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MARCORSYSCOM

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24 Sep 03

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JOINT LETTER

NAVAIR

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SPAWAR

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17 Sep 03

NAVSEA

5400

Ser 00/069

24 Sep 03

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
 MANAGEMENT AND COMPTROLLER)

Subj: EXAMINING THE EFFECTIVENESS AND EFFICIENCY OF THE
 DEPARTMENT OF NAVY'S MATERIEL ESTABLISHMENT - VS-JL-06

Ref: (a) ASN (FM&C) memo of 30 Apr 03, subject "Examining
 the Effectiveness and Efficiency of the DON's Materiel
 Establishment"

Encl: (1) SYSCOM Commanders' Recommendations
 (2) Background and proposed plan of action

1. In response to reference (a), a working group representing NAVSEA, NAVAIR, SPAWAR, NAVSUP, SSP, and MARCORSYSCOM evaluated the performance of financial functions and formulated a plan to address critical issues. The key areas for improvement are summarized below. Our recommendations are summarized in enclosure (1), and more detailed information and a proposed plan of action are provided in enclosure (2).

2. There are significant differences in the organization of personnel performing financial functions when viewed across the Virtual SYSCOM, SSP and MARCORSYSCOM. Comptroller organizational structures and communities of practice are well established. However, significant variations exist in the Business Financial

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Managers (BFMs) workforce. These variations encompass the extent to which an identifiable BFM community of practice exists, the organizational structure, and the alignment of that structure. Implementing best business practices, employing an Enterprise Resource Planning (ERP), and gaining efficiencies to compensate for workforce reductions are dependent upon reducing variation and moving to a greater degree of common practice. Changes that may be necessary will impact, in some manner, on the BFMs working for the Program Executive Officers (PEOs). It is appropriate for the PEOs to evaluate alternatives before we recommend any organizational changes, including delegation of 1301 authority. Discussions with the PEOs are in progress, and their recommendations should be available in the next three months.

3. Creating a single "community" for financial management (FM) personnel working in comptroller or BFM positions is highly desirable. The recommendations concerning DAWIA entry for comptroller personnel, training and certification should be implemented.

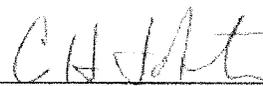
4. The goal of improving FM processes, operations, and systems is clear, but implementation of specific recommendations will require detailed analysis and coordination. The BFM Executive Steering Group (ESG) recommended in enclosure (2) must be configured to fully consider the benefits and impacts to both comptroller and acquisition requirements. We recommend that ASN(FM&C) and ASN(RDA) provide joint oversight to this team. The Navy's Converged ERP (CERP) program provides additional and immediate opportunities for the comptroller and BFM community, both in the design of the functionality and in the implementation within our organizations. MARCORSYSCOM will also participate in this to the extent that Marine Corps accounting systems, practices, and Defense Finance and Accounting Service links permit.

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5. The plan of action in enclosure (2) is recommended as a way ahead to address improvements and changes in performing financial management requirements. We are committed to improving the performance of financial functions and appreciate your support and the efforts of your staff.



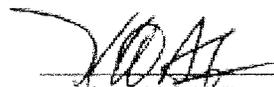
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SYSCOM COMMANDERS' RECOMMENDATIONS

COMMUNITY ALIGNMENT

1. Establish a common/centralized business/financial management community (B/FMC).
2. Define, codify and outline this community relationship in a SECNAV policy or instruction.
3. With the PEOs and ASN(RD&A) determine the best organizational and authority alignment to BFMs to achieve business practice improvements, including the ability to delegate 31 USC 1301(a) review to specific BFM personnel.
4. Open DAWIA certification in Business, Cost Estimating (BCE) area to all FM personnel including comptroller staff.
5. Formally establish a Business Financial Management Executive Steering Group to facilitate cross claimant and cross PEO best business practices. This Group should have ASN(FM&C) and ASN(RD&A) oversight.

STANDARDIZATION OF PROCESSES

1. Standardize work policies and implement best practices needed to begin the shared services organization.
2. Select potential shared service candidates. Submit for review and approval by SYSCOM coordination team.
3. Once processes have been implemented, begin a limited shared service approach, first at the intra-SYSCOM level and then at the inter-SYSCOM level.

CONVERGED ERP TRANSFORMATION

1. As we implement the Navy's Converged ERP (CERP) system, consider the creation of centers of excellence in each SYSCOM to process funding and associated execution documents to sustain a sufficient volume of transactions to support proficiency in task performance. The streamlining of "like" transactional activities creates efficiencies by grouping transactional type activities into one area of the organization.

2. A potential consolidation of these SYSCOM centers of excellence to a DON level will yield additional efficiencies.

3. Begin planning for the organizational transformation that will be created by ERP. This will require an effective workforce, aligned organization, and flexibility within the DON to capitalize on the new environment brought about from the new, consolidated system.

BACKGROUND AND PROPOSED PLAN OF ACTION

COMMUNITY ALIGNMENT

A centralized business/financial management community (B/FMC) will help provide a highly skilled, qualified, and flexible workforce. The financial community is faced with the reality that the skill sets of the past will not be sufficient in the future. Community leadership within the DON FM/acquisition community is essential to adapt to these changing demands on the workforce. Common skill sets and consistent position management will be key elements in the efficient and effective use of the limited manpower. Centralized community would also assist in fulfilling the ASN(FM&C) responsibility for mandatory education, experience and training requirements for Business, Cost Estimating (BCE) and FM positions under DAWIA, and enhance career mobility within and across SYSCOMs. We recommend that ASN(FM&C) and ASN(RDA) provide joint oversight to the community leadership initiative and approve the specific recommendations for the community model.

Career mobility will be greatly enhanced by requiring comptroller personnel be DAWIA certified in the finance BCE area. Allowing all FM personnel to have access to all FM-related certifications will allow more professional growth, promotion opportunity and cross training.

Improvements are also needed in the process and procedures for performing the FM functions. It is recommended that a BFM Executive Steering Group (ESG) be established to facilitate cross claimant best business practices. This group should have ASN(FM&C) and ASN(RD&A) oversight. The ESG would be chartered to examine intra/inter-claimancy opportunities for standardization to include adoption of best business practices, establish SYSCOM business lines tied to the array of products and services they provide and develop business plans and portfolios and standard financial performance measures. The ESG would identify, streamline and standardize transaction type work with the ultimate goal of transitioning into shared service centers where practical.

STANDARDIZATION OF PROCESSES

Standardizing business processes/procedures and centralizing organization functions can create efficiencies, reduce duplicative efforts, streamline and reduce organizational layers, and better utilize resources through shared services. Standardization of work policies and implementation of best practices is the first step to begin transitioning to a shared services organization. Transaction processing dominated federal financial workforce activity, accounting for 79% of FM government labor. The research suggests that the federal workforce requirement would change dramatically if agencies adopted business practices and infrastructure similar to those used by world-class corporations. Therefore, potential shared service candidates need to be identified and approved by the ESG, and transaction based work is the most logical area for initial migration to shared service center environments. Establishment of shared service centers is dependent on highly integrated and sophisticated business financial systems. We recognize that more common practices and skills will lead to more effective and efficient operations and help prepare the way for ERP. As we progress towards the convergence of ERP, we must standardize transactional business processes both within and across SYSCOMS. Once standard processes have been implemented, the SYSCOM steering group will begin a limited shared service approach, first at the intra-SYSCOM level and then at the inter-SYSCOM level. We recommend that centers of excellence be designed around ERP transaction processing practices. In this manner, SYSCOMS can evaluate the practicality and efficiencies of establishing cross SYSCOM shared service centers on a larger scale.

CONVERGED ERP TRANSFORMATION

Many processes have become cumbersome and constrain the ability to provide financial services in the most effective and efficient manner. Systems have become disjointed and complex and the ability to exchange common, reliable information is impaired. The most dramatic changes in the FM community will be dependent on the use of a shared financial system, currently planned as the Navy's CERP system. This will allow the SYSCOMS to share financial processes across organizational boundaries (e.g., centralization of funds allocation, bill paying, and month-end reporting), and potentially collapse echelon three activities (e.g., Warfare Centers could be set up

as a single company code). As we implement the CERP, we will pursue the creation of centers of excellence in each SYSCOM to process funding and associated execution documents. A further consolidation of these centers of excellence to a DON level (e.g., all problem disbursement actions done at one SYSCOM) may be possible, and could result in additional efficiencies. The full benefits of an ERP system cannot be realized without combining best practices in application rationalization, data standards, and centralization. Also, the current skills set of the financial workforce will need to evolve. The workforce of the future will notably be impacted by the transformation brought about through ERP. Traditional financial functions such as transaction processing will largely be automated, placing a greater emphasis on competency in systems and analysis. A recent study of the Federal Financial Management Workforce, conducted by the Joint Financial Management Improvement Program discussed the differences in transaction processing and decision support functions. Specifically, the study noted that skills in transaction processing functions (such as accounts payable, accounts receivable, general accounting, travel and expense) would not be as highly valued, or desired, in the future. This coincides with an increased demand for decision support competencies (including business analysis, cost analysis, and strategic planning support). The shift from a transaction based to decision support workforce is tightly coupled with the transformation of an enterprise through the implementation of ERP. The organizational transformation created by ERP will require an effective workforce, aligned organization, and flexibility within the DON to capitalize on the new environment brought about from the consolidated system.

PLAN OF ACTION

The improvement of the SYSCOM FM processes requires a three-phase approach. First, the foundational aspects will be considered and addressed through possible organizational realignments. This step is critical in that it could provide a common structure in which to coordinate and influence change. A baseline of the FM community's workforce will be necessary to monitor improvements throughout the implementation of the changes recommended below.

Phase I- Organizational Realignment (FY03-04)

- Baseline FY03 FM Workforce
- Create the common/centralized B/FMC
- SYSCOMS and PEOs determine and implement the best organizational and authority alignment to BFMs to achieve business practice improvements
- Establish ESG
- Establish DAWIA for FM Community
- Determine the ability to delegate 31 USC 1301(a) review to specific BFM personnel

The second phase will focus on the implementation of best practices to promulgate common financial practices and streamline processes in anticipation of ERP implementation. Through the use of an ESG, initiatives will be decided and implementation plans will be created using a common methodology for each organization. The FY03 baseline will be compared against FY04 and FY05 data to identify efficiencies gained through the streamlined practices.

Phase II- Implement Best Practices (FY04-05)

- Begin ERP Process Alignment
 - Standardize Budget, Congressional, POM/PR and Obligation, Expenditure reports and streamline the review processes
 - Establish Common WBS tailored to ERP
 - Establish Business Line and product/services nomenclature and structure;
 - Develop Business Plans and Portfolios
 - Standardize Processes for Transactional Type Work
 - Standardize Financial Statements/reports
 - Develop DON Performance Measures
- Capture FM workforce values for FY04, using same approach as FY03
- Capture FM workforce values for FY05

The implementation of an ERP system will mark the culmination of the efforts to streamline the financial organization.

Phase III- Transition to ERP (FY05- Future)

- Implement ERP
- Identify FM Support Costs/Savings
- Establish Centers of Excellence