

Intragovernmental Transactions

More Important Than Ever for DoD's Acquisition, Procurement, and Supply Chain Communities

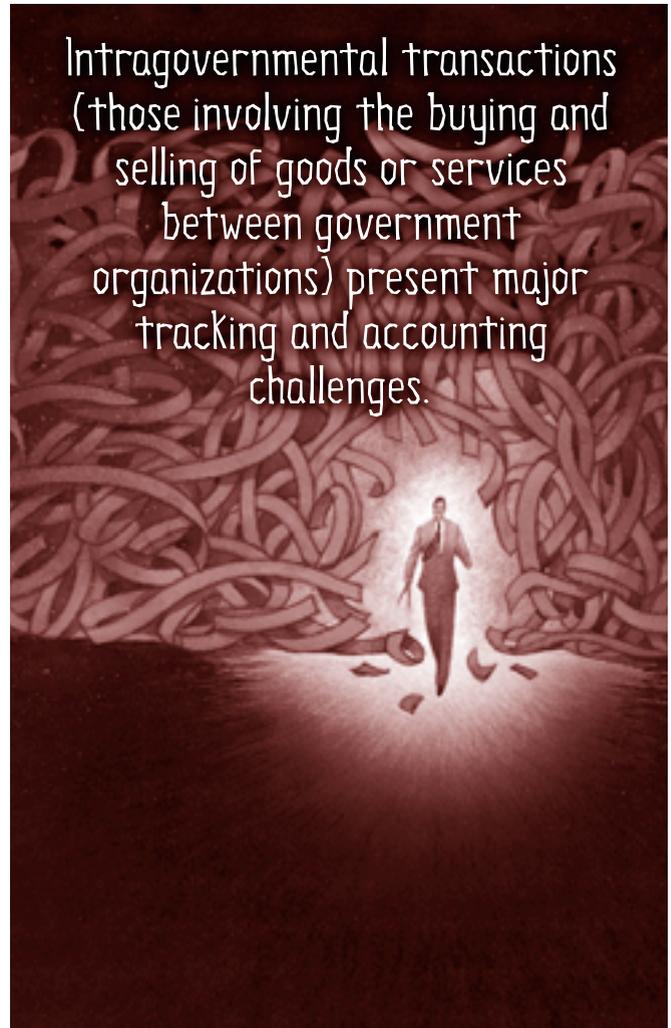
Herbert Kaskoff ■ Lisa Romney

An Air Force fighter squadron based in Alaska obtains jet fuel for its A-10 Thunderbolt IIs through the Defense Logistics Agency (DLA) while en route to support Operation Enduring Freedom. The United States Pacific Command negotiates satellite imagery services with the National Aeronautics and Space Administration in relation to regional operations. A Navy research team leases workspace in downtown Washington, D.C., from the General Services Administration (GSA) for a special, short-term project.

What do these seemingly diverse scenarios have in common? They all involve buying and selling between Department of Defense organizations or between DoD and civilian organizations. Transactions like these happen daily in locations around the globe and range in scale from hundreds to millions of dollars.

As anyone who's involved in DoD acquisition or financial management knows, intragovernmental transactions (those involving the buying and selling of goods or services between government organizations) present major tracking and accounting challenges. Although federal regulations make transactions between the DoD and commercial companies fairly straightforward in terms of ordering, delivery, invoicing, and payment, it can get very complex when, for example, the Navy purchases Web hosting services from the Defense Information Systems Agency, or the Army buys field meals from DLA. Because each of these organizations has different procurement procedures, data standards, reporting requirements, payment terms, and other key elements of the intragovernmental process, it's surprisingly difficult to get an accurate picture of what exactly is being purchased, from whom, and how—or when it's received and accounted for. Extended across the DoD, inconsistencies like these have a significant cost in terms of both dollars and productivity. And, equally important, they represent a missed opportunity to do true strategic sourcing—using the results of critical spending analysis to make better, faster, and more efficient acquisition decisions.

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Intragovernmental Transactions and Defense Business Transformation

Until recently, most DoD businesspeople would have considered intragovernmental transactions to be mainly an accounting problem. But as the Department's progress in enterprise-wide business transformation gains momentum, it's clear that this topic is also highly relevant to the acquisition, procurement, and supply chain communities. Why? The key issue is "visibility," a primary focus of the new Defense Business Transformation Agency. Established in late 2005, the BTA is aggressively pursuing its mission to transform business operations to achieve

improved warfighter support, while also enabling financial accountability across DoD. By centralizing business modernization programs that create department-wide capabilities, the BTA is, in the long term, expected to result in increased supply chain efficiencies, full visibility into business processes, more effective human resource management, timely and accurate reporting, and measurable transformation results. Creating a seamless process for intragovernmental transactions that's based on commercial best practices is one of several opportunities for BTA to achieve focused improvements that result in increased efficiency and cost savings.

The IGT Initiative

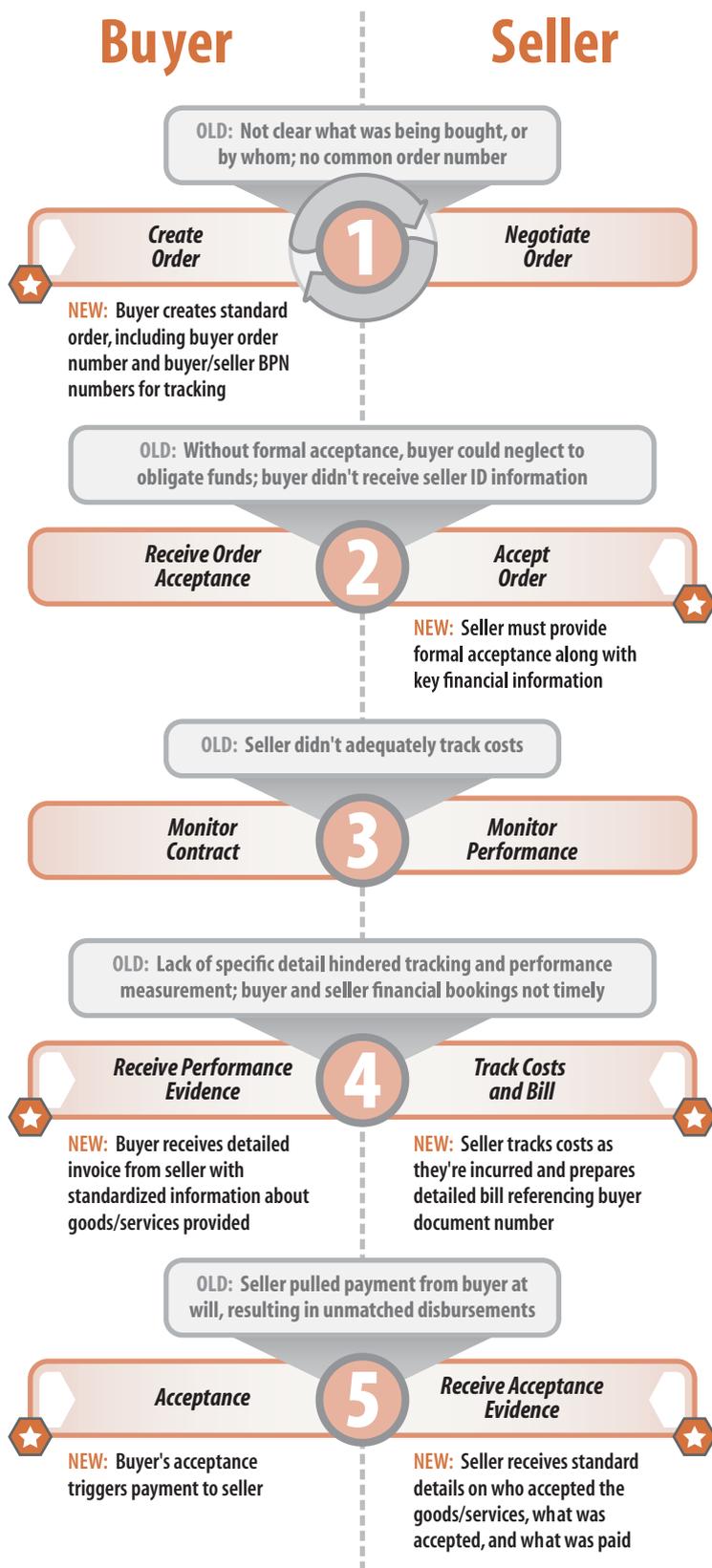
To understand how a new approach to intragovernmental transactions will benefit different areas of DoD, it's helpful to take a high-level look at how BTA is managing transformation. BTA transformation efforts center upon six strategic business enterprise priorities that, in the simplest of terms, encompass people, assets, investments, and suppliers. One of several enterprise-wide efforts aimed at achieving these priorities, BTA's Intragovernmental Transactions (IGT) Initiative will have the biggest impact on two of them: financial visibility and common supplier engagement. At the highest level, the goal for financial visibility is more efficient and effective decision making throughout the Department and assistance in achieving DoD-wide financial auditability. The main goal of common supplier engagement is to simplify and standardize how DoD interacts with commercial and government suppliers in acquiring goods and services. It also improves visibility of related information to the warfighter and Defense core business missions to enable better acquisition decision making.

The IGT Initiative (an extension of foundational work done by the Office of Management and Budget (OMB) and within DoD) is focused on developing an enterprise-wide solution for properly tracking and accounting transactions involving sales, services, or transfers within DoD or between DoD and other federal government organizations. From an accounting perspective, IGT will support a clean audit report for the Department. It will also address financial eliminations—a material weakness that's been identified by OMB and the Government Accountability Office (GAO)—ensuring that sellers' revenue matches buyers' expenses and that both are eliminated (removed from the consolidated total) with no adjustments required.

However, there are also a number of ways in which the IGT Initiative will benefit the acquisition com-

Improving Acquisition Visibility:

A Common Process for Intragovernmental Reimbursables



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munity. Most notably, IGT will provide the first-ever, DoD-wide business process and data standards for creating and routing requisitions, purchase orders, billings, payments, and collections associated with intragovernmental transactions. This will significantly enhance visibility into the details of both purchases and sales within the Department and across the federal government, yielding more timely and reliable information for decision makers. A key aspect of this improved visibility—and one that directly supports strategic sourcing—will come through IGT's use of the Business Partner Network (BPN), the single source for vendor data for the federal government. Better visibility will also result in an accurate big-picture view with which to conduct in-depth spending analyses and planning. Another important benefit of the IGT Initiative is that it will help buyers document and evaluate how suppliers and their products and/or services perform, providing valuable information for future procurement decisions. This will help achieve an important linkage from execution and performance to budget, supporting requirements of the Government Performance and Results Act.

IGT Progress: Past and Present

Since April 2005, IGT efforts have been centered on developing a holistic, end-to-end solution that meets the diverse needs of the Department's financial, acquisition, and logistics communities. The IGT Initiative team is composed of staff from the Office of the Secretary of Defense comptroller and acquisition, technology, and logistics organizations, as well as leaders from the Defense Finance and Accounting Service. The initiative now falls under the BTA, where it's sponsored by the Transformation Priorities and Requirements Directorate. Within TPR, financial management has the lead role and is aided by extensive participation from the supply chain management group.

One of the team's first major accomplishments results in a significant change for the acquisition community. In fall 2005, the IGT team finished defining requirements for the largest (in terms of dollars processed) and least automated area of IGT: reimbursables. Reimbursables involve exchanges of goods and services in which the seller uses his or her organization's own funds and gets reimbursed by the buyer, usually through a military interdepartmental purchase request (MIPR). Working with the Services and DLA on developing a complete process model that's based on DoD's Business Enterprise Architecture (BEA) 3.0 (updates are incorporated in the recently released BEA 3.1), the team identified the data elements, business process changes, policy changes, and business rules needed to handle reimbursables in a standard, enterprise-wide manner that's consistent with private industry best practices. As a result, the model establishes a new requirement that reimbursables be processed through the acquisition contact of the buyer's organiza-



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tion. Although this creates an expanded role (and likely workload) for acquisition, it will give procurement officials unprecedented visibility into purchases and enable them to make the best business decisions based on their agency's needs and requirements.

Specifically, the following business process changes have been established for intragovernmental reimbursables: The new process requires the acquisition community to manage the creation and acceptance of an intragovernmental order. It requires the seller to provide performance evidence (billing), and also requires receipt and acceptance processes. It results in the addition of the "acquisition seller" and "financial management seller" processes to BEA 3.1. It also puts the onus on the buyer to provide payment to the seller upon acceptance of goods. This "push" versus "pull" model will rectify unmatched disbursements that, in the past, would result from the seller's pulling payment funds from the buyer without adequate notice or documentation. (However, it also recognizes that some buyers will be tardy in pushing payment, and it therefore provides specific guidance on when/how the seller can pull payment.) And finally, it results in timely

financial postings, including accruals, triggered by agreed-to business processes.

Another powerful aspect of the new model that's consistent with commercial best practices is that it requires the buyer and seller to provide key information at the initiation of an order, enabling accurate tracking and accounting. For example, the seller is required to capture the buyer's order number, and both the buyer and seller must exchange their Business Partner Network numbers at the beginning of the process. Additionally, important data elements (such as the budget activity number, main and sub account codes, and department regular and department transfer codes) are captured up front. Combined with the transaction amount, these data elements support the financial eliminations process by enabling the correct matching and identification of the buyer's and seller's transactions. They also enable spend analysis, helping an organization accurately slice and dice data about its expenditures (for example, determining how much it spent on rent with GSA over a given period of time) rather than having to derive estimates from accounting data. And, since the new reimbursables process incorporates DoD's Standard Financial Information Structure (SFIS) in its data model, it assists in improving DoD financial visibility and links performance to budget.

The Road Ahead: IGT Goals

Having established a common process for reimbursables, the IGT Initiative team is now conducting a thorough analysis of implementation options. In addition to identifying necessary changes in policies and procedures, the team is examining existing enterprise automated solutions such as the Standard Procurement System (SPS), Wide Area Work Flow (WAWF), and Business Enterprise Information Services (BEIS) as possibilities for implementing the reimbursables process. At the same time, the IGT team is defining the scope and gathering data regarding other types of intragovernmental transactions, including interfund, purchase card, transportation, fiduciary transactions, fuels, and transfers.

When implemented, the solutions developed for intragovernmental transactions will provide the accountability desired by Congress and other federal organizations, such as GAO and OMB. At the same time, they will achieve enhanced visibility for the Department regarding the goods and services it's buying, from whom, and how well they've performed. In the long run, this will improve support for the warfighter through more efficient, effective purchasing, and will also result in better stewardship of taxpayer dollars.

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