
The Case Closure Process Action Team

By

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INTRODUCTION

The issue of case closure continues to be among the biggest complaints of our foreign purchasers concerning the use of the FMS system. According to DSAA, FMS customers repeatedly express dissatisfaction that little or no progress has been made to improve closure performance in spite of the implementation of accelerated case closure procedures.

In July 1994, DSAA directed the establishment of a Security Assistance Case Closure Process Action Team (PAT). The members of the team visited selected Army, Navy, Air Force, and Defense Finance and Accounting Service (DFAS) locations to review the case closure process. Their objectives were to identify the causes for the delays in closing FMS cases even after implementation of the accelerated case closure procedures, and to recommend appropriate processes to overcome the inhibitors. The following article is an expanded version of the executive summary of the final team report.

BACKGROUND

Typically there are approximately 3,000 FMS cases closed in a year, but they are not representative of a good cross section of supply and procurement cases. The cases that are closed tend to be the less complex requisition and services cases. As one of the hosts from the Air Force Aeronautical Systems Center (ASC) so succinctly stated, "We are only picking the lowest hanging apples."

By contrast, the larger cases remain open. With the current average rate of closure of \$3.0 billion per year, it would require up to 70 years to close out the \$228.7 billion of open cases. Table 1 shows the rate of case closure for the last three fiscal years.

To permit early closure of complex procurement cases, DSAA developed and implemented new Accelerated Case Closure (ACC) procedures in May 1992. Many FMS cases for items from new procurement, on which the materiel has been delivered to an individual FMS customer, have been held in open status for many years by small dollar amounts of potential contract liability. The total actual price of items from new procurement cannot be verified until all the contract orders have been filled, the final costs are negotiated, and the final audit is completed or credits applied.

Using the ACC procedures, any potential liability of the FMS customer is identified after delivery of the items, and retained in the accounting records as an unliquidated obligation (ULO). The ULO represents the estimated value of the final contract less the payments on behalf of the FMS customer. In this way, an FMS case with long running contracts can be closed based on an actual final delivered value that includes the disbursements to date, plus the estimated value of the remaining ULOs for the case. The customer would then be issued a final billing statement and the FMS case will be considered closed to the customer even though the DoD contract may still be open. The value of the ULOs on FMS cases is credited to an equity account from which any post-closure charges are paid.

TABLE 1
Closed Cases by Fiscal Year as of 31 July 1994
(Dollars in Millions)

| FISCAL YEAR | ARMY | | NAVY | | AIR FORCE | | OTHER | | TOTAL | |
|--------------------------|--------------|----------------|--------------|----------------|--------------|----------------|------------|--------------|--------------|----------------|
| | CASES | \$ AMT | CASES | \$ AMT | CASES | \$ AMT | CASES | \$ AMT | CASES | \$ AMT |
| 1991 | 1,258 | 1,731.3 | 506 | 270.6 | 683 | 1,436.9 | 191 | 52.3 | 2,638 | 3,491.1 |
| 1992 | 1,289 | 824.5 | 568 | 381.7 | 655 | 1,184.9 | 217 | 112.5 | 2,729 | 2,503.6 |
| 1993 | 1,475 | 1,363.1 | 748 | 506.2 | 721 | 1,039.5 | 188 | 83.1 | 3,132 | 2,991.9 |
| 3 Year Total | 4,022 | 3,918.9 | 1,822 | 1,158.5 | 2,059 | 3,661.3 | 596 | 247.9 | 8,499 | 8,986.6 |
| 3 Year Avg. | 1,341 | 1,306.3 | 607 | 386.2 | 686 | 1,220.4 | 199 | 82.6 | 2,833 | 2,995.5 |
| 3 Yr Avg Case Val | | 0.974 | | 0.636 | | 1.778 | | 0.416 | | 1.057 |
| 1994 | 1,256 | 2,506.8 | 647 | 1,639.7 | 638 | 1,668.7 | 113 | 92.7 | 2,654 | 5,907.9 |
| Avg Case Val | | 1.996 | | 2.534 | | 2.616 | | 0.820 | | 2.226 |

SOURCE: DIFS/DFAS-DE/I

Under the ACC process, such cases should be closed within 12-24 months after the case is supply complete. Two years have passed since the new procedures were implemented and there are currently over 100 countries participating in the ACC procedures. When these countries accepted the new procedures, or were automatically included because they were Grant/Credit recipients, they were optimistic that FMS cases that had been supply complete for many years would soon be closed.

Despite the high expectations accompanying the new case closure procedures, case closure performance has improved only marginally. There is little evidence that new case closure procedures are being used consistently among case managers to expedite the case closure process. As indicated in Table 2, as of 30 June 1994, only 75 cases had been closed with ULO balances.

TABLE 2
Accelerated Case Closure Cases
Closed With ULO Balances as of June 30, 1994

| Implementing Agency | Number of cases | Total Ordered Value | ULO Required |
|---------------------|-----------------|--------------------------|------------------------|
| Army | 43 | \$ 265,919,165.48 | \$ 2,746,708.76 |
| Air Force | 10 | \$ 281,336,572.92 | \$ 569,872.06 |
| Navy | <u>22</u> | <u>\$ 8,537,338.12</u> | <u>\$ 1,301,145.35</u> |
| TOTAL | 75 | \$ 555,793,076.52 | \$ 4,617,726.17 |

METHODOLOGY AND SUMMARY DATA

The stated goals of the Case Closure PAT were to:

- a. Define problems in policy, procedures, systems, and organizational structure that may inhibit timely closure of FMS cases that have been supply complete for over one year.
- b. Provide on-site guidance for improving the closure process where feasible.
- c. Recommend and oversee implementation of changes in policy, procedures, and systems on both a short and a long term basis.

The PAT was chaired by DSAA and included representatives of each of the services, DFAS, and DISAM. The team was augmented by DFAS Defense Accounting Office (DAO) representatives for selected visits. The members of the team are listed in Table 3.

TABLE 3
PAT Members

| FULL-TIME MEMBERS | ORGANIZATION |
|--|---------------------|
| Mr. Ron Failor (Chairman) | DSAA/COMP-FM&PD |
| Mr. Carl Miller | DSAA/COMP-FM&PD |
| Ms. Peggy Lindsay | USASAC/AMSAC-OL-E |
| Ms. Christine Chaikowski | NAVSEA |
| Ms. Beth Baker | SAF/IA |
| Mr. Jerry Wheaton | DFAS-DE/ICN |
| PART-TIME MEMBERS | ORGANIZATION |
| Mr. Tom Selden | DISAM |
| Mr. Frank J. Campanell | DISAM |
| Ms. Virginia Caudill | DISAM |
| Mr. Robert Stofko (DFAS and Army visits) | DFAS-DE-NEW CUMB. |
| Mr. Brad Bittinger (DFAS and Air Force Visits) | AFSAC/XMP |
| Mr. Ron Faulkner (DFAS and Air Force Visits) | DFAS-DE-DAO(WP) |
| Mr. Tom McIntire | DFAS-HQ/GB |
| Mr. Ned Sworts (Navy Visits) | DFAS-DE/I |

Three basic assumptions were used by the PAT as guidelines: (a) Customer dissatisfaction with the slow process of closing cases is increasing; (b) DoD end-strength reductions will decrease the workforce available to close cases; and (c) changes in systems, procedures, and organizational structure are ongoing.

The team visited 22 activities involved in case closure between 18 July and 25 August 1994, including DFAS-Denver and DFAS-Columbus. At each location there was a case-by-case review of all cases that had been supply complete for more than one year in order to analyse the reasons for the delays in final closure. Supply complete for the purposes of the PAT was defined as all DoD articles delivered and all services provided. Table 4 is an FMS case inventory of the number of supply complete cases.

TABLE 4
FMS Case Inventory

| | <u>ARMY</u> | <u>NAVY</u> | <u>AIR FORCE</u> | <u>TOTAL</u> |
|--|-------------|-------------|------------------|--------------|
| Not Supply Complete | 3,803 | 3,872 | 3,706 | 11,381 |
| Supply Complete (less than 2 years) | 1,789 | 856 | 555 | 3,200 |
| Supply Complete -over 2 years | 700 | 565 | 324 | 1,589 |
| TOTAL OPEN CASES <i>(Does not include cases pending DFAS-DE closure)</i> | 6292 | 5293 | 4,585 | 16,170 |

Workforce distribution was one of the principal areas of review by the PAT. An assessment of the workyears of personnel performing case closure actions was provided by each service (Table 5).

TABLE 5
Workyears Dedicated to FMS Case Closure
by Military Department
(Listed in Workyear Equivalents)

| <u>MILDEP</u> | <u>MILDEP PERSONNEL</u> | <u>CONTRACTOR SUPPORT</u> | <u>DFAS SUPPORT</u> | <u>DFAS-DE SUPPORT</u> | <u>TOTAL</u> |
|---------------|-------------------------|---------------------------|---------------------|------------------------|--------------|
| ARMY | 28.30 | 0.00 | 26.40 | | 54.70 |
| NAVY | 34.30* | 30.80** | 56.50 | | 121.60 |
| AIR FORCE | 22.40 | 1.00*** | 30.70 | | 54.10 |
| DFAS-DE | | | | 14.20**** | 14.20 |
| TOTAL | 85.00 | 31.80 | 113.60 | 14.20 | 244.60 |

- * Includes 0.1 USMC; and 1.0 foreign national working with Navy
- ** Includes 1.0 USMC
- *** Case funded
- **** Supports all Services

Each activity visited also provided an overview and process flow of the systems and procedures used, and the organizations involved. The detailed review of the processes identified several areas where duplication of effort was occurring and in some areas, on the spot interpretation of policy helped solve some of the problems. In addition, a number of local problems were resolved by providing clarification of policy and supplying guidelines for reconciliation and closure.

TOP TEN PROBLEMS AND RECOMMENDATIONS

The team identified approximately 40 problems as being common at multiple locations. Additional problems were identified as being service unique and are included in the supplements to

the PAT report. The ten most prevalent common problems are listed below along with the recommendations the team proposed.

1. Command, Control, and Responsibility for Case Reconciliation and Closure. The responsibility for case closure varies by location. In some places it was under the direction of the case manager; in others it was in the control of the financial manager or program control offices; and in many locations, it was strictly in the hands of the DFAS-Defense Accounting Office (DAO) for that location. The methods used to close lines, and then cases, are not consistent from one location to another. Although many agreed that indeed case closure should be a coordinated effort, the degree of coordination varied widely. This problem was further exacerbated when most of the accounting and finance personnel were capitalized by DFAS. The chain of command for DFAS-DAO is separate from the military departments and there are frequently conflicting priorities.

Recommendation: DSAA should review and evaluate the command, control, and responsibilities of the Security Assistance program within DoD and recommend necessary changes. DSAA will take a close look at DFAS and their roles in the case closure process. DSAA and DFAS need to cooperate in a detailed analysis of the reconciliation process to determine ways the process can be improved.

2. Allocation of Resources. Downsizing is the source of many general workforce problems, along with cuts in the administrative budget and overlapping priorities. In many locations, the case managers complained of competing priorities. For example, while working on case reconciliation, a financial manager may be redirected to put together information for a program management review. Since there are no dedicated, centralized personnel/offices for the case closure effort, many offices can only look at case reconciliation on a part time basis. Case closure is worked only after the other case management functions have been accomplished. There is a lack of continuing emphasis on case closure as other priorities arise. In addition the turnover of personnel puts many people in security assistance positions who are inexperienced.

Personnel responsible for case closure need to be knowledgeable and familiar with several databases, and both FMS and service processes. Reductions have occurred both in the military departments and in the security assistance community. Relocating personnel, consolidations, and reorganizations have all had an impact on the availability of qualified personnel to work on case closure.

Recommendation: DSAA will take a close look at the workforce statistics gathered by the team. In addition, DSAA intends to place more emphasis on case closure by establishing DoD-wide priorities, and ensuring adequate resources are available for the closure effort. As a result of this PAT, DSAA has established a requirement for a standard quarterly report on case closure progress required from each service. The first report was due 30 September 1994. [See *The DISAM Journal*, Fall 1994 issue for a copy of the policy letter and the format of the report.] The report requests data on both the number and dollar value of cases in the following categories:

- Total Open Cases
- Supply Complete Cases (% of Open Cases)
- Cases Supply Complete - Over 2 years Old (% of Open Cases)
- ACC Cases Supply Complete - Over 2 Years Old
- Non-ACC Cases Supply Complete - Over 2 Years Old with Open Contracts
- Non-ACC Cases Supply Complete - Over 2 Years Old without Open Contracts
- Total Cases Closed by DoD Component during FY

3. Policy and Procedure Problems. A lack of clear policy direction, along with misinformation, and misinterpretation of the ULO process were cited as some of the reasons for

the reluctance to close cases using the ACC procedures. The reallocation of resources has left a void in the availability of trained personnel to close cases. Offices tend to work the easier cases and leave the more difficult ones for later. The longer reconciliation is delayed, the more difficult it is to find records and make corrections.

Recommendation: DSAA will address the problem areas identified during the site visits; future problems are the responsibility of the military departments to identify to DSAA. Uniform priorities by categories of cases for reconciliation should be developed for use throughout DoD. These priorities can be based on participating/non-participating ACC countries, age of cases, dollar values, DSAA pending country review, etc. By using the same priorities throughout the services, it is possible to standardize which cases and lines are being worked for closure, and more accurately identify the actual closure workload. DoD components must disseminate policy and procedures promptly to all operating levels. Implementing agencies and DFAS should assure their personnel receive adequate training through DISAM, local training classes, and OJT.

4. Differences between Recorded Values for Progress Payments, Disbursements, and Delivered Values. In all three military services, there are system variances of one sort or another that impact the reconciliation process and delay case closure. For example, there are 73 cases in the Air Force where the only impediment to closure is that the centralized financial system for the Air Force, the Case Management Control System (CMCS), and the Defense Integrated Financial System (DIFS) at DFAS-DE are systematically unable to integrate data from cross disbursements (otherwise known as the "monster mash" problem). The Army has a Performance to Cash Variance Problem, and the Navy cited STARS/DIFS and MISIL/DIFS case performance discrepancies as major obstacles to reconciliation.

Recommendation. DFAS will work with the MILDEPs to aggressively resolve current variances. DFAS-DE will assist the DFAS-DAOs in working the financial systems integration problems and look at preventative measures to reduce the number of variances. Additionally, DFAS and the services should strive to identify and correct variances early in the execution phase of an FMS case, and not wait for case closure.

5. Long Running, Complicated, Many Times Modified Contracts that Include Multiple FMS Customers and DoD. Even with the ACC process, it is very difficult to determine the correct values on these contracts. The FMS financial data becomes so thoroughly integrated with the service data that it is impossible to determine the ULO value for any given case without reconciling the entire contract. This can be a time-consuming and lengthy process. DFAS-CO stated its priorities were to correct negative ULOs at contract level, not contract line level. This problem is compounded by the fact that on a single LOA line (for example, support equipment), there may be multiple contracts.

Recommendation: DSAA should sponsor a proposal to the acquisition community requesting that FMS orders be issued on separate contracts rather than being included on DoD contracts. Stand-alone contracts are easier to manage, reconcile, and close. DSAA should also consider a proposal to the acquisition community that would limit the length of contracts that contain FMS items.

6. Errors in Disbursing by Other than the Accountable Activity (primarily the Columbus Center). Disbursement errors make reconciliation of obligation and disbursement records difficult. The DFAS Columbus Center (DFAS-CO) is the DoD activity selected to process payments for all contracts under the auspices of the Defense Contract Management Center. During a recent three-month period, the DFAS Indianapolis Center (DFAS-IN) reported that more than 50% of the disbursements processed by DFAS-CO required treasury adjustments. The database at DFAS-CO, Mechanization of Contract Administration Services (MOCAS), is used for receipt and input of invoices, payment, expenditure authority, verification, and research and reconciliation of errors or missing data. The DAOs report that disbursement errors from MOCAS are very high.

Both the volume and the dollar value of disbursements processed by DFAS-CO create a problem due to the impact on the accounting records of the DoD components.

When the DFAS contract management function consolidation is completed with the integration of the final center in Albuquerque, the bulk of DoD acquisition dollars will be disbursed by DFAS-CO. The contracts managed by the Albuquerque center are much larger and more complex than those currently managed by the Columbus Center. For example, one contract has over 6,500 modifications with several FMS customers as well as USAF funding lines. All contract financial data will be transferred from the system the Air Force currently uses, the Acquisition Management Information System (AMIS), to MOCAS. Air Force activities visited reported that the error rate for AMIS processed disbursements was very low.

Recommendation: HQ DFAS will issue policy emphasizing the importance of the Columbus Center being responsive to FMS case closure actions and specify procedures to follow in making adjustments to contracts with FMS lines. They will also direct that DFAS-CO establish a central point of contact for coordinating FMS actions. This POC must be schooled in FMS procedures in order to act as the go-between in matters concerning reconciliation of case records and contract records.

7. Long Process for Closing Out Billing Actions for Cases in the Closure Queue. The feedback on transactions through the multiple supporting data systems causes delays. The once-a-month update cycle in DIFS further delays accurate data.

Recommendation: DFAS will evaluate the feasibility of modifying the DIFS system to allow updates more frequently than once a month.

8. Lack of Communication/Cooperation Among Logistics and Financial Organizations. The logistics and financial groups have different priorities for case closure and can initiate overlapping actions that are sometimes duplicative and may cause additional problems. In addition, there were several examples of the ping-pong effect, where cases were bounced from one office back to another without a clear definition of the actions required.

Recommendation: All management levels will foster an atmosphere of cooperation between logistics and financial activities. Service-wide systems similar to the Army Case Closeout Process Execution System (CCOPES) or the Air Force Case Management Control System (CMCS) for tracking actions and suspenses on cases eligible for closure need to be monitored and updated regularly by both the logistics and the financial offices. This effort will improve the coordination between the various organizations involved in any given closure effort.

The CCOPES is an independent interactive system located at USASAC, New Cumberland. Once an FMS case/line is a candidate for case closure and is loaded in the CCOPES, the various performing activities can identify impediments to case closure by inputting various inhibitor codes and updating status. CCOPES allows electronic communication of current closure status to all players. The ability of all performing activities, both logistics and financial, on an FMS case to view and update data, diminishes the ping-pong effect and provides visibility for timely actions.

The CMCS, the overall Air Force financial management system, has specific products to track and monitor the status of all cases eligible for closure. Both the product and the logistics centers can pull line and case closure information. Reports are available which identify cases which are supply complete based on the generation of Notice of Supply Services Completion (NSSC) letters from the line managers. Financial reconciliation data is also available in CMCS to assist in identifying any discrepancies.

9. Low Dollar Value Variances at Closure Time. For some FMS cases, the low dollar value of the financial discrepancy is not cost effective to reconcile. There were several examples where the cost of the time of the personnel involved, and the amount of paperwork issued far exceeded the amount of imbalance on the FMS case. The Air Force cited a \$23M CLSSA case that was implemented in 1978, certified supply complete in 1991, and was still open due to an imbalance of \$14.70! The large volume of requisitions on a FMSO II case make it very difficult to find the exact cause of the imbalance.

Recommendation: DSAA will evaluate and determine the legality and feasibility of establishing minimum thresholds for low-dollar adjustments. DSAA will issue revised policy based on the preceding determination.

10. Old Cases Held Open. Many cases which may be candidates for closure, are held open either at the request of the country or the case managers. The most frequently cited reason for the country request is because they want to keep the case open until all the funds are exhausted. Other examples include blanket requisition cases, repair and return cases, and new lines and additional dollars added to a system sale after the initial expiration date.

Recommendation: The DSAA Comptroller will staff a policy that any requests from a country to keep a case open that is otherwise eligible for closure must be submitted in writing through DSAA to the Services. This request must be from someone who has the authority to sign new LOAs. In addition, DSAA will review the policy that allows blanket order cases to stay open for an indefinite period of time.

CONCLUSION

While the team identified some problem areas that require changes in policy or procedures, there were also many reconciliation problems that could have been avoided through routine management attention, or corrected before the case was certified supply complete. Increased effort on planning for closure during the life span of a case will reduce many of the problems that are currently delaying case closure. Cases need to be written with an anticipated closure timeframe, and then need to be implemented with appropriate documentation to establish the audit trail necessary for case closure. Reconciliation should be an ongoing case management function throughout the existence of any case. With careful monitoring and tracking, along with periodic financial reviews, many of the problems can be identified and resolved before the case is eligible for closure, and therefore eliminate a lengthy reconciliation process.

DSAA is placing increased emphasis on the case closure effort, and the work of the Case Closure PAT is just beginning. During the case by case review at the locations the PAT visited, a suspense date for closing each supply complete case on the list was negotiated. The team will continue to monitor the case closure process and suspenses through on-site visits on a quarterly basis. DSAA will track the numbers of cases closed through the quarterly case closure status report until the current backlog of supply/service complete cases are closed.

In addition to the executive summary, the Case Closure PAT Report contains supplemental reports for the Army, Navy, Air Force, and DFAS. The military service reports include a summary and analysis of service-unique issues, flowcharts of the case closure/reconciliation process, a breakout out of the workforce currently involved in case closure, and an annex with a description of the individual locations visited. Copies of individual sections of the report can be obtained from the service representatives on the team. The authors of this article would like to thank the members of the PAT for their contributions to the final report. Most of the information in this article came from the PAT report which was jointly written by all members of the team.

ABOUT THE AUTHORS

Virginia K. Caudill has been working at DISAM since 1989 where she is currently an Associate Professor, and Course Director for the CONUS (SAM-C) and Refresher (SAM-R) Courses. Prior to coming to DISAM, she had over 13 years operational experience in various functional areas of FMS training, logistics, acquisition, and financial management. She has a B.A. in Spanish Language and Literature from the University of the Americas in Mexico, and an MPA (Public Administration) specializing in International Affairs, from the University of Dayton.

Carl Miller has been working in the Financial Management Division in DSAA since 1987 where he is a systems accountant. He was a supervisor in commercial services at McClellan AFB for five years in the very early days of FMS; was a supervisory systems accountant for implementation of the AF Joint Military Pay System; spent nearly seven years in International Accounting at the former AFAFC, where he was instrumental in the development of the Currency Clearing House for the F-16 Multinational Fighter Program and the financial procedures for the NATO AEW&C Program; and four years with the Comptroller, DoD, in the FMS Financial Improvement Project Office. He has a B.A. in accounting from California State University at Chico; has attended various AF, DoD and OPM courses in financial management; and has participated in several major systems development and implementation projects.