
DEFINING THE UNIT FINANCIAL MANAGEMENT PROCESS

Following the D-M-I process improvement method described in Appendix A, the FM PIT began by developing a detailed common understanding of the financial management process at the installation level. We focused on tactical-level operating units rather than on higher-level activities or industrial-type organizations (such as depots) during this phase of our research. This chapter documents our definition of the unit-level financial management process. Following a discussion of the information a company commander needs to make financial management decisions, we then turn to how we define the unit financial management process. We first look at what the inputs to the unit's financial management system are and then at what the outputs are. Next, we map the unit financial management process. We conclude by mapping some other related processes.

INFORMATION THE COMPANY COMMANDER NEEDS

The ultimate question that the unit financial management process must answer for the company commander is, "How much money is available to perform the missions for which he is responsible?"¹ In some sense, this is analogous to an individual's personal financial

¹Most divisions have decided to delegate financial responsibility for parts orders to the company level. If budgets were not delegated to the company level, then decisions to accept or reject requisitions for financial reasons would have to be made at a higher level. Although this delegation of financial decisionmaking creates a greater workload for company commanders, it also allows the commander, who has the most detailed knowledge of his company's needs, to determine which items to buy within a limited budget.

management process, where he has a bank balance, a flow of incoming funds, a set of bills, and some expected future expenses. Figure 2.1 shows the information a company commander must have to make financial decisions. The information coming in to the company commander includes mission-related information, such as upcoming training events; logistics information, such as purchases from the supply system and assets on hand; and financial information, such as budget, prices and credits, and additional funds. To keep his equipment ready, the company commander must decide whether to buy, repair, or return items or defer action within the funding that he has been allocated. These decisions may have ripple effects on higher echelons, just as decisions made at the higher levels ripple downward.

DETERMINING INPUTS TO, AND OUTPUTS FROM, THE UNIT FINANCIAL MANAGEMENT PROCESS

In the D-M-I methodology, the first steps in defining a logistics process are to identify its inputs and outputs. Although the unit financial management process intertwines with other logistics

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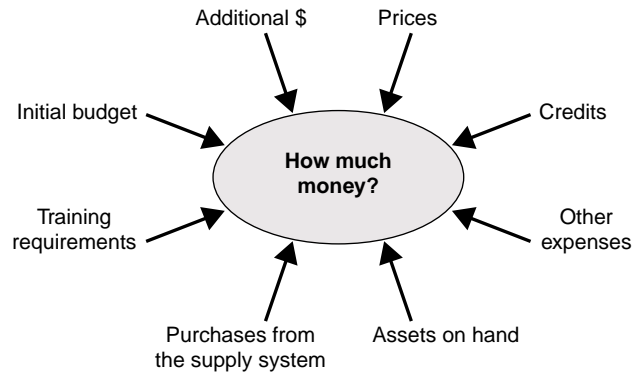


Figure 2.1—Information a Company Commander Must Have to Answer the Question of How Much Money Is Available

processes—order and ship, stockage determination, and repair—it mainly deals with information, both as an input and as an output. Figure 2.2 shows the inputs to, and the output from, the unit financial management process.

As the figure shows, inputs to the unit financial management process include the price of an item to be purchased, the amount of credit expected for the return of an item, supply information on the number and price of parts ordered and received and on the parts returned to the supply system, and the amount of budgeted funds remaining. These inputs to the unit financial management process are outputs created by other higher-level financial management and supply processes, shown in the upper part of Figure 2.2. For example, the catalog provides information on prices, supply reports provide information on parts ordered, received, and returned, and financial reports provide information on remaining funds, based on transactions that

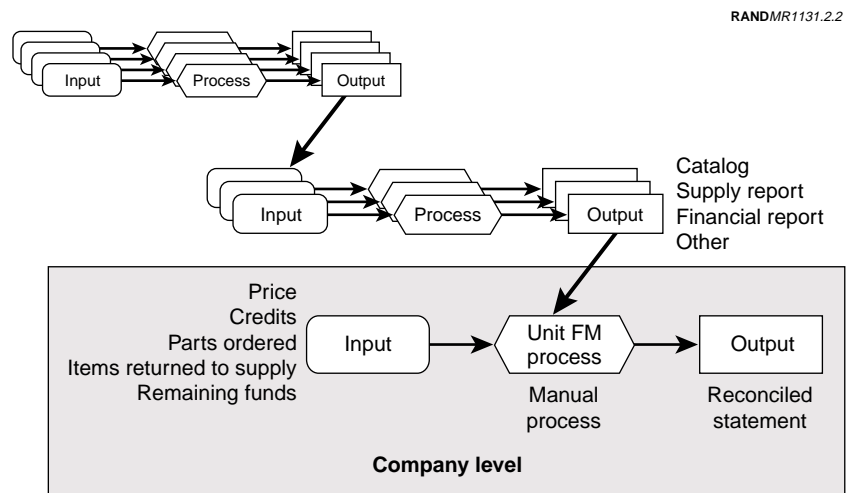


Figure 2.2—Outputs of Other Processes Become Inputs to the Unit Financial Management Process

have cleared.² Except for the catalog,³ the outputs of these processes are usually a series of reports—frequently on paper—that must be reconciled by the company commander or his staff to determine how much money is available. This reconciliation process is unique at each unit: some use “home-grown” spreadsheet programs and others use paper and pencil (Figure 3.1 in the next chapter is an example of such a paper-and-pencil reconciliation).⁴

The output of the unit financial management process is a reconciled statement telling the commander how much money is available for the remainder of the period.⁵ Ideally, reports from the financial and supply systems should agree on items received and paid for. But in practice this is not usually the case. Thus, unit-level financial reconciliation is a complex, time-consuming task. From the customer’s perspective the need for manual reconciliation appears to be the product of a logistics financial management process that delivers conflicting information to the company commander. Therefore, we focused on mapping the processes that deliver financial and supply information to the company commander to identify the sources of discrepancies among the various information sources. We did not map the reconciliation process itself, since it should not be necessary if consistent information is delivered from the finance and supply systems.

²We did not address the “cash flow” transactions (disbursements and payments) in this research.

³The catalog process is discussed at the end of this chapter. The price of a part is obtained from the Army’s catalog, and credits are calculated by applying a percentage credit factor to the prices in the catalog based on a return advice code assigned by the supply system. In the future the catalog will also contain NSN-by-NSN credit information.

⁴While current Army policy holds commanders at each level accountable for financial management, Army policy does not specify a format or system to assist commanders with their financial management tasks.

⁵Usually the reports indicate the funds available for the remainder of the year, but typically, units do not receive their entire year’s budget at the beginning of the year. Funds are allocated in increments throughout the year. Therefore, the commander only has access to the amount of money phased into the organization to date.

MAPPING THE UNIT FINANCIAL MANAGEMENT PROCESS

To map the process that delivers supply and financial information to company commanders for spare parts,⁶ the FM PIT began by “walking through” the process, focusing on the perspective of a unit commander as a customer. The view presented here divides into three parts: (1) the information from the logistics supply system; (2) the interfaces between the Army logistics supply and financial systems; and (3) management reviews.

Flow of Requisitions Through the Logistics Supply System

The flow of requisitions through the logistics information system is shown in Figure 2.3. This element of the unit financial process begins when a unit (a company-level organization) enters an order or makes a return through the Unit-Level Logistics System (ULLS) or the Standard Army Maintenance System (SAMS).⁷ When a request⁸ is accepted by the servicing Supply Support Activity’s (SSA’s) automated system, it becomes a financial commitment, that is, a promise to pay similar to writing a check. The request then passes through the Standard Army Retail Supply System (SARSS-1), located at the servicing SSA. If the item is available at the SSA, it is delivered to the company, and the record of the transaction passes through SARSS to the financial system.

⁶While the focus here is primarily on Class IX, spare parts, there is also some discussion of Class II, clothing, and Class IV, combat engineer supplies, such as barbed wire, cement, etc.

⁷“Company” is used in the process maps to indicate the unit level; however, the same process applies to Troop, Battery, or other requesting activities.

⁸Documents received from a customer that result in the issue of supplies are requests. A supply request is initiated by a using unit (to the supporting SSA). See the glossary in Army Publications and Printing Command, Inventory Management Supply Policy Below the Wholesale Level, AR 710-2, October 1997. The request is recorded either through ULLS or SAMS. A request becomes a requisition when it is entered into SARSS by the SSA. “A supply request initiated by the SSA in a Military Standard Requisitioning and Issue Procedures (MILSTRIP) format or a unit supply request converted to a MILSTRIP format by the SSA for submission to the next higher source of supply” is called a requisition. Requests are not assigned a document identifier code (DIC); requisitions are. The requisition DIC A0_ is commonly used to identify a request. See PAM 710-2-2, paragraph 5-4 a.

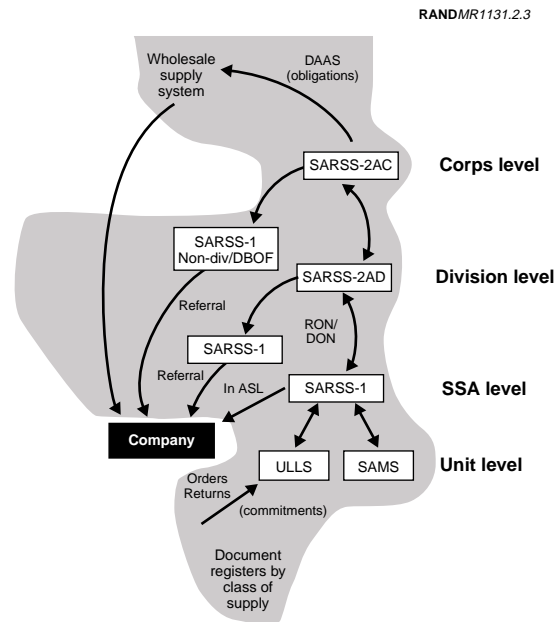


Figure 2.3—Simplified View of a Requisition Passing Through the Army Logistics Supply System

If the item is not available at the SSA and there are no technical errors in the request, it is assigned a document order number (DON) by the SSA, depicted in Figure 2.3 as the request order number/ document order number (RON/DON) process (in some cases, the unit RON is replaced by the SSA DON), and passed to the SARSS-2AD system at the division level. The SARSS-2AD system can search for the item in the Asset Balance File (ABF) of other SSAs in the division, so it may refer the requisition elsewhere within the division. These referral transactions are also recorded in SARSS-2AC and passed to the financial system.

Requisitions for items that are not available within the division pass on to the SARSS-2AC system at the corps level. The SARSS-2AC system can make referrals to nondivisional SARSS-1 systems on the installation, if the item is stocked at the Directorate of Logistics (DOL), for example. If the item is not available on the installation or if

referrals are rejected, the requisition leaves the installation and goes through the Defense Automated Addressing System (DAAS) to the wholesale supply system. This type of transaction is also sent to the installation's financial system to be recorded as a financial obligation. In all cases, the materiel flows through the servicing SSA to the company, regardless of the source of supply.

Flow of Financial and Logistics Information Back to the Unit

In Figure 2.4, the financial information system (shown in the lighter gray region on the left) has been added to show the relationship between the financial and logistics systems. Both on-post and off-post transactions are recorded as obligations in SARSS-2AC and passed on tape (referred to as F02, F08, and F09 tapes) to the Standard Army Financial Inventory Accounting and Reporting System

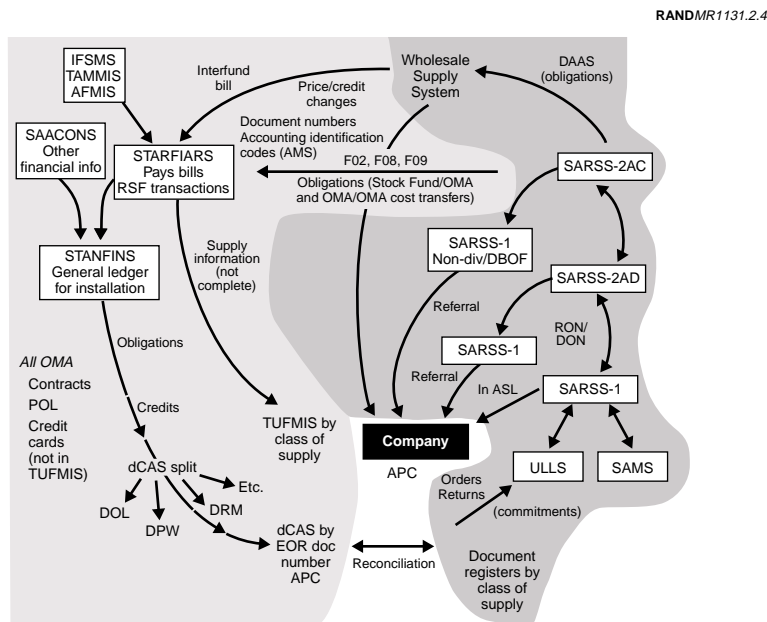


Figure 2.4—The Army Logistics Supply System with Financial System Interfaces

(STARFIARS). These transactions include both OMA-to-stock fund and OMA-to-OMA cost transfers. The wholesale supply system sends interfund bills to STARFIARS for off-post transactions. If a substitute item is provided or a change occurs in the price or credit, this information is recorded in STARFIARS when the bill arrives. Supply transactions from STARFIARS, along with other financial information, feed into the Standard Financial System (STANFINS), which keeps the accounting general ledger for the installation.⁹

Companies may receive financial information from either the Tactical Unit Financial Management Information System (TUFMIS) or through the databased Commitments Accounting System (dCAS), which is then reconciled with logistics information recorded on document registers. TUFMIS draws information from STARFIARS, so it includes only supply transactions. Other transactions (such as contracts, petroleum, oils, and lubricants (POL), and credit card purchases) are omitted. However, TUFMIS is organized by “class of supply,” which makes it easier for the company to match with its document registers. TUFMIS is being phased out at most Army installations, but at the time of our initial research it was still used at a few installations, such as Fort Campbell.

Information in dCAS is based on STANFINS, so it includes all of the unit’s financial transactions. The dCAS reports are distributed at the installation level to the DOL, the Directorate of Public Works (DPW), the Directorate of Resource Management (DRM), and other organizations. The DRM further disseminates the information to brigades, which pass it to battalions, and then to companies. Thus, dCAS information may take longer to reach the company level than TUFMIS information does. It is also organized by “element of resource” rather than “class of supply” and includes multiple transactions (e.g., from

⁹Other systems shown on the chart but not previously identified are:

IFSMS: Integrated Facilities Management Information System;

TAMMIS: Theater Army Medical Management Information System;

AFMIS: Army Food Management Information System; and

SAACONS: Standard Army Automated Contract System (this system is being replaced by Procurement Desktop System (PDS)).

These systems send other types of financial transactions into STARFIARS and/or STANFINS.

the wholesale system to the SSA and from the SSA to the company) that cancel each other out. Thus, it is often harder to match with the company's document registers.¹⁰

Whether the company uses TUFMIS, dCAS, or both, it must go through a reconciliation process. Reconciliation can be thought of as the unit balancing its "checkbook." The unit "writes a check" when it makes a commitment, and the "check is cashed" when the transaction is recorded in STANFINS. However, since requisitions can be canceled or modified, the company must verify that payments are matched with the physical receipt of items. This process is a time-consuming, frustrating, manual process to reconcile logistics and financial information. Therefore, it is difficult for the unit to keep track of how much funding it has actually spent, how much it has committed on requests still being processed, and how much is left in its budget. In most companies this financial responsibility is an added duty for a uniformed officer, warrant officer, or enlisted soldier—there is no Army standard for who performs this function.

Management Reviews

Figure 2.5 shows the logistics information system in the dark gray shaded region, the financial information system in the lighter gray region on the left, and the management reviews that are imposed on logistics requisitions on the far right of the chart in the unshaded region.

When a company enters a request over a certain dollar threshold (typically \$500), it must be checked and signed off by a company commander before it passes into the automated logistics system.¹¹

¹⁰"Element of resource" codes group expenditures in different categories than do "class of supply" codes. The important distinction for the unit commander is that his planning guidance for training exercises shows resources by class of supply. It is not easy to translate between the two coding systems. So the unit commander will plan to spend a specific sum for spare parts (Class IX) in support of a specific training exercise, and the dCAS report will not show what was actually spent for Class IX during the exercise. It will show what was spent for supplies and materials (EOR code 26).

¹¹This is a review in ULLS, and the dollar value is hard-wired by the ULLS designers. There is no similar review in SARSS for customer requests.

at installations that house a corps headquarters). These financial checks may cause the requisition to be delayed or canceled.

Requisitions that are accepted pass on to the SARSS-2AC system at the corps level. If the item is not in stock on the installation, it goes through a final set of financial checks by the installation DRM or the COSCOM comptroller. These can include reviews of high-dollar requisitions or a check to ensure that the total dollar limit on daily expenditures is not exceeded. Although the SARSS-2AC system is located at the corps level, these thresholds are set by the installation DRM for installations that do not house a corps headquarters, rather than by the corps itself.¹³ Requisitions that exceed the daily dollar limit are typically delayed rather than canceled, since they may be allowed to go through the next day.

Figure 2.5 looks extremely complicated, just as the financial system appears incomprehensible to many users. Nevertheless, this map helps describe the flow of financial information from the initiation of a supply action through the receipt of a credit or debit to the unit's ledger.

As mentioned above, the map shown in Figure 2.5 is a generic installation map. Also, we focused on tactical-level organizations and not on other installation-tenant activities. Each Army installation would have somewhat different installation-specific maps, because both financial and logistics processes vary by site. For example, at Fort Hood, unlike Fort Campbell, TUFMIS data are not fed back to the company.

Variations in the Unit Financial Management Process for Returns and Credits

Return transactions follow essentially the same information paths through SARSS and the installation's financial management systems. Figure 2.6 shows the basic process map of the credit flows. This map is derived from Figure 2.5, with added details on credit flows.

¹³This edit is built into SARSS, but the level is set locally. Technically, the level is set by the installation in coordination with the division, but in practice, it is usually set by the DRM.

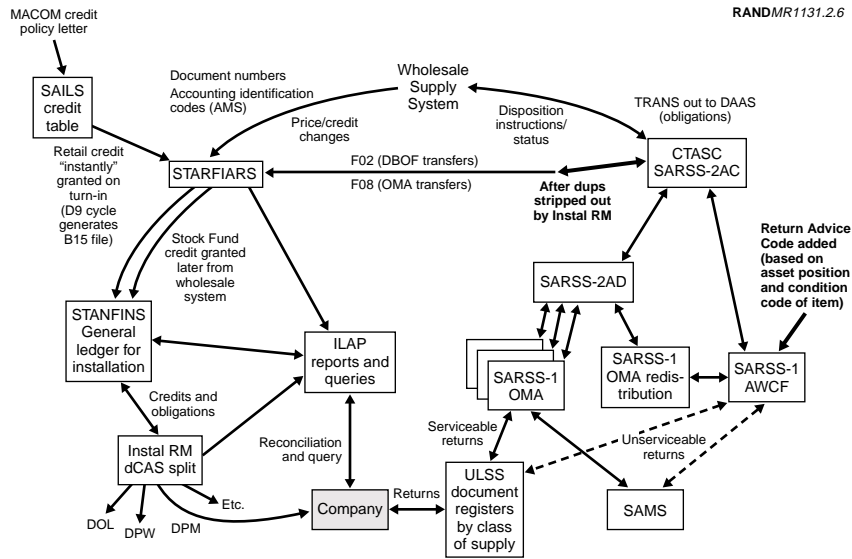


Figure 2.6—Map of the Credit Flows Process

When an ULLS or SAMS customer returns a serviceable item to the supporting SSA for credit, the transaction is entered into SARSS-1. The item is reported to SARSS-2AD, which conducts a search of other SARSS-1 activities within the division to determine whether any of them has a need for the item. If the item is needed by another SSA or if it is stocked and needed at the SARSS-1 OMA redistribution site, it remains within the division’s OMA account. The receiving SARSS-1 site posts the item as an increase to its inventory, and a record of the transaction is forwarded to STARFIARS through SARSS-2AC.

If the item is not needed elsewhere within the division or if it cannot be sold within a specified time by the redistribution activity, then the item is turned in to the AWCFC SARSS-1 activity. The AWCFC SARSS-1 activity determines whether it has a need for the item and assigns a Return Advice Code based on need and the condition of the item.¹⁴ These transactions are reported to STARFIARS through SARSS-2AC.

¹⁴Credit policy is discussed in greater detail in Chapter Four.

Unserviceable items (i.e., items needing repair) are reported directly to the AWCF SARSS-1 activity. If the installation has a Reparable Exchange (RX)¹⁵ repair program for the item (or if there is an Integrated Sustainment Maintenance (ISM) repair program)¹⁶ and the item is needed on the installation, the customer will receive the RX credit by materiel category (MATCAT). If the item is not repaired or not needed locally, the customer receives a lower credit rate based on the MATCAT and type of item.

When the AWCF SARSS-1 site does not need a serviceable or unserviceable item, it forwards a query through SARSS-2AC and DAAS to the source of supply (Army National Inventory Control Point (NICP), DLA, or GSA). Upon receipt of the query, the source of supply sends a response that provides disposition instructions (e.g., return to source of supply, send to the Defense Reutilization and Marketing Office (DRMO), etc.) and information on whether to expect credit.¹⁷ The AWCF SARSS-1 activity ships the item or disposes of it based on receipt of the response and sends a notification to the source of supply that the item has been shipped. The receiving depot notifies the source of supply when it has received the item.¹⁸ When the source of supply receives either of these notifications, it determines credit¹⁹ (based on wholesale inventory position and condition of the item) and generates a credit decision. If the item is needed at the wholesale level, credit is based on latest acquisition cost (purchase price minus surcharge) for a serviceable return, or latest acquisition cost minus repair cost for an unserviceable return. The source of supply also generates a financial transaction to STARFIARS to refund the credit to

¹⁵Each installation has a reparable exchange program to repair items such as radiators, generators, fuel pumps, etc., that are repairable at the GS level or below.

¹⁶The ISM program was implemented to allow installations to share their GS repair capability. Installations compete to become the “center of excellence” for repair of specific items. Other installations send their broken items to the center of excellence for repair.

¹⁷This is credit granted from the WSF or other source of supply to the RSF. It depends on the condition of the item, the acquisition or repair cost of the item, and the wholesale inventory position.

¹⁸A document identifier code (DIC) that begins with D6_ indicates a nonprocurement materiel receipt.

¹⁹This is credit from WSF or other source of supply to RSF.

the RSF. If the item is not needed at the wholesale level,²⁰ no credit is given.

Any difference between the credit paid by the RSF to the OMA customer and the credit paid by the wholesale source of supply to the RSF is absorbed by the RSF. The RSF also issues credit immediately to the OMA customer when the item is returned to the AWCF SARSS-1 site, even though the RSF must wait until it receives credit from the wholesale supplier. Furthermore, since the credit issued to the OMA customer is based on a percentage of the purchase price, the dollar value of the credit changes if the purchase price changes.

OTHER MAPS OF RELATED PROCESSES

In addition to the series of maps capturing the overall retail-level financial management process (Figures 2.3–2.5), the FM PIT produced a set of more specific maps of other financial management processes, including the process of getting financial information into the Integrated Logistics Analysis Program (ILAP) at Fort Campbell, the end-of-year financial review process and the catalog distribution process. These are discussed below.

Information Flows into ILAP

Early in 1997, as a focused implementation of VM began at Fort Campbell, the division was struggling with the implementation of ILAP as a financial tool. It is important to note that ILAP does not change any data or systems—it is not an official transaction system. It is simply a data-processing tool for integrating logistics and financial information; as such, ILAP is only as good as the data downloaded into it. Figure 2.7 shows more detail on how ILAP interfaces between the supply and financial systems at Fort Campbell. The processes in gray on the left side of the map represent the same financial management processes and systems that appear in Figure 2.5—the overall map of the logistics supply and financial systems

²⁰The technical definition for “need” at the wholesale level is whether the asset position is below the “decline” level. This level is computed by the economic retention model. The model computes an economic tradeoff between the cost of retaining items versus the risk of having to procure the items in the future.

specify routine, fixed-format reports. The intent is to have an automated report that assists with reconciling supply and financial information at the division level. The system does not perform the reconciliation, but rather presents a history of the relevant transactions. It is up to the user to decide which information is more accurate and then manually correct errors in the source system. ILAP does not have the ability or authority to change source information in logistics or financial management transaction systems. ILAP provides research capability for the division comptroller to reconcile both supply and financial discrepancies that company commanders identify.

Map of the End-of-Year Financial Review Process at Fort Campbell

By following the requisitions through the system, the FM PIT discovered how financial managers operate during periods of tight fiscal control—either at end of the fiscal year or when funding levels are significantly constrained during a given fiscal year.²² (See Figure 2.8—notice that the lower left corner of the figure comes from the center portion of Figure 2.5.)

During those times, financial managers²³ held requisitions for an additional “final” review before passing them to the wholesale supply system. The requisitions were held in a manager review file (MRF) until a financial manager checked the total dollar value and then increased the dollar counters in SARSS to allow the requisitions to pass. There were no indications that any requisitions were ever canceled or rejected as a result of this review. The potential delay was overcome by estimating the amount of funds required for each day and then entering the estimated amount through the SARSS-2A workstation the day before the funds were required. If the daily require-

²²The controls discussed in this chapter always occur at the end of the fiscal year but may occur at other times during the year when funding levels are constrained. Because budgets are allocated in “phases” throughout the year, organizations can run low on “phased funds” just as they can run low on funds at the end of the year.

²³The “end-of-year financial managers” at installations are typically a division/installation composite team comprising representatives from the DMMC, the installation resource management office, and the installation director of logistics’ RSF manager.

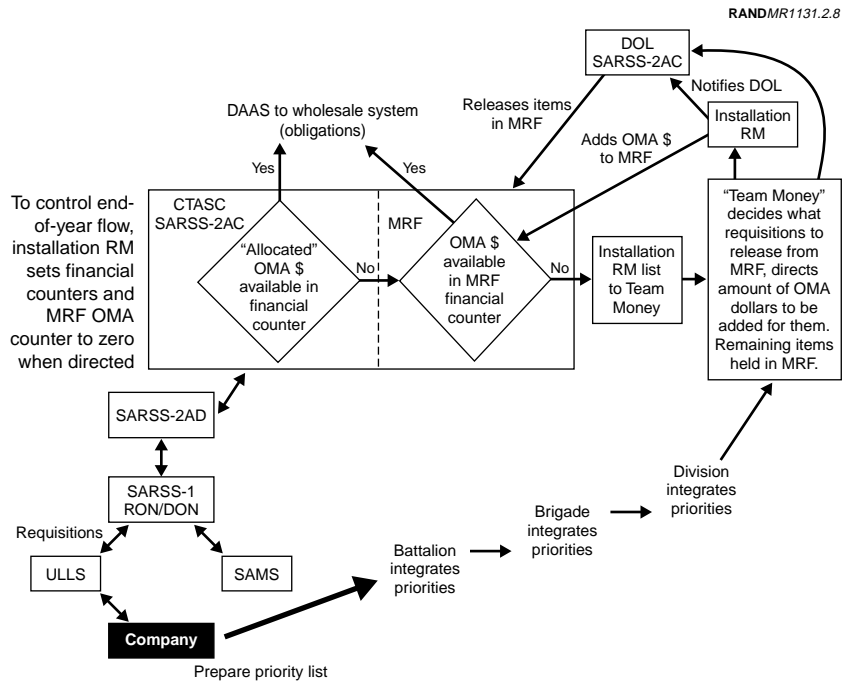


Figure 2.8—Map of the End-of-Year Review Process at Fort Campbell

ment exceeded the estimate, the financial manager reviewed the requisitions to determine why. The financial manager then determined whether additional funding allocations should be made; at Fort Campbell, a division/installation composite team of financial and supply managers—“Team Money”—made these decisions.

The FM PIT’s review of parameter settings at the SARSS-2AD level (i.e., DMMC/CMMC) indicated that many of the same customer documents were sent to yet another manager for a second review. In most cases, the manager review consisted of calling the same person who had approved the request at the unit level. There were no indications that any requests were ever rejected. (See Chapter Four for recommended changes in this process.)

Map of the Catalog Distribution Process

We observed that the automated systems retrieved item prices from an on-line catalog at the time of the transaction. In many cases, the catalog being used at one location at a given time was different from that being used at other locations at the exact same time. Therefore, it became apparent that the catalog distribution process also had to be mapped. During process walks, installations complained that the new monthly catalog did not arrive until the middle of the month, and we found that to be true.²⁴

Figure 2.9 shows the map of the Army's monthly catalog distribution process as it existed at the time of our study (January through November 1998).²⁵ Our map shows generic timelines, but this discussion focuses on specific months to illustrate one example. For the catalog effective April 1, for example, the Army Inventory Control Points (ICPs) input their price changes or additions into the Army Commodity Command Standard System (CCSS) between January 1 and February 28 (30 to 60 days prior to effective date). Defense Logistics Information Service-Army (DLIS-A) makes other changes as guided by the AMC major subordinate commands.²⁶ These changes are then sent by CCSS to the Army Logistics Support Activity (LOGSA) for Army-unique data and to the Federal Logistics Information System (FLIS) for common items. After FLIS updates its files, it sends the updated information to LOGSA. LOGSA integrates the

²⁴DoD has an "effective dating" process—updates are effective the first day of the month—that is supposed to ensure retail-level supply activities see the same data as the wholesale inventory control point (ICP). However, personnel in the Army Secretariat (ASAFM&C) and at RAND confirmed that catalog CD-ROMs effective the first of the month arrived between the 11th and the 17th of the month.

²⁵This section discusses only the monthly update process to the catalog rather than the annual price change process. It highlights several causes of differences between catalogs at unit-level supply and maintenance activities and at wholesale and retail supply activities.

²⁶The DLIS-A is the section of DLIS dealing with common items acquired by the Army. DLIS-A has computers that are connected to CCSS. When certain files are changed in CCSS, the DLIS-A functional analysts, based on guidance from the Army MSC, change appropriate catalog-related CCSS files pertaining to DoD common items. At the time of our study, the Army was in transition to this new procedure; the Army previously had responsibility for this catalog-input procedure. This new procedure will have information updates in CCSS for common items directly made by DLIS-A personnel rather than by the Army.

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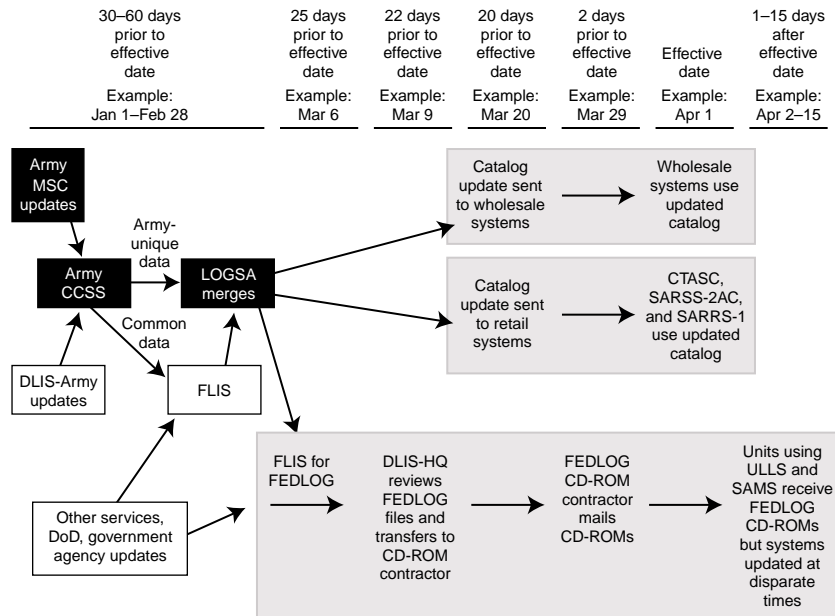


Figure 2.9—Map of the Army’s Monthly Catalog Process

information from CCSS and from FLIS into a database and prepares an updated product (the Army Master Data File (AMDF), Supply Bulletin 700-20, and packaging information) in versions compatible with Army supply and maintenance systems. The Army then has until March 6 (25 days prior to effective date) to submit these changes as input for FLIS’s Federal Logistics (FEDLOG) database operated by DLIS. FLIS compiles the new Army catalog as part of the FEDLOG catalog, to be effective April 1. DLIS Headquarters reviews the new FLIS FEDLOG and then provides it to a contractor for reproduction in CD-ROM format and distribution to DLIS customers. This step takes about three days.

The contract specifies that the CD-ROMs will be mailed to customers no later than 20 days after DLIS provides the FEDLOG files to the contractor. DLIS’s objective is to have the CD-ROMs mailed no later than the end of the month prior to the effective date. These CD-ROMs

are mailed to customers just as any Army publication is mailed. Thus, it is likely that the unit clerks do not receive their monthly catalog until sometime between the 2nd and the 15th of the month. The supply and maintenance specialists operating ULLS and SAMS most likely receive the updated CD-ROMs even later.

On a parallel timeline, LOGSA integrates the information from CCSS and FLIS into its database and by March 20, LOGSA sends the catalog on magnetic tapes to all Army Corps/Theater ADP Service Center (CTASC) sites and CCSS sites. It is up to the receiving sites to load the tape so that it is available on the first of the month. The CTASC sites extract changes from their version of the catalog and send them as updates to the SARSS-2AC and the SARSS-1 sites under their purview. Therefore, under then-existing procedures, it was nearly guaranteed that the supply system catalogs would be out of phase with their customers' (i.e., ULLS and SMAS) catalogs for anywhere from a couple of days to several weeks. Discrepancies between the catalogs used at various levels are another source of potential differences between the unit's supply and financial records, further increasing the manual reconciliation workload.

CONCLUSION

A review of all the process maps makes it very clear that financial and logistical reconciliation of both prices and credits is a time-consuming, manual process. It is often difficult for the unit to track its commitments, obligations, and credits. Funds availability requires units and the comptroller to reconcile logistical and financial transactions periodically. Therefore, units must maintain an informal ledger (dCAS, TUFMIS, spreadsheets) to estimate the availability of funds and exercise decentralized fund control. This problem suggests clear areas for process measurement, which is the focus of Chapter Three.