Cost Management Steering Group

08 February 2017
1300 – 1500
3E387

1. Mailbox: usarmy.pentagon.hqda-asa-fm.mbx.cmsg@mail.mil
2. Web conference: https://conference.apps.mil/webconf/CMSG
3. Phone Number: (703) 545-5444
   Conference Access Code: 692 5270 703

Agenda

- Opening Remarks
- Standard Labor Time Tracking (SLTT) Study Advisory Group
- Every Dollar Counts (E$C)
- Cost Management End-to-End (E2E) Process
- AMC Cost Management Issue
- Cost Management Strategic Plan (CMSP)
- Closing Comments

SLTT Solution Space

Cost Management Steering Group

Adapt/Modify Existing Government Systems

Customize Labor Tracking/Time & Attendance Capabilities

Single/Multiple ERPs

- ✓ AEP
- ✓ LMP
- ✓ GFEBS
- ✓ GCSS-A
- ✓ AESIP

Alternatives

- *Adapt SAP modules in multiple, existing Government ERP software (i.e. LMP, GFEBS, and GCSS-A)*
- Adapt SAP *modules in single, existing Government ERP software (e.g. AESIP, GFEBS)*

Non-ERP

- ✓ ATAAPS

Alternative

- *Modify ATAAPS*

Implement New Commercial Software

Establish COTS Standalone

COTS-ERP (Standalone)

COTS ERP Software Solution

Alternative

- *Implement COTS ERP*

COTS Non-ERP (Standalone)

COTS Non-ERP Software Solution

Alternative

- *Implement COTS non-ERP*

Terms

Adapt – Configure/Customize Labor Tracking and/or Time & Attendance SAP modules within the software

Modify – Configure/Customize Labor Tracking and/or Time & Attendance within the software

Implement – Establish new COTS standalone

Close-hold Pre-decisional

SLTT Study Alternatives
to fully meet SLTT requirements

Alternative 1: Adapt SAP modules in Army ERP(s)

1A. Adapt modules in multiple, existing Government ERP software (i.e. LMP, GFEBS, and GCSS-A)

1B. Adapt modules in a single, existing Government ERP software (e.g. AESIP, GFEBS)

Alternative 2: Modify single Government non-ERP (ATAAPS)

Alternative 3: Implement new COTS Standalone

3A. Implement COTS ERP

3B. Implement COTS non-ERP

SAG Decision on Alternatives: ☐ Concur ☐ Non-Concur

Close-hold Pre-decisional

COTS RFI Responses

ERP

- Oracle
- SAP

Non-ERP

- Acustaf
- Clockwise by GHG Corporation
- ITS Consulting
- Kronos
- Novatime
- Quadyster

Close-hold Pre-decisional

Every Dollar Counts (E$C)

E$C Overview

Cost Management Steering Group

Army Directive 2016-16	Implementation Guidance
"Changing Management Behavior: Every Dollar Counts" Signed by then Acting Secretary of the Army on Tax Day, 15 April 2016.	Two components of Every Dollar Counts: one analytical, one cultural.
Requirements. 1. Define and measure outcomes at 2-star HQ and above 2. Tie resource expenditures to outcomes 3. Identify and cost the critical processes that produce outcomes 4. Eliminate "use or lose" funding practice 5. Reward leaders and organizations who demonstrate exemplary stewardship	1. Analytical: Tie financial inputs to operational outcomes. Operations staffs and resource management staffs work together to integrate outcome/performance measures with financial information. 2. Cultural: Integrated operational and financial assessments inform resourcing decisions, supplementing purely financial measures (such as obligation rates) as indicators of fiscal success. Army leaders and organizations recognized for spending dollars efficiently and effectively to produce critical Army outcomes.
Roles and Responsibilities. - USA has oversight - The IG and AAA will examine in their inspections and audit plans - ASA (FM&C) and OBT will publish implementation guidance	

E$C Running Estimate

Cost Management Steering Group

Army Directive 2016-16

Goal. Adapt management practices and improve outcomes to create an Army culture of good stewards who make sure every dollar counts toward a trained and ready force.

Requirements. NLT 01 JUL 16 begin to:

1. Define and measure outcomes at 2-star HQ and above
2. Tie resource expenditures to outcomes
3. Identify and manage total costs of critical processes
4. Eliminate "use or lose" funding practice
5. Reward leaders and organizations who demonstrate exemplary stewardship

Implementation guidance.

- USA has oversight
- The IG and AAA will examine in their inspections and audit plans
- ASA (FM&C) and OBT are proponents and will publish implementation guidance

Update

- **15 APR 2016 –** Publication of *Army Directive 2016-16 (Changing Army Management Behavior: Every Dollar Counts)*
- **MAY** - **JUN** – Implementation Concept Development
- **JUL** – Request input from Army on challenges, concerns, best practices, opportunities
- **01 AUG** – USA/VCSA IPR
- **AUG - NOV** – Draft Implementation Guidance
- **01 DEC 2016** – 3-star staffing of E$C Implementation Guidance
- **27 DEC 2016** – Received final comments
- **19 DEC – 03 JAN** – Adjudicated comments
- **09 JAN 17** – VCSA for signature

E$C Implementation Guidance

Cost Management Steering Group

Requirement 1:
- Codify prioritized outcomes with associated metrics, nesting under higher headquarters' outcomes as defined in The Army Plan documents
- Leaders conduct annual performance assessments tying operational outcomes to resources

Requirement 2:
- Integrate performance assessments with programming and budget execution reviews
- Execution reviews will tie performance outcomes to costs of outcomes achieved
- POM start reviews will include analysis of MDEPs for variation between planned and executed outcomes and expenditures, highlighting significant differences

Requirement 3:
- Leverage the organic process improvement capability to identify critical processes and estimate costs necessary to achieve required outcomes
- FMC will continue to develop cost management educational tools and cost structures in GFEBs
- FMC, MRA, & TRADOC conduct a review on incorporating financial management into leader development

Requirement 4:
- Leaders at all levels will assess spending and outcomes achieved to identify costs and recommend or decide resource realignment toward higher priorities
- Leaders will not be penalized when requirements justify resource needs
- Higher headquarters must release funds when available to allow organizations the maximum amount of time and flexibility to wisely spend and/or save to reallocate or give back to their higher headquarters for higher priorities

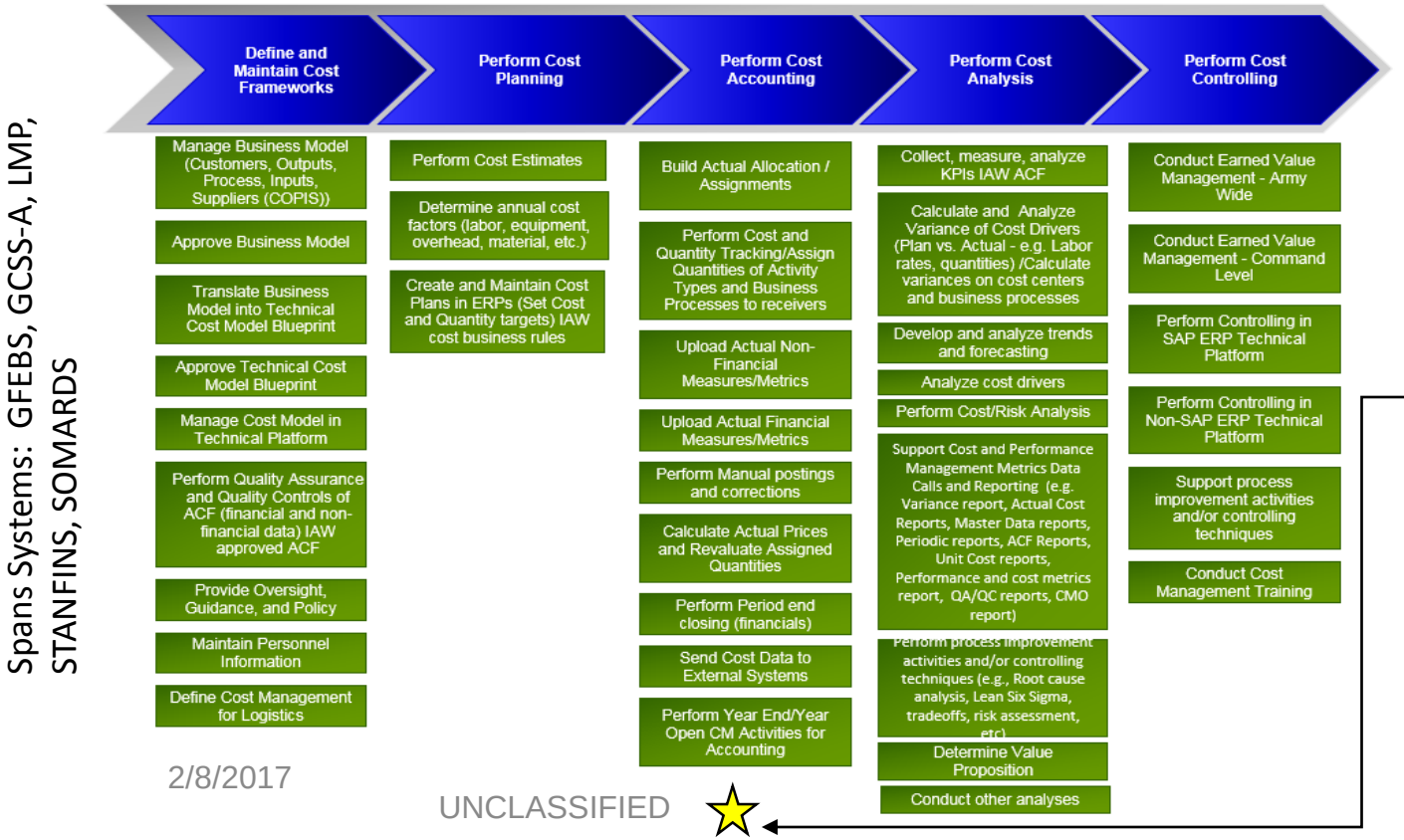
Requirement 5:
- Commanders and PEOs will establish a program to reward and foster stewardship, entrepreneurship, and innovation, along with effective ways to communicate best practices across their organizations
- FMC & OBT will develop an award to recognize "trail blazers" in changing management behavior and making every dollar count
- MRA & G1 will assess how to better incorporate and reinforce performance improvement and cost management achievements into evaluations and appraisal objectives

Cost Management End-to-End (E2E) Process

CM E2E Overview and Focus

- DASA-CE has responsibility for defining the entire Army Cost Management E2E
- 12 – 18 month focus will be on cost accounting (BPS and audit)

CM E2E Business Process



Cost Accounting Approach

Audit Documentation

Standardized Cost Accounting processes in the ERP's

I. "Pronged" approach to improving Cost Accounting within the Army CM E2E

Key Supporting Document (KSD) Packages

Business Process Procedures (BPP) Documents

Publish Standard for Compliance → **Issue Compliance Instructions** → **Verify and Validate Compliance** → **Feedback and Process Improvement**

DASA-CE Interactions with Financial Audit

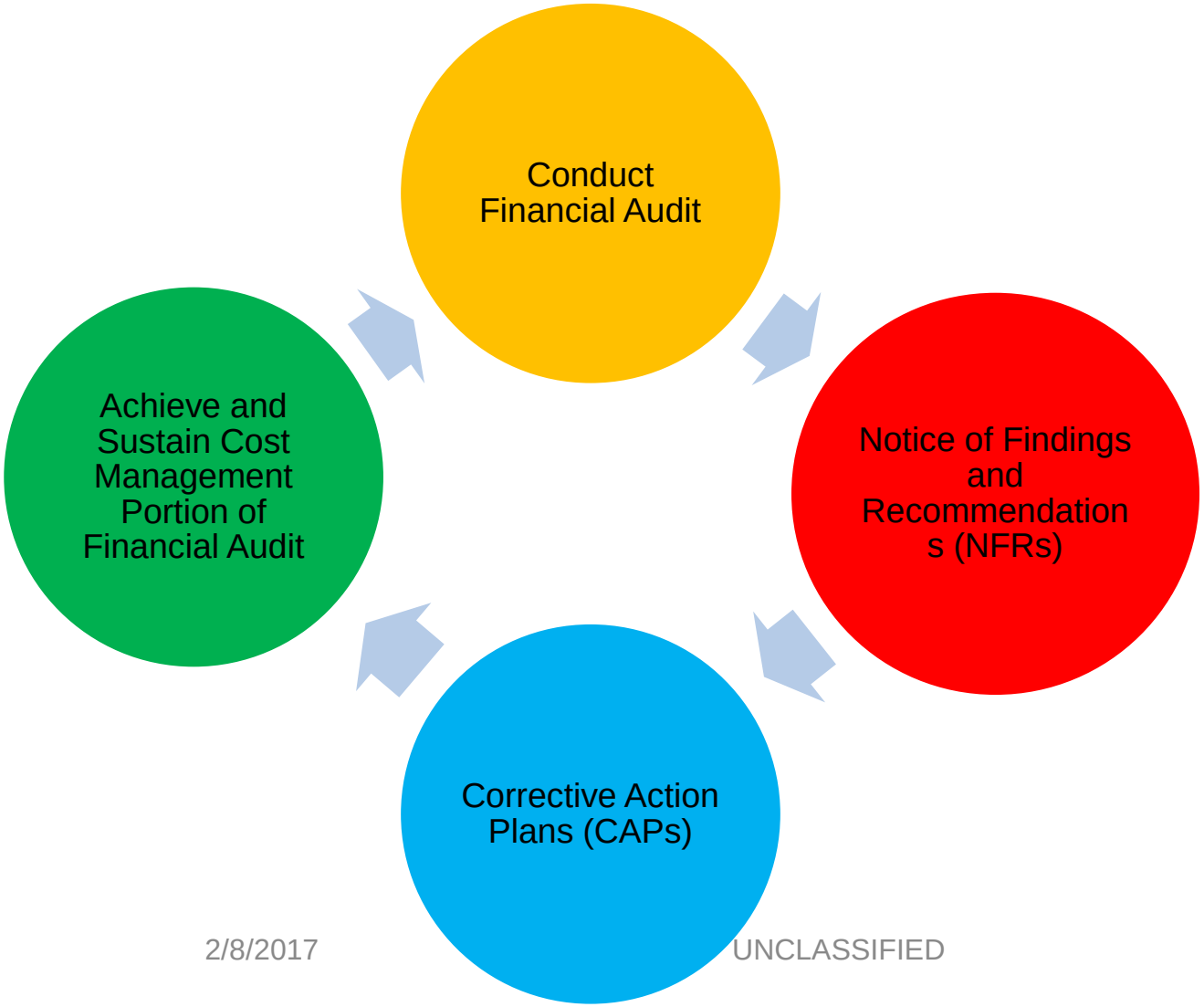


Diagram depicts the interdependencies of CM End-2-End (E2E) with Audit

Each of these 4 key areas will be expanded upon and discussed within this presentation

Conduct Financial Audit – CM Component

DASA-FOA supplies Auditors Transactional Data and KSD Checklists

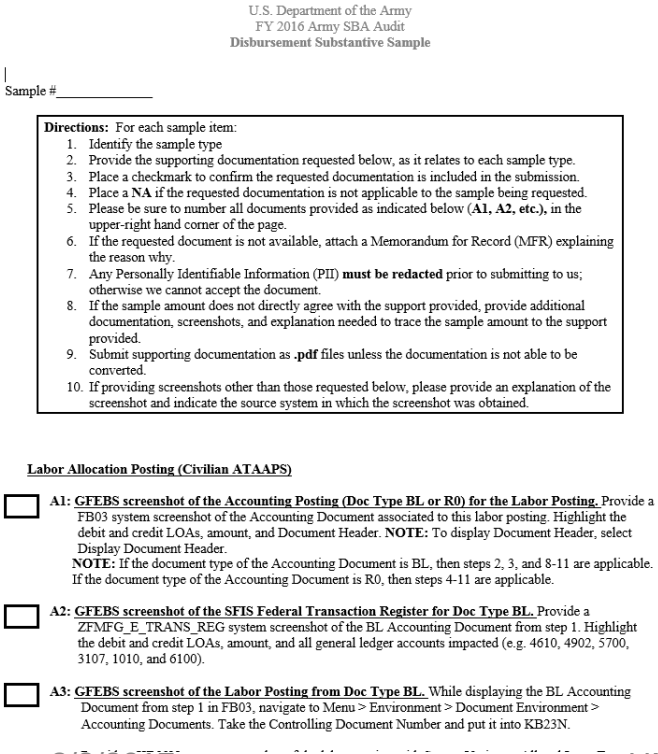
Auditors conduct site visits, modify KSD Checklists, select Audit Samples

Audit Samples and modified KSD Checklists are distributed to the field

Field generates Audit Sample Packets per Audit Sample

Audit Sample Packets are submitted for evaluation

SAMPLE	COL_BIC_ZXBLNR	COL_BIC_ZZ_BUDGL
P-S1-2332	00000000000000000003000000695270962	0000000000000423
P-S1-2338	0000	
P-S1-2340	0000	
P-S1-2341	0000	
P-S1-2347	0000	
P-S1-2348	0000	
P-S1-2349	0000	
P-S1-2352	0000	
P-S1-2364	0000	
P-S1-2365	0000	
P-S1-2366	0000	
P-S1-2369	0000	
P-S1-2381	0000	
P-S1-2387	0000	
P-S1-2388	0000	
P-S1-2389	0000	
P-S1-2393	0000	
P-S1-2396	0000	
P-S1-2397	0000	
P-S1-2398	0000	
P-S1-2408	0000	
P-S1-2415	0000	
P-S1-2442	0000	
P-S1-2443	0000	
P-S1-2458	0000	
P-S1-2468	0000	
P-S1-2477	0000	
P-S1-2483	0000	
P-S1-2524	0000	



U.S. Department of the Army
FY 2016 Army SBA Audit
Disbursement Substantive Sample

Sample #_____

Directions: For each sample item:
1. Identify the sample type
2. Provide the supporting documentation requested below, as it relates to each sample type.
3. Place a checkmark to confirm the requested documentation is included in the submission.
4. Place a **NA** if the requested documentation is not applicable to the sample being requested.
5. Please be sure to number all documents provided as indicated below (**A1, A2, etc.**), in the upper-right hand corner of the page.
6. If the requested document is not available, attach a Memorandum for Record (MFR) explaining the reason why.
7. Any Personally Identifiable Information (PII) **must be redacted** prior to submitting to us; otherwise we cannot accept the document.
8. If the sample amount does not directly agree with the support provided, provide additional documentation, screenshots, and explanation needed to trace the sample amount to the support provided.
9. Submit supporting documentation as **.pdf** files unless the documentation is not able to be converted.
10. If providing screenshots other than those requested below, please provide an explanation of the screenshot and indicate the source system in which the screenshot was obtained.

Labor Allocation Posting (Civilian ATAAPS)

☐ **A1: GFEBS screenshot of the Accounting Posting (Doc Type BL or R0) for the Labor Posting.** Provide a FB03 system screenshot of the Accounting Document associated to this labor posting. Highlight the debit and credit LOAs, amount, and Document Header. **NOTE:** To display Document Header, select Display Document Header.
NOTE: If the document type of the Accounting Document is BL, then steps 2, 3, and 8-11 are applicable. If the document type of the Accounting Document is R0, then steps 4-11 are applicable.

☐ **A2: GFEBS screenshot of the SFIS Federal Transaction Register for Doc Type BL.** Provide a ZFMFG_E_TRANS_REG system screenshot of the BL Accounting Document from step 1. Highlight the debit and credit LOAs, amount, and all general ledger accounts impacted (e.g. 4610, 4902, 5700, 3107, 1010, and 6100).

☐ **A3: GFEBS screenshot of the Labor Posting from Doc Type BL.** While displaying the BL Accounting Document from step 1 in FB03, navigate to Menu > Environment > Document Environment > Accounting Documents. Take the Controlling Document Number and put it into KB23N.

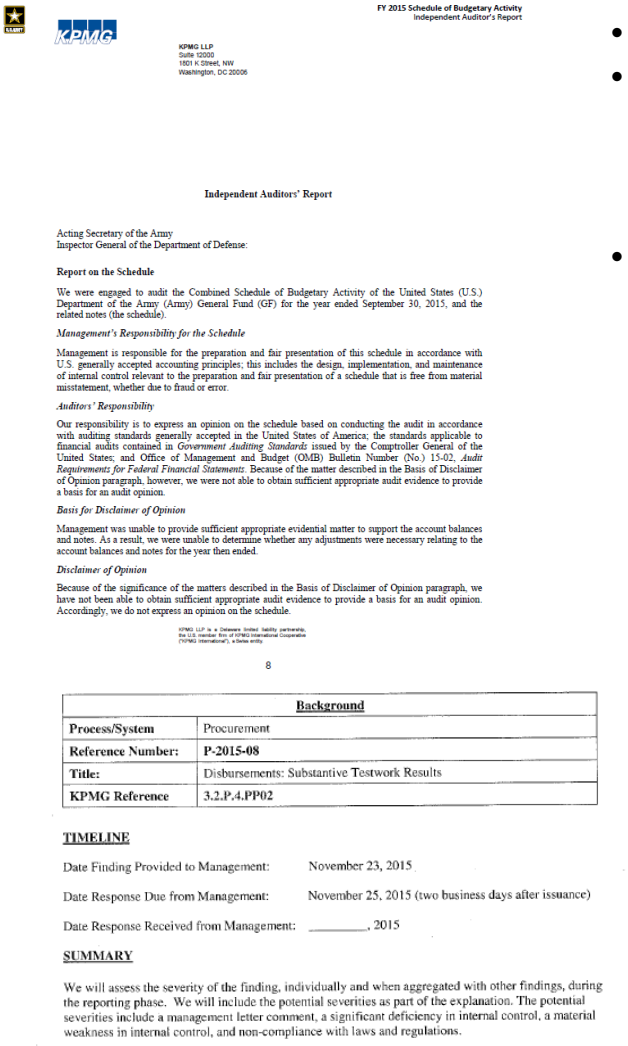
FY15 CM Audit Statistics:

- ~$1B (significant materiality)
- Failure rate of 99%: 554 cost movement samples were tested with 549 failed transactions
- Overall sample of 4,184 procurement outlays

FY16 CM Audit Statistics:

- TBD

Notice of Findings and Recommendations (NFR) – CM Component



FY 2015 Schedule of Budgetary Activity
Independent Auditor's Report

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Acting Secretary of the Army
Inspector General of the Department of Defense:

Report on the Schedule

We were engaged to audit the Combined Schedule of Budgetary Activity of the United States (U.S.) Department of the Army (Army) General Fund (GF) for the year ended September 30, 2015, and the related notes (the schedule).

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of this schedule in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedule based on conducting the audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin Number (No.) 15-02, *Audit Requirements for Federal Financial Statements*. Because of the matter described in the Basis of Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Management was unable to provide sufficient appropriate evidential matter to support the account balances and notes. As a result, we were unable to determine whether any adjustments were necessary relating to the account balances and notes for the year then ended.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the schedule.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

8

Background	
Process/System	Procurement
Reference Number:	**P-2015-08**
Title:	Disbursements: Substantive Testwork Results
KPMG Reference	3.2.P.4.PP02

TIMELINE

Date Finding Provided to Management: November 23, 2015

Date Response Due from Management: November 25, 2015 (two business days after issuance)

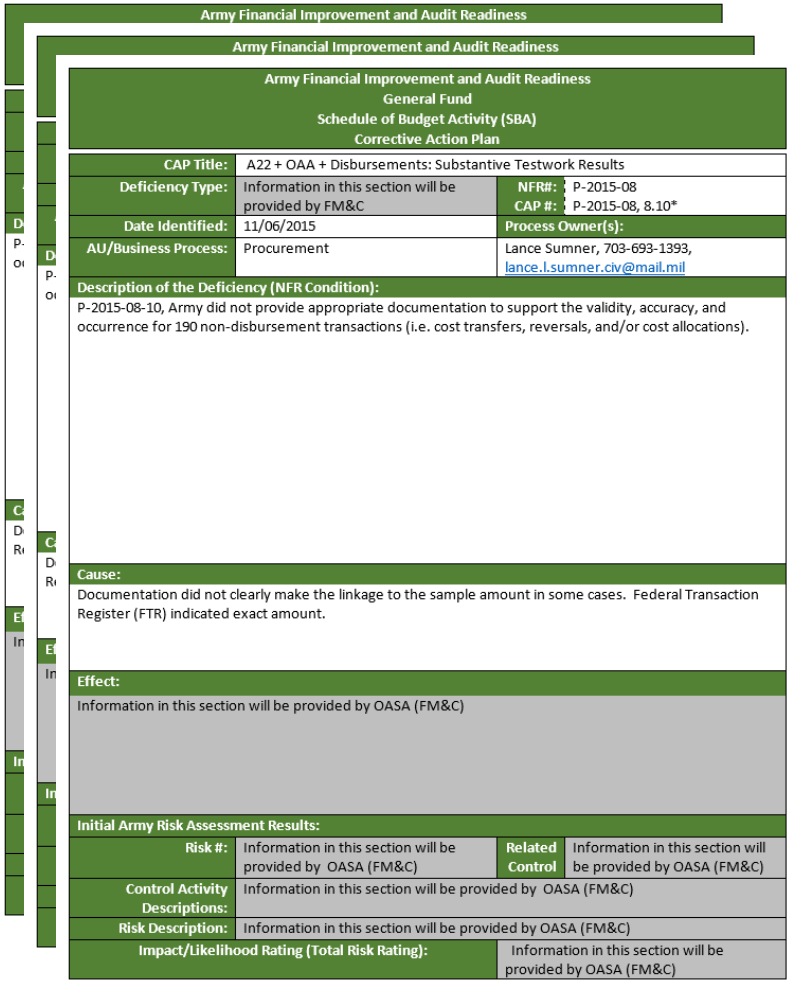
Date Response Received from Management: _____, 2015

SUMMARY

We will assess the severity of the finding, individually and when aggregated with other findings, during the reporting phase. We will include the potential severities as part of the explanation. The potential severities include a management letter comment, a significant deficiency in internal control, a material weakness in internal control, and non-compliance with laws and regulations.

- The Auditor generates a Report and NFRs to which the Army must respond.
- **DASA-FOA has stated there was 1 FY15 NFR and there are 2 FY16 NFRs for CM.** These NFRs concern lack of providing appropriate KSDs per sample. CM falls under these NFRs, but these NFRs encompasses additional Business Processes.
- Key excerpts from FY15 KPMG Report:
  - The Army did not provide sufficient evidential matter to support 385 labor cost allocation transactions. In addition, we identified 93 overhead cost allocations whereby the Army had an inconsistent policy and methodology for documenting the approval of the allocation process and overhead rates, for documenting the review of the variance analysis during the allocation periods, and for documenting the review of the variance analysis and disposition of variances at the end of the allocation period.
  - The Army is unfamiliar with the data elements needed to identify cost transfer and cost allocation transactions in order to allow an effective analysis to be performed.
  - The Army Commands were left to establish their own documentation requirements for how they arrived at their overhead rates. The Army does not have documentation supporting cost allocations and is unable to demonstrate that the cost allocations were reviewed and approved.
  - We recommend that Army…Document the approval of the overhead allocations and rates, review of the variance analysis during the allocation periods, and review of the variance analysis and disposition of variance at the end of the allocation period.

Corrective Action Plans - CM Component



Army Financial Improvement and Audit Readiness

Army Financial Improvement and Audit Readiness

Army Financial Improvement and Audit Readiness
General Fund
Schedule of Budget Activity (SBA)
Corrective Action Plan

CAP Title:	A22 + OAA + Disbursements: Substantive Testwork Results		
Deficiency Type:	Information in this section will be provided by FM&C	**NFR#:** **CAP #:**	P-2015-08 P-2015-08, 8.10*
Date Identified:	11/06/2015	**Process Owner(s):**	
AU/Business Process:	Procurement	Lance Sumner, 703-693-1393, lance.l.sumner.civ@mail.mil	

Description of the Deficiency (NFR Condition):

P-2015-08-10, Army did not provide appropriate documentation to support the validity, accuracy, and occurrence for 190 non-disbursement transactions (i.e. cost transfers, reversals, and/or cost allocations).

Cause:

Documentation did not clearly make the linkage to the sample amount in some cases. Federal Transaction Register (FTR) indicated exact amount.

Effect:

Information in this section will be provided by OASA (FM&C)

Initial Army Risk Assessment Results:

Risk #:	Information in this section will be provided by OASA (FM&C)	**Related Control**	Information in this section will be provided by OASA (FM&C)
Control Activity Descriptions:	Information in this section will be provided by OASA (FM&C)		
Risk Description:	Information in this section will be provided by OASA (FM&C)		
Impact/Likelihood Rating (Total Risk Rating):		Information in this section will be provided by OASA (FM&C)	

- For FY15 DASA-CE was not a consulted body for CAP generation in response to the NFR finding related to CM.
- In FY15 Each command with sample failures generated a CAP. Therefore there are multiple CAPs for the CM FY15 NFR.
- Going forward, for FY16 ASA(FM&C) will be brought into the CAP generation process.
- FY16 CAP generation will occur Feb 2017.

Achieve and Sustain CM Portion of Financial Audit: Continue Documentation

13 **GFEBS** Financial Audit Related "Transaction Types" Identified for CM

Cost Correction- Civilian Payroll	
Cost Correction- Mil or LN Payroll	"COST TRANSFERS"
Cost Correction- Manual	
Labor Assignment Posting- Civilian MTT	
Labor Assignment Posting – Non-Civilian MTT	LABOR BASED MOVEMENTS QTY*RATE
Labor Assignment Posting- ATAAPS	
Labor Assignment Posting – Contractor CIMS	
Labor Assignment Posting – GSSA-Work Order	
Activity Assignment Posting- GFEBS Order Confirmation	ACTIVITY BASED QTY*RATE
Activity Assignment Posting – Manual Posting	
Cost Sheet Allocation	RULES BASED (ALLOCATIONS)
Assessment Allocation	
Cost Assignment Posting (KB15N)	"COST TRANSFER" OR ASSIGNMENT

UNCLASSIFIED

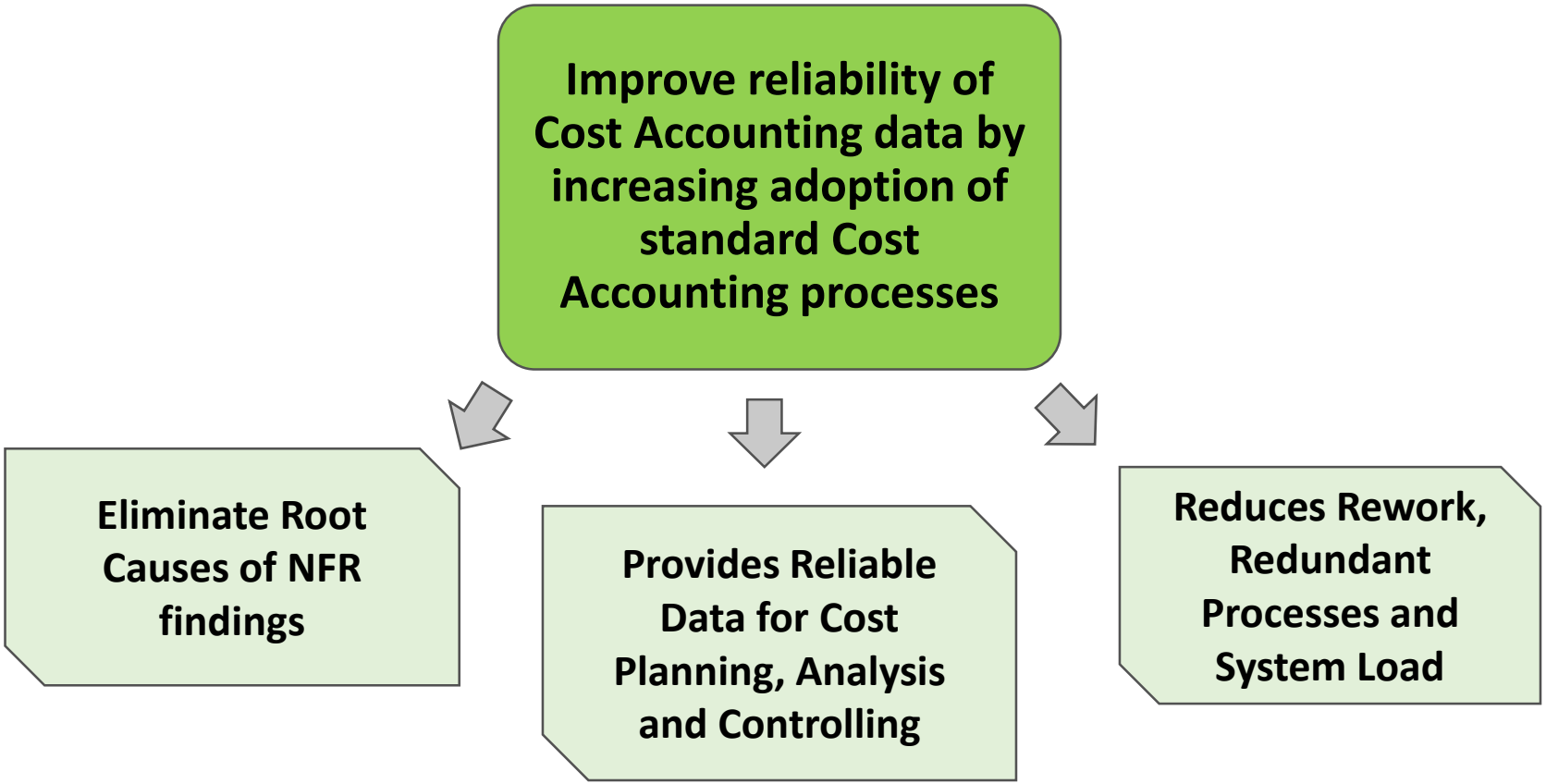
Cost Management Focus

- GOAL- Leverage ERP Capabilities to Improve Army Cost Management
  - Four Areas of Focus

Improve reliability, accuracy, and auditability of Cost Accounting data by increasing adoption of standard Cost Accounting processes	**Formalize Cost Planning in ERP (e.g. PPBE process)**	**Provide Army decision making bodies with ERP data products needed to ensure cost informed decision making**	**Record and track program performance vs strategic objectives and cost goals in ERP**

Cost Accounting is the First Area of Focus

Cost Accounting Benefits



Cost Accounting Training Elements

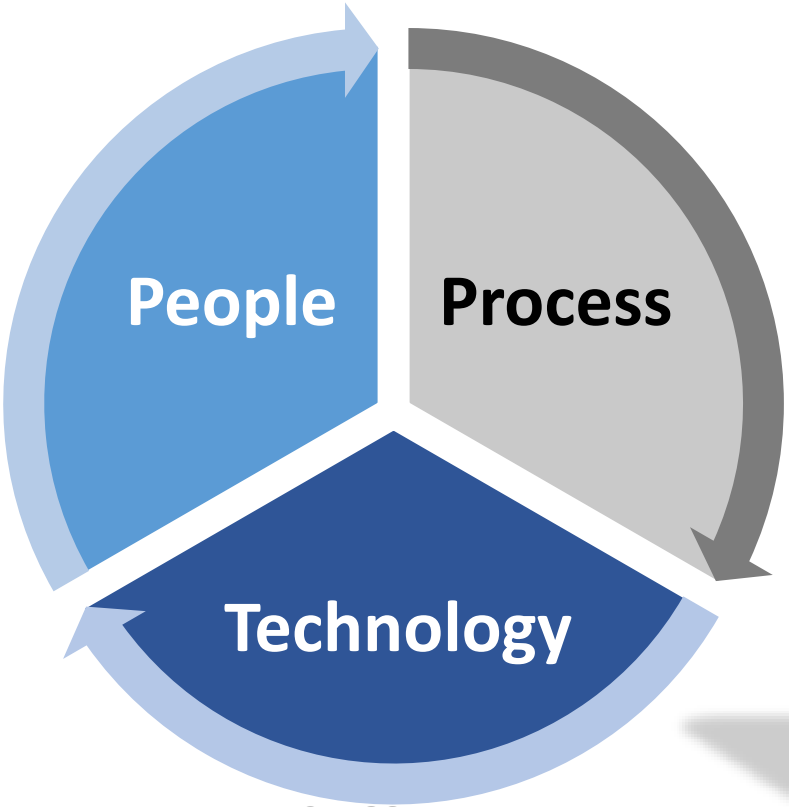
Short Term and Long Term Training – Working with USAFMCOM and FMS / SSI

WHO-

Roles/Responsibilities

Staffing and Skill Sets

Checks and Controls



WHAT-

BPP Process Flows

ERP Job Aids

KSD Packets

WHERE-

Documentation Storage

Online Help and Training

Automated Validations

Long-term training will be coordinated through the AFMO campaign

AMC Cost Management Issue

AMC Cost Management Issue

Standardized Labor Rate and Cost Allocations

- AMC is Highly Reimbursable (about 60%), many AMC civilians are not single source funded

- Standardized Labor Rate Process Concerns:
  - Time Intensive Process / Excessive Labor Required
  - Causes AMC to Process a Significant Amount of Cost Transfers (Audit Implications)
  - Costs Held in an Account Not Supported by an Appropriation (Reimbursable Army Funded Program)
    - ✓ Variances for Payroll
    - ✓ Budget Override Necessary
  - No automated reconciliation of payroll costs to labor costs

- Unproductive labor (i.e. leave) creates large variances across Fund Centers – Army Funded Program in the red end of 1st Qtr, 2nd Qtr.
  - AMC requested ability to remove leave from standard rate and utilize separate indirect leave process where appropriate

- Prior period overhead corrections can only be completed by manual JV

Cost Management Strategic Plan (CMSP)

Cost Management Strategic Plan

- DASA-CE has updated the Cost Management Strategic Implementation Plan (CMSIP)
- Removed metrics, i.e. the ‘implementation’ portion, and focused on strategic efforts
- CMSG members are welcome to provide comments