release DoD intragovernmental data standards • Non-compliant systems and data should utilize GEX translation services • Compliance with SFIS | | <ul style="list-style-type: none"> • Development of an IGT E2E process • Reduction of buyer/seller JVs • Software vendors changes in DBSs to comply with IGT data standard |

Table 4 – IGT Overview

5. Property

The purpose of this initiative is to achieve and maintain a supportable balance of the Department’s Inventory and Related Property (I&RP) and General Property Plant and Equipment (GPP&E). This is especially challenging due to the size, value, complexity, and geographical distribution of the Department’s portfolio. Additionally, Environmental and Disposal Liabilities (E&DL) are potentially tied to GPP&E and present further audit challenges.



To achieve an unmodified opinion, MILDEPs and ODOs must maintain existence, completeness, valuation, rights and obligations, and presentation and disclosure assertions for all GPP&E, I&RP, and E&DL that are reported on their financial statements. Because historical documentation to support values is lacking, alternative methods are prescribed by DoD policy. MILDEPs and ODOs must also maintain auditable processes, systems, and controls to properly account for property. To accomplish this, MILDEPs and ODOs must document, test, and remediate issues that present financial statement risks.

| FY 2019 ACHIEVEMENTS | | |
|--|--|--|
| <ul style="list-style-type: none"> All accountable organizations conducted a full existence and completeness inventory and reconciliation of capital assets to accountable property systems of record (APSRs) for Real Property Complete physical inventory of all WCF inventory and all general fund munitions/ordnance and uninstalled engines in its possession Each DoD Component established a complete baseline of assets for government property in the possession of contractors DCFO issued: <ul style="list-style-type: none"> Policy on capitalization thresholds for GPP&E Guidance for establishing deemed cost for I&RP and GPP&E Guidance related to contract financing payments for the procurement of GPP&E and I&RP Policy change to account for in-transit inventory | | |
| BUSINESS OUTCOMES | CHALLENGES | RISKS |
| <ul style="list-style-type: none"> Increased accuracy of data for GPP&E and I&RP Auditable existence and completeness baseline for real property, I&RP, and general equipment Established Property Functional Council and multiple working groups to support the remediation of property related audit issues | <ul style="list-style-type: none"> Implementation of new financial reporting requirements for real property Development of inventory and beginning balance for Joint Strike Fighter (JSF) program’s global pool of spares and support equipment Implementing deemed cost for valuation of GPP&E during the approach to establishing opening balances Additions to APSRs of previously unrecorded property in the possession of contractors Current policy around bulk purchases is difficult to implement | <ul style="list-style-type: none"> Multiple interpretations of best methods of implementing new DCFO policies Utilization of deemed cost for valuation of GPP&E could result in large fluctuations to GPP&E balances Lack of cohesive definitions around assets, inventory, and property between Comptroller and Acquisition and Sustainment (A&S) creates confusion in policies Issues with current definition of bulk purchases may lead to audit findings |
| MITIGATIONS | | DEPENDENCIES |
| <ul style="list-style-type: none"> Utilize Property Functional Council to facilitate communication and decision making on DoD-wide asset related issues Utilize the Defense Audit Remediation Working Group (DARWG) process to identify and coordinate solutions for audit related issues to be implemented across all DoD Components Completion of DoD-wide GPP&E, I&RP and E&DL process control narratives to guide components to implement controls around asset lifecycle | | <ul style="list-style-type: none"> Strong relationships between the FM community and the A&S Community to confirm alignment of DoD-wide goals USSGL/SFIS system compliance Reduction in legacy systems |

Table 5 – Property Overview



6. Journal Vouchers

The purpose of this initiative is to determine why unsupported JVs occur and to resolve them. The volume, frequency, and number of unsupported JVs recorded in preparation of the Department’s financial statements presents an audit challenge. Certain JVs are required as part of normal business operations; however, this effort focuses on unsupported JVs. For example, summary-level accounting adjustments made due to unreconciled balances between systems. Often these unsupported JVs lack a root cause analysis to justify the adjustment. Excessive unsupported JVs may indicate underlying problems, such as weak or insufficient internal controls.

| FY 2019 ACHIEVEMENTS | | |
|---|---|---|
| <ul style="list-style-type: none"> Decreased unsupported JVs from FY 2018 to FY 2019 counts by 265K or 78% and amounts by 64% (approx. \$2.8T) through implementation of new internal controls and business processes, increased supporting documentation, and customer collaboration. Continued implementing additional JV standardization by enhancing DFAS Form 9339 'DFAS Journal Voucher Catalog and Checklist' to include data elements for tracking Root Cause Indicator Codes (RCIC) as well as expanding JV Types and Subtypes. Published DFAS 7040.13-IPM 'Interim Policy Memorandum for Manual JVs' to mandate the use of DFAS Form 9339 for all manual JVs performed by DFAS personnel. | | |
| BUSINESS OUTCOMES | CHALLENGES | RISKS |
| <ul style="list-style-type: none"> Improved FM operations and more accurate information on results of business operations provided to DoD, Congress, and the public Improved accuracy and traceability of financial transactions Greater transparency between customers/components and DFAS regarding JVs | <ul style="list-style-type: none"> High volume, frequency, and dollar value of JVs Root cause analysis is extensive and time-consuming Budget constraints increase risk to audit readiness timelines | <ul style="list-style-type: none"> Inability to gain clean audit opinion on DoD financial statements Inability to meet audit critical deadlines Potential for inaccurate financial statements. |
| MITIGATIONS | | DEPENDENCIES |
| <ul style="list-style-type: none"> Complete root cause analysis and corrective action plan for unsupported JVs Non-compliant systems and data should utilize GEX translation services in conjunction with root cause efforts to correct posting logic Utilize inherent ERP transaction traceability wherever possible Perform tie point reconciliations in the source accounting system | | <ul style="list-style-type: none"> USSGL/SFIS system compliance System change requests need to be developed/ approved to achieve compliance Reduction in legacy systems Business process changes to better support JV documentation Accurate and reliable trial balances System limitations and lack of complete/accurate accounting data requires the buyer and seller to work together prior to financial statement reporting to reconcile buy sell transactions. |

Table 6 – JVs Overview



7. Financial Management Information Technology Systems Environment

The purpose of this initiative is to maximize the use, where practicable, FM functionality inherent in DBSs, while reducing, to the maximum extent practicable, legacy FM systems. This also includes advance integration and use of business analytic tools, and evolution of the roles of service providers in conjunction with retiring systems to be defined in the ‘enterprise roadmap’ strategy. To achieve and sustain an unmodified opinion, the Department must sustain an auditable IT systems environment, streamline processes and strengthen internal controls through standardized, simplified, efficient, and effective integration. Many systems do not comply with law, regulations and policies, have weak internal controls, are duplicative, increase complexity, and are a significant expense to the Department.

A DBS’s fundamental value proposition is its inherent integration capability, which supports auditability and improved efficiency and effectiveness. However, several current DBS implementations are heavily customized, leverage minimal functionally inherent capabilities, and exclude critical DoD FM functions and available built-in controls; all of which negate the fundamental value proposition.

The strongest candidates to leverage existing core DBS and standard integration include business processes such as DTD, IGT, vendor pay, and procure-to-pay data exchanges (commonly referred to as handshakes) between FM and procurement. The goal is to reduce inefficiencies caused by legacy systems, lack of standardization, and weak integration. Improvements in these areas will evolve service provider roles and shift FM expertise toward higher-value efforts.

The target environment will include:

- Standardized, enterprise-wide data, processes, and systems as a result of the full adoption of data standards
- Standardized, non-customized, and fully leveraged core enterprise system implementations,
- Use of shared service providers
- A small number of core enterprise systems in each MILDEP and ODOs which support all core FM functions
- Integrated FM and non-FM functions within the systems; standardized integration between non-enterprise feeder systems and core enterprise systems; and direct integration with U.S. Treasury, eliminating the need for separate entitlement systems and reconciliations
- Fewer interfaces where non-FM functions are tightly integrated with core accounting functions
- Financial statements that are traceable to source transactions through the DBS and to any remaining critical feeders



- A standardized set of business analytics capabilities that provide, aggregate, analyze, and drill down capabilities on consistent, comprehensive, and timely data

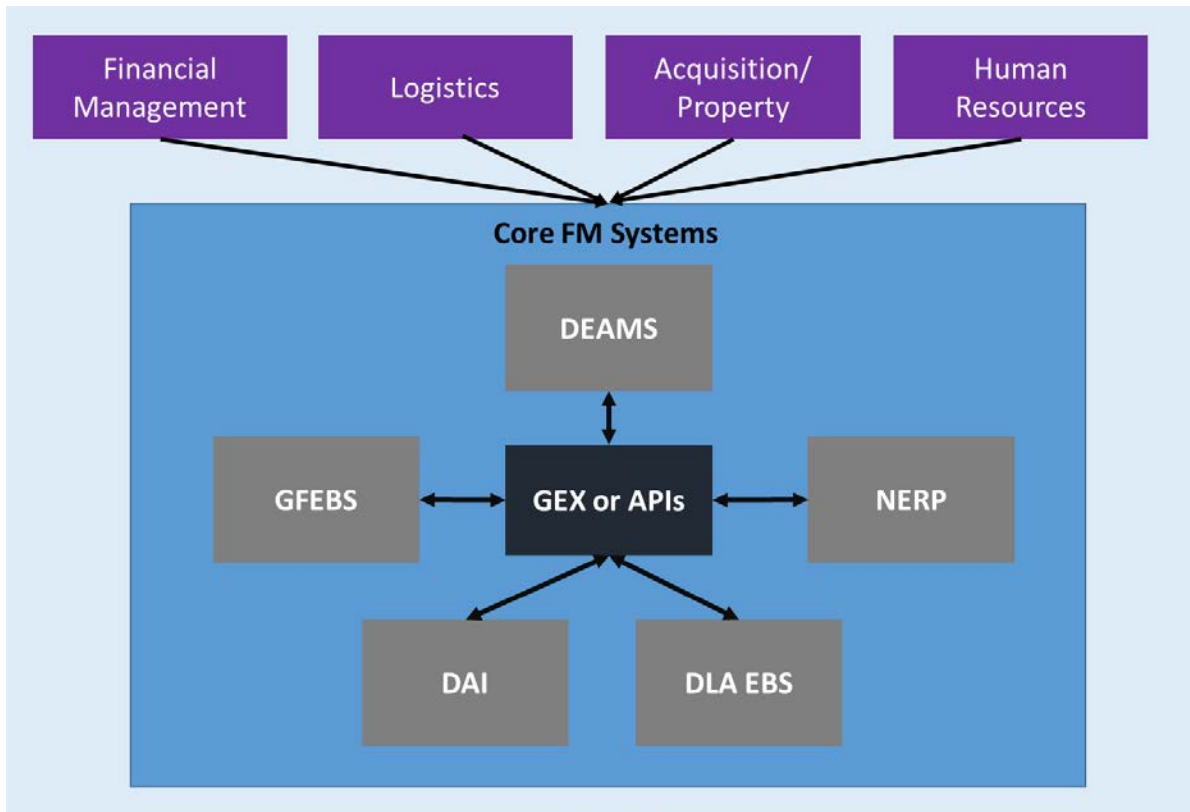


Figure 8 – Notional Standard Processes and Data

The notional standard processes and data as shown in **Figure 8** will help the Department accomplish the following:

- Support sustainable auditability by eliminating the complexity and non-standardization that cause auditability problems
- Lower costs by reducing the number of systems, interfaces and resources needed to resolve data reconciliation, control, and audit problems
- Improve effectiveness by providing more consistent, comprehensive, and timely data and supporting tools for operational and strategic decision makers at all levels of the DoD

The roadmap to the target environment must support the DoD’s commitment to achieve an unmodified opinion. As such, the OUSD(C) will re-evaluate the system inventory against the FM Functional Strategy criteria annually. Expert knowledge of current and target system capabilities will be integrated with appropriate supporting technology to ensure application of the FM Functional Strategy criteria to simplify the FM environment.



As the Department retires legacy systems to sustain an auditable state, it will highlight impacts to current service provider roles and responsibilities as well as opportunities for advancing them to higher-value enterprise support activities with significant return on investment.

An important aspect that sustains auditability is service provider integration. A service provider is a DoD organization that performs a business function or process on behalf of another DoD organization, such as DFAS providing accounting and finance operations or the U.S. Army Corps of Engineers providing real property construction. Currently, 10 DoD organizations act as service providers. In order for their customers to sustain auditability, service providers and customers must fully integrate audit activities. The Department is working to ensure effective integration through continual communication, CAP resolution, and SSAE No. 18 assessments.

| FY 2019 ACHIEVEMENTS | | |
|--|---|--|
| <ul style="list-style-type: none"> Retired four legacy systems Identified systems material to financial statements and required that system internal controls be documented, tested, remediated, and strengthened Engaged IPA-certified systems auditors with system audit expertise to assist DoD personnel | | |
| BUSINESS OUTCOMES | CHALLENGES | RISKS |
| <ul style="list-style-type: none"> Unmodified audit opinion Stronger internal controls Improved interoperability between systems Simplified FM systems environment Reduced reconciliation work | <ul style="list-style-type: none"> Budget constraints FM system environment complex, non-agile, and non-compliant System change requests need to be developed/approved to achieve compliance Lack of legacy data migration strategies Fully leveraging FM DBSs | <ul style="list-style-type: none"> Inability to gain clean audit opinion on DoD financial statements Budget and resource constraints and uncertainties System and internal control weaknesses continue Operating inefficiencies, ineffectiveness, and cost prohibitive FM environment continues |
| MITIGATIONS | | DEPENDENCIES |
| <ul style="list-style-type: none"> Develop DTD implementation strategy for and FM DBSs and target accounting systems Utilize inherent DBS transaction traceability wherever possible Execute an aggressive legacy system reduction campaign Non-compliant systems and data should utilize GEX translation services | | <ul style="list-style-type: none"> Implementation of DBS full capabilities across the Department USSGL/SLOA/SFIS system compliance Reduction of legacy systems Implementation of DTD and IGT Implement cash accountability framework Software vendors changes in DBSs to comply with IGT data standard |

Table 7 –Financial Management IT Systems Overview

8. Funds Distribution

The purpose of this initiative is to ensure that FM systems and processes support auditability and enable E2E funds traceability. Auditors must be able to track the distribution of funds from Defense-wide appropriations to the final allotment holder as well as the execution of these funds. It relies on the foundation initiatives (USSGL, SLOA, and SFIS) to ensure all operational DBSs and target accounting systems are configured according to DoD FM standards, and currently



extends to the deployment of the Department-level EFD system and its associated processes. The goal of EFD is to provide visibility, auditability, and traceability of budget authority for DoD and to interface with MILDEP and ODO target accounting systems.

| FY 2019 ACHIEVEMENTS | | |
|--|--|---|
| <ul style="list-style-type: none"> • Deployed Wave 2 of EFD • Deployed DFAS Production Support Environment • Successfully executed the Annual Close process • Achieved Full Deployment (FD) • Successful Go-Live of Release 731.4.5 • 100% compliance w/SFIS 10MR | | |
| BUSINESS OUTCOMES | CHALLENGES | RISKS |
| <ul style="list-style-type: none"> • Improved financial traceability of budget and execution data • Improved access to timely, accurate, and reliable data | <ul style="list-style-type: none"> • Completion of EFD software upgrades • FM community must agree to SA solutions for phase II deployment | <ul style="list-style-type: none"> • Completion of User Acceptance Testing against all key applicable funds distribution capabilities in EFD |
| MITIGATIONS | DEPENDENCIES | |
| <ul style="list-style-type: none"> • Continue using legacy PBAS system, which is not auditable • Develop funds distribution guidance • Use sub-allotment reduction policy and develop standard process • Establish EFD Wave 2 Environment to allow Wave 2 users the ability to familiarize with funds flows and capabilities | <ul style="list-style-type: none"> • USSGL/SLOA/SFIS system compliance • FM DBS implementation schedule • EFD interfaces to DoD accounting and budget distribution systems • Reduced use of sub-allotments | |

Table 8 – Funds Distribution Overview

9. Cost Management

The purpose of this initiative is to develop an enterprise cost management (ECM) framework that will help the Department better predict expenditures, execute budgets, and maximize resources. Cost management is the management of information used for budgeting, estimating, forecasting, and monitoring costs. In today's resource-competitive environment, the ability to reduce and manage costs strategically is critical.

| FY 2019 ACHIEVEMENTS | | |
|--|--|--|
| <ul style="list-style-type: none"> • Completed frameworks for Acquisition, Human Resources, Maintenance, and Supply Chain LoBs • Began sustainment activities for all eight LoBs (Real Property, Medical, IT, Financial Management, • Completed FY 2018 data refresh and publishing for all eight LoBs • Completed financial common data model for integration across all LoBs • Integrated fully within the ADVANA Enterprise Analytics environment establishing data connections to established financial data pipelines and data ingestion processes for non-financial business data. • | | |
| BUSINESS OUTCOMES | CHALLENGES | RISKS |
| <ul style="list-style-type: none"> • E2E funds traceability between budget and execution | <ul style="list-style-type: none"> • Budget constraints • Budget constraints • Budget constraints | <ul style="list-style-type: none"> • Acceptance of the enterprise cost management framework |



| <ul style="list-style-type: none"> • Cost effective business environment • Strengthened mission capabilities • Informed and productive workforce • Timely, accurate, and reliable data for decision makers | <ul style="list-style-type: none"> • FM system environment complex, non-agile, and non-compliant • Lack of legacy data migration strategies • Full use of FM DBS capabilities • Not all FM and time and labor systems have cost management capabilities • Cost management is not an inherent skill set in the Department | <ul style="list-style-type: none"> • Acceptance of the enterprise cost management framework • Lack of priority on cost management initiative |
|--|---|--|
| MITIGATIONS | | DEPENDENCIES |
| <ul style="list-style-type: none"> • Standardization of methodologies across ECM frameworks • Standardization of analytic product look and feel | <ul style="list-style-type: none"> • Implementation of full enterprise business capabilities across the Department • USSGL/SLOA/SFIS system compliance • Reduction in legacy systems • Development of ECM framework training • FM certifications | |

Table 9 – Cost Management Overview

10. Planning, Programming, Budgeting and Execution Process Standards

The purpose of this initiative is to improve budget and execution financial data, resource decisions, and planning. To optimize funding, the Department needs to develop clearer and closer ties between prioritized requirements and program execution. Clear traceability between the budget and execution will provide critical insight for decision makers when formulating budget requests and furthering goals of cost management. The Department continues its effort toward an enterprise-wide, standard and transparent PPBE process with the implementation of budget formulation and EFD, further exploration of the budget capabilities within DBSs, cost management, and improved E2E procure-to-pay capabilities.

Procure-to-Pay Standards

The Department faces challenges related to achieving auditability. Key enterprise financial metrics indicate a significant number of unmatched transactions, especially within the Contract Pay and Vendor Pay business areas. Analysis has shown that handshakes between functional communities lack the standard business rules and internal controls necessary to eliminate material weaknesses, facilitate downstream business processes, and achieve interoperability between systems. In response to these findings, the financial and acquisition communities have developed a procure-to-pay target state in which accounting and acquisition systems must comply with enterprise procure-to-pay data standards. The focus of this effort is nine procure-to-pay handshakes that also support the FBWT-CASH and IGT initiatives:



- **Handshake 1** - Define and Fund the Requirement: The development and receipt of an appropriately formatted, set of Purchase Request (PR) data by the contract writing system. This process includes the performance of a commitment and certification of funds against a PR in the accounting system.
- **Handshake 2** - Pre-Award Funds Check: The execution of a pre-award funds validation or “funds-check” in order to ensure that funds committed remain unchanged and certifiable.
- **Handshake 3** - Post Awards to Accounting System(s): The automated electronic recording of the obligation, including the full set of contract data required to facilitate traceability, in the accounting system at time of contract award or funded modification.
- **Handshake 4** - Post Awards to Entitlement System(s): The automated electronic recording of the contract in the entitlement system at time of contract award or funded modification is critical to successful contract administration.
- **Handshake 5** - Confirm Receipt and Acceptance: The confirming of receipt and acceptance of goods or services, aligned with a specific award, to the Government to facilitate entitlement. This includes recording ownership of the asset.
- **Handshake 6** - Perform Entitlement: The matching of the request for payment (invoice) to the obligation and receiving report documentation (2-way or 3-way match as required) and pre-validation of the request for payment (invoice) to the obligation amount to ensure the availability of funding.
- **Handshake 7** - Pay the Vendor and Record Disbursement: Payment systems receive accurate accounting and entitlement data, which is then used to make timely and accurate payments to vendors. Payment systems also provide the complete and accurate payment data to the related Accounting System for general ledger posting.
- **Handshake 8** - Report Payments to Treasury: DoD financial systems provide complete and accurate payment data to Treasury in accordance with Federal standards.
- **Handshake 9** - Perform Contract Closeout: Completed/terminated contracts are closed in DoD acquisition and financial systems, and remaining funds are de-obligated.

The Department will explore other E2E business process opportunities, such as “Hire-to-Retire”, to improve business processes and data standards.

| FY 2019 ACHIEVEMENTS | | |
|---|--|---|
| <ul style="list-style-type: none"> • Developed logic in the GEX for Handshake 2 to automate the pre-award funds check • Published Handshake 2 Standard Operating Procedures • Drafted and Coordinated Handshake 9 Standard Operating Procedures • Established maps to enable HS4 between Contract Writing Systems and DFAS entitlement system MOCAS | | |
| BUSINESS OUTCOMES | CHALLENGES | RISKS |
| <ul style="list-style-type: none"> • Consistently trace electronic transactions from purchase request to payment for all | <ul style="list-style-type: none"> • Target accounting and entitlement systems budget and | <ul style="list-style-type: none"> • Adoption and adherence to standard P2P processes and data standards |



| procurement actions across the DoD, to include tracking of funding and execution data <ul style="list-style-type: none"> • Reduce unmatched financial transactions • Reduce risk of Anti-Deficiency Act violations • Support DoD FIAR goals | schedule deployment of P2P handshakes <ul style="list-style-type: none"> • Budget constraints • Full use of FM ERP capabilities | |
|--|---|--------------|
| MITIGATIONS | | DEPENDENCIES |
| <ul style="list-style-type: none"> • P2P handshake policy guidance | <ul style="list-style-type: none"> • Develop DTD implementation strategy for FM ERPs and target accounting systems • USSGL/SLOA/SFIS system compliance • Accounting systems compliant with Purchase Request Data Standard and Procurement Data Standard • Reduction in legacy systems | |

Table 10 – PPBE Standards Overview

11. DoD FM Certification Program (DFMCP)

The primary purpose of this initiative is to establish a framework to guide DoD FM professional development. A second purpose is to provide a consistent, disciplined mechanism to ensure appropriate training and development in key areas such as audit readiness, decision support, career development, and leadership. The Department needs a well-trained financial workforce to solve budget challenges and enable achieving auditable financial statements. While various MILDEPs and ODOs have outstanding FM training programs, the Department has lacked an enterprise-wide framework to guide FM training and development.

| FY 2019 ACHIEVEMENTS | | |
|--|--|---|
| <ul style="list-style-type: none"> • 98% of FM Workforce Members in Good Standing. This metric represents the percentage of FM members who are compliant in both initial certification and continuing education • 97.81% of FM workforce compliant with both required certification level and CET requirements • Over 749,000 OUSD(C) developed web-based training courses completed • Over 2,000,000 hours of training provided through OUSD(C) developed web-based training • The DoD FM Virtual Training Program, established to provide more cross-component training opportunities, became a formal program • FM STARS, a cross-component FM developmental assignment program, became a formal program • Sustained the DFMCP Internal Control Plan with the Corrective Action Plan • Initiated the Non-appropriated Fund FM Certification Program Pilot | | |
| BUSINESS OUTCOMES | CHALLENGES | RISKS |
| <ul style="list-style-type: none"> • Unmodified audit opinion • Stronger internal controls • Informed and productive workforce • Strengthened mission capabilities • Cost effective business environment | <ul style="list-style-type: none"> • Agile and flexible education opportunities available to workforce as the Department’s FM environment evolves • Workforce desire to achieve FM certification | <ul style="list-style-type: none"> • Department’s ability to attract and retain a workforce with the requisite knowledge, skills, and abilities to support ongoing audit and remediation |



| <ul style="list-style-type: none"> • Reduced reconciliation work • Supportable transactions | | |
|---|--|--------------|
| MITIGATIONS | | DEPENDENCIES |
| <ul style="list-style-type: none"> • FM certification program and goals | <ul style="list-style-type: none"> • Training facilities and resources • Department’s FM community | |

Table 11 – FM Certification Overview

12. DATA Act

The Digital Accountability and Transparency Act of 2014 (DATA Act) amended the Federal Funding Accountability and Transparency Act of 2006 (FFATA) to require the public reporting of additional financial data to supplement the current contract and financial assistance award data on USASpending.gov. The goal of the law is to improve the ability of the public to track and understand how the government is spending their tax dollars. The DATA Act requires Agencies to report/certify their financial and award data to Treasury on a quarterly basis, for public consumption on USASpending.gov. This information includes how much funding the Department receives; where the funding comes from (e.g., appropriations, transfers, and carry-forward balances from prior fiscal years); how the department plans to spend the funding; and how the Department actually spent the funding, to include the disclosure of the entities or organization receiving federal funding via contract and grant awards.

While DoD has been reporting data from six of the seven files required under the DATA Act since April 2017, the DoD has continued to make progress to fully satisfy the requirement for transparency while protecting the interests of national security. Working closely with stakeholders across the Federal government, the DoD is now able to achieve full compliance with the DATA Act file reporting requirements by reporting all available system level award financial data. The DoD is fully committed to transparency of the taxpayer dollars entrusted to the Department as it continues to reform and modernize the DoD community for greater affordability, accountability, and performance.

| FY 2019 ACHIEVEMENTS | | |
|---|---|---|
| <ul style="list-style-type: none"> • Achieved full compliance with the DATA Act reporting requirements • Developed and issued a DATA Act Data Quality Plan with component level application | | |
| BUSINESS OUTCOMES | CHALLENGES | RISKS |
| <ul style="list-style-type: none"> • Improved transparency of financial and award data • Improved public confidence in DoD use of taxpayer dollars • Improved financial traceability and reporting | <ul style="list-style-type: none"> • Balancing transparency while protecting national security | <ul style="list-style-type: none"> • Compliance to the DATA Act requirements |
| MITIGATIONS | | DEPENDENCIES |
| <ul style="list-style-type: none"> • Stakeholder collaboration • ADVANA | | <ul style="list-style-type: none"> • Data standardization in DoD and non-DoD systems to comply with the DAIMS • DDRS DATA Act requirement development • Completeness of award financial data |

Table 12 – DATA Act Overview



Conclusion

With this FY 2020-2024 FM Functional Strategy, the FM community strikes a balance between presenting outcomes and specific initiatives that need to occur over the next five years to move the Department down the path to achieving an unmodified audit opinion in the DoD consolidated audit. These efforts will also generate and sustain ongoing business and strategic value that meets the warfighting mission and demonstrates good stewardship of taxpayer funds. The fundamental guiding principles of efficiency, effectiveness, auditability, and security led to the five FM Functional Strategy goals. While initiatives will ultimately end as they accomplish intended objectives, the business needs that prompted them in the first place will continue to evolve. This requires FM leaders to remain focused on FM improvement and the ultimate outcomes of sustaining auditability and optimizing business value. The FM community is committed to working as an enterprise to achieve the DoD's goals and objectives.

Appendix A – List of Terms

| Term | Definition |
|-------------------------------|--|
| Business Intelligence | The applications, infrastructure, tools, and best practices that enable access to and analysis of information to improve and optimize decisions and performance [Gartner] – Encompasses the requirements for transparency, visibility, etc. |
| Core | <p>Per June 2018 DBS IMP Guidance, v4.1, a core system as an “enduring system with a sunset date greater than 36 months from the start of the fiscal year. For consistency, core status in DITPR is calculated the same for both covered and non-covered as more than 36 months.”</p> <p>The DoD organization must ensure that the DBS is compliant with all applicable Business Enterprise Architecture regulations, policy, data standards, and business rules and that appropriate business process re-engineering efforts have been undertaken.</p> |
| Defense Business System (DBS) | An information system that is operated by, for or on behalf of the DoD, including a financial system, a financial data feeder system, a contracting system, a logistics system, a planning and budgeting system, an installations management system, a human resources management system or a training and readiness system. The term does not include a national security system; or an information system used exclusively by and within the defense commissary system or the exchange system or other instrumentality of the DoD conducted for the morale, welfare and recreation of members of the armed forces using non-appropriated funds (10 U.S.C. § 2222 (j)(1)). Ref. DoD OCMO Defense Business System Information Technology Investment Guidance, v4.1 |
| Driver | A resource, process, or condition that is vital to success. |
| Enabler | Methodology that, alone or in combination with associated technologies, provides the means to generate giant leaps in performance and capabilities. |
| Feeder | A system that passes information to another system that supports an organization’s core mission. |
| Functional Strategy | Functional Strategies are developed by the PSA and describe business functions, business outcomes, measures, and targets. Functional Strategies will be used to drive BEA content, which is the DoD’s blueprint for improving DoD business operations and the reference model for DBC certification. The Functional Strategy is the core document that creates the unique business position of the organization and is supported by the activities that it plans to achieve. It prioritizes and identifies the enterprise’s pressing needs while providing tactical strategic direction for a defined business area. It enables outcome-driven investment decisions that enhance the business operations within a functional area in synchronization with other business |

| Term | Definition |
|-------------------------------------|---|
| | areas. Functional Strategies must align with the ASP and will also help to refine and enhance future versions of the ASP. |
| Goal | An aim or desired result. Statements of what you wish to achieve over the period of the strategic plan. |
| Initiative | A specific activity to achieve a goal executed by a designated component and including an approved pilot. |
| Legacy | Per June 2018, v4.1 Defense Business Systems Investment Management Guidance, “A system with a sunset date within 36 months from the start of the fiscal year. For consistency, legacy status in DITPR is calculated the same for both covered and non-covered as a life cycle end date less than or equal to 36 months. Legacy DBSs are not required to assess or assert compliance with applicable BEA requirements, but they are required to perform mappings in IBF-DAP to applicable BEA Operational Activities, Business Capabilities, Processes, System Functions, and E2Es. Legacy systems are not allowed to obligate modernization dollars.” |
| Organizational Execution Plan (OEP) | The OEP is the means through which the DoD Components propose how they will deliver the DoD’s business priorities. A completed plan will demonstrate how, through sound investment management, a DoD Component’s streamlined portfolio of systems will support the business areas and sub-functions contained within the BMAs. The plan is divided into sections that address each Functional Strategy. The plan is intended to be the assembly of business system investment requests from which the DBC certifies. |
| Outcome | A specific, vital, or positive organizational or environmental change that moves the program forward to its desired future. |
| Pilot | A small-scale, short-term test or trial conducted to evaluate feasibility, time, cost, adverse events, and provide quantitative proof that the system / process / approach has potential to succeed on a full-scale basis [adapted from multiple sources]. |
| Shared Service | A service provided by a centralized, dedicated unit (Shared Service Center including people, processes, and technologies) focused on defined business functions. Execution and long-term delivery may be by internal enterprise personnel or by service providers, or some combination thereof. Consequently, the definition of shared services is independent from the sourcing option for delivery. [Adapted from Gartner] |

| Term | Definition |
|----------------|--|
| SLOA-Compliant | <p>Standard Line of Accounting-Interfaced.</p> <p>Able to pass Standard Line of Accounting data elements through its interfaces, but not in Standard Line of Accounting format.</p> <p>Will use Global Exchange as Standard Line of Accounting translator to transform data between its format and Standard Line of Accounting format.</p> |
| SLOA-Ready | <p>Standard Line of Accounting-Configured. Contains Standard Line of Accounting data.</p> <p>Able to pass Standard Line of Accounting data elements in Standard Line of Accounting format through its interfaces.</p> <p>Will use Global Exchange as Standard Line of Accounting validator.</p> |
| Subsumed | <p>Terminated on capability included in another solution.</p> |
| Sustainment | <p>Ongoing operations and maintenance, including required product licenses, product upgrades, and compliance with relevant law, regulation, and policy.</p> |
| Target | <p>System to replace some or all of the functions and users of a legacy system.</p> <p>Systems included in the target environment.</p> |

Appendix B – List of Acronyms

| Acronym | Description |
|----------|--|
| CAP | Corrective Action Plan |
| CARS | Central Accounting and Reporting System |
| CASH | Cash Accountability and Traceability |
| CCB | Configuration Control Boards |
| CFCM | Component Functional Community Managers |
| CIR | Collections Information Repository |
| DATA Act | Digital Accountability and Transparency Act of 2014 |
| DBS | Defense Business System |
| DCAS | Defense Cash Accountability System |
| DITPR | DoD Information Technology Portfolio Repository |
| DoD | Department of Defense |
| DTD | Direct Treasury Disbursing |
| E2E | End-to-End |
| ECM | Enterprise Cost Management |
| EFD | Enterprise Funds Distribution |
| FBWT | Fund Balance with Treasury |
| FFMIA | Federal Financial Management Improvement Act of 1996 |
| FIAR | Financial Improvement and Audit Readiness |
| FISCAM | Federal Information System Controls Audit Manual |
| FM | Financial Management |
| FMR | Financial Management Regulation |
| FY | Fiscal Year |
| FYDP | Future Year Defense Program |
| GAAP | Generally Accepted Accounting Principles |
| GAO | U.S. Government Accountability Office |
| GT&C | General Terms and Conditions |
| GEX | Global Exchange |
| GT&C | General Terms and Conditions |
| HHG | Household Goods |
| IDGS | Intragovernmental Data Standard |
| IGT | Intragovernmental Transaction |
| IPA | Independent Public Accountant |
| IPAC | Intragovernmental Payment and Collection System |
| IPP | Invoice Processing Platform |
| IT | Information Technology |
| JITC | Joint Interoperability Test Command |
| JV | Journal Voucher |
| L&MR | Logistics and Material Readiness |
| MICP | Managers Internal Control Program |
| MILDEP | Military Department |
| NDAA | National Defense Authorization Act |
| NFR | Notice of Findings and Recommendations |

| Acronym | Description |
|--------------|---|
| NTS | Non-Temporary Storage |
| OEP | Organizational Execution Plan |
| ODCFO | Office of the Deputy Chief Financial Officer |
| ODCMO | Office of the Deputy Chief Management Officer |
| ODO | Other Defense Organizations |
| OFCM | Office of the Under Secretary of Defense Functional Community Manager |
| OUSD(C) | Office of the Under Secretary of Defense (Comptroller) |
| OUSD(P&R) | Office of the Under Secretary of Defense for Personnel and Readiness |
| OMB | Office of Management and Budget |
| P2P | Procure-to-Pay |
| PAM | Payment Application Modernization |
| PIID | Procurement Instrument Identification |
| PIR | Payment Information Repository |
| PMO | Program Management Office |
| PP&E | Property, Plant and Equipment |
| PPBE | Planning, Programming, Budgeting, and Execution |
| PDS | Procurement Data Standard |
| PR | Purchase Request |
| PRDS | Purchase Request Data Standard |
| PY | Prior Year |
| QDR | Quadrennial Defense Review |
| SCoA | Standard Chart of Accounts |
| SCG | Security Classification Guide |
| SEMOSS | Systematic Open Source Software |
| SFIS | Standard Financial Information Structure |
| SLOASLOA | Standard Line of Accounting |
| SNAP- IT | System Network Approval Process Information Technology |
| SPR | Service Provider Readiness |
| SSAE | Statement of Standards for Attestation Engagement |
| TFA | Transportation Financial Auditability |
| TI-97 | Treasury Index-97 |
| TPPS | Third Party Payment System |
| TWCF | Freight, Transportation Working Capital Fund |
| ADVANAADVANA | Universe of Transactions |
| USSGL | United States Standard General Ledger |
| | |