

IMPROVED FINANCIAL PERFORMANCE

(a) Describe your efforts to improve timeliness, usefulness, reliability of, and access to financial management data such as operating expenses, budgets, cost data, erroneous payment rates, inventory, receivables, payables, etc., that support day-to-day operations.

Corporate leadership and stewardship is a fundamental ingredient to the success of any organization. The size and complexity of the Defense Supply Center Philadelphia (DSCP) and its support mission demand that corporate leadership strives to improve business practices over operations and better integrating financial management requirements with operational responsibilities. The tone at the top provides the organizational impetus for DSCP personnel to move toward improvement. In keeping with that philosophy, the DSCP has a number of programs in place to ensure that it has good management oversight over budget processes both in the development and execution of the budget. In particular, we have begun preparing weekly reports on material obligations and rate of fund usage. This oversight will continue and increase the level of management that is monitoring the reports. These efforts provide more timely data to assist with the identification of potential problems in execution and give additional opportunity to address problems as they arise. The Commander of DSCP takes an active personal interest by meeting formally at least monthly with senior leadership to review their financial performance based on reports prepared by the Office of Comptroller. Throughout the year, Review and Analysis briefings are given and at that time, Budget Execution and Supply Performance metrics are brought together and the senior leadership is provided with performance in key areas. As background, the DSCP supply operations are funded through the Defense Working Capital Fund, which operates as a revolving fund. DSCP buys and sells commodities to their customers who then use appropriated funds to pay DSCP. In principle, DSCP should recover the acquisition costs of what it sells, as well as its own operating costs, so that over the long term the fund breaks even financially. Because of this funding situation, it is extremely important that every effort be made to keep on top of what is funded. DSCP works to accomplish this through its efforts to improve timeliness, usefulness, reliability of, and access to financial management data.

DSCP has made several improvements regarding the usefulness and timeliness of financial information. These efforts include monitoring weekly reports on material obligations, preparing monthly reports, and holding meetings to discuss the overall budget execution to date. This center also conducts review and analysis briefings, which cover budget execution and supply performance. Our Headquarters organization also regularly provides input and guidance. Additionally, Comptroller employees have been assigned on-site to the organizations they support, and they work daily with commodity business offices. This collocation facilitates communication, which in turn improves the timeliness, usefulness, reliability, and access to financial data. Within the last year, DSCP began to collect information on employee activity as part of its Activity Based Costing initiative. After identifying common business activities, a computer-based system was developed to capture employee input on-line and prepare reports of selected activities and their costs. Employees working within commodity offices are surveyed on a bi-annual basis. Information gathered by DSCP is also submitted to DLA Headquarters for inclusion in a corporate Logistics Enterprise model. Management at several levels are presented with the results to be used in any decision-making process. As resource availability becomes more constrained, DSCP management continually looks for ways to improve financial performance. One of those ways is to push up responsibility for briefing financial performance

to the highest levels of the organization. Within the past year the Director of the Defense Logistics Agency (DLA) has required his field commanders to personally report their financial performance to him.

DSCP has many systems that influence the outcome of a good sound financial performance. Financial performance is strongly influenced by sales to customers, cost of commodities sold to our military and non-military customers, market conditions, and contractors' performance. DSCP is entrusted with assuring that expenditure of public funds is done in compliance with contract intent and in the most economic and productive manner. All DSCP employees are aware of this responsibility through annual briefing on fraud, waste, and abuse. DSCP uses a set of Balanced Scorecard metrics made up of financial and non-financial measures to provide a comprehensive view of the processes used to accomplish our objectives. Each measure is required to have a numeric and/or a timeline goal. The results provide baseline performance indicators which are analyzed on a regular basis and used as a tool to set priorities for improvements and opportunities for innovation.

Report Web System. DSCP has instituted a Report Web system that provides on-the-spot reports by Distribution, Financial, Procurement, Provisioning, and Requirements. A search engine is in place where a report query can be entered and searched by date, subject, name, etc. About 8 years ago, an Activity Based Costing initiative was implemented as a manual system to track processes costs required to run this activity. Over the years, the Activity Base Costing has evolved to be an automated system that provides all types of costing reports on acquisition processes, technical quality processes, and the overall cost of doing business.

Executive Information System. More recently, the Executive Information System (EIS) was implemented to record and report on all of the functions in DSCP's mission. EIS reports on Financial Measures, Growth and Innovation, Employee Development, Backorders, Customer Calls and Customer Satisfaction, Direct Vendor Delivery, Discrepancy Reporting, Electronic Business Information and Electronic Commerce, Inventory Levels, Contracts, Prime Vendor Information, Sales, Socio-Economic Information, Supply Availability, Unit Cost, and other performance measures.

(b) Describe how your financial management systems have been designed/reengineered to ensure that decision-makers have accurate, timely, and useful information.

As was stated previously, financial management must have the attention of the highest levels of leadership. That attention provides the organizational impetus for DSCP personnel to move toward improvement. In that direction, the DSCP senior leadership has put a number of programs in place to ensure that it has good management oversight over budget processes both in the development and execution of the budget. In particular, we have begun preparing weekly reports on material obligations and rate of fund usage. This oversight will continue and increase the level of management that is monitoring the reports. This will further provide more timely data to assist with the identification of potential problems in execution and give additional opportunity to address problems as they arise. The Commander of DSCP also takes a personal interest by meeting at least monthly with senior leaders to review their financial performance, based on monthly reports prepared by the Office of Comptroller. Throughout the year, Review and Analysis briefings are conducted by the Operations Research Personnel. During this forum, our Commander reviews Budget Execution and Supply Performance metrics. Senior leadership is tasked in making necessary adjustments in order to keep in line with the overall financial strategic plan. DSCP supply operations are funded through the Defense Working Capital Fund,

which operates as a revolving fund. DSCP buys and sells commodities to their customers who then use appropriated funds to pay DSCP. In principle, DSCP recovers the acquisition costs of what it sells as well as its own operating costs. The principle of this concept is to ensure that we do not operate at a loss. To ensure that the DSCP Defense Working Capital Fund is operating efficiently, we have instituted state-of-the-art technology in electronic invoicing. Through this initiative we have improved the timeliness, usefulness, and reliability of our financial and operating expenses. It also precludes us from experiencing erroneous payment rates as such antiquated systems have hindered Government agencies in the past.

Currently 73 percent of our total lines are currently processed via Electronic Invoicing (EI). Our goal is 100 percent. To achieve this, we are actively encouraging participation from vendors to increase participation in electronic invoicing. We currently have 100 percent of all our prime vendors using electronic invoicing. Our goal is to maximize usage of EI and we achieved an 80 percent rate at the end of FY 01. We are concentrating on vendors with the highest volume who are not already using electronic invoicing. We are working with the Comptroller and Defense Financial Automated System (DFAS) to identify which vendors to target.

Our Executive Information System (EIS) is a DSCP intranet management decision-making tool, which can be accessed by all DSCP's employees. DSCP managers rely on EIS in making financially driven decisions that support the day-to-day operations. This system encompasses our four commodities—General and Industrial, Clothing and Textiles, Medical, and Subsistence. Input of data into the system is left to each one of the commodities. The system shows all types of data by commodity and then it summarizes all data into one single output. EIS provides financial trend data on sales by geographical regions.

The following paragraphs explain our electronic initiatives that were initiated by our individual commodities for the purpose of improving visibility over accounts payable, receivables, and operating expenses that support day-to-day operations.

DSCP's Electronic Business/Electronic Commerce (EB/EC) initiatives and developments have played a crucial role in virtually all of the unique and innovative initiatives adopted by each of the commodity groups within DSCP. Innovation and improvement in both business processes and the information technologies to support them will continue to offer DSCP our greatest potential for further reinvention and improved support to the warfighter.

Our Strategic Acquisition Systems Office has developed an Electronic Data Interchange (EDI) Strategic Plan. This plan brings together all our various acquisition and business technology initiatives under a consistent corporate focus while maintaining the environment and spirit of commodity entrepreneurship and customer tailored solutions that have been the cornerstone of the DSCP logistics revolution.

The General & Industrial (G&I) Directorate Electronic Business/Electronic Commerce (EB/EC) Strategic Plan is a companion piece to the DSCP EDI Strategic Plan. Its primary goal is to establish a comprehensive EC environment throughout the Facilities Maintenance, Bench-stock, and General Hardware and Equipment business areas that encompasses the full range of acquisition and logistics processes. This goal seeks not to establish a single framework for development and implementation, but rather an umbrella under which various customer-oriented EC solutions can operate and expand. Our focus is also on increasing efficiencies in internal

processes. The General and Industrial Directorate progress in metric areas measured in the DSCP plan has been significant. For example, we have been very successful in getting our vendors to accept Electronic Funds Transfer (EFT). We achieved a 94.6 percent rate for FY 00 EFT dollars. As soon as non-participating vendors are identified, we arrange for them to use EFT for payment purposes. We reached 99 percent by end of FY 01.

Our Subsistence Directorate has also achieved success in sending out contracts/orders electronically to Defense Contract Management Agency (DCMA)/DFAS. Currently, over 90 percent of our contracts are being electronically paid out of our Defense Integrated Subsistence Management System (DISMS). No paper orders are sent to vendors or payment offices. For the few we have with DCMA, we will be using the Procurement Gateway to post these orders. We intend to accomplish this by the end of this fiscal year. The Subsistence Directorate is also using the Procurement Gateway to post their solicitations. We have started the initiative in FY 01, and we placed all of our solicitations up on the Gateway when FY 01 ended. This can be used by other Federal Government organizations with similar requirements.

Over 90 percent of our non-Defense Commissary (DeCA) orders are passed electronically through the Subsistence Total Order and Receipt Electronic System (STORES). About 45 percent of the DeCA produce orders are currently submitted electronically via the web into the Fresh Fruits and Vegetables Order Receipt System (FFAVORS). By the end of FY 01, over 86 percent were submitted electronically in this manner as more commissaries adopt the DSCP-developed DeCA Web Ordering System.

Our Medical Directorate is synchronizing its efforts with the commercial sector. It is in the process of deploying its second-generation Prime Vendor program. This redesigned order and delivery system is characterized by more options at lower prices, but remains within the traditional Prime Vendor paradigm. In addition, the Directorate has deployed its Electronic Catalog (ECAT) Web-based Ordering System (WBOS). ECAT has equal or greater capability than most state-of-the-art commercial ordering systems and is undergoing continuous process improvement. The system currently supports laboratory, dental and optical items, and is being expanded to include medical equipment and repair parts. In the area of e-business, DSCP Medical is aggressively benchmarking commercial systems and revising its vision and strategic plan accordingly.

The Medical Directorate is also relentlessly pursuing an e-business model to improve customer support and lower delivered costs of medical materiel. A secondary but equally important goal is to craft a solution that can be efficiently integrated into the Defense Medical Logistics Standard Support (DMLSS) enterprise architecture. To accomplish these goals, DSCP is benchmarking the commercial giants in the medical e-business arena—Premier, Novation, and Amerinet. We are also collaborating with two of our more progressive customers who are experimenting with e-business partners—Madigan Army Medical Center partnering with Omnicell, and Brook Army Medical Center partnering with Pyxis. We are incorporating the results of our benchmarking and collaboration efforts into a comprehensive business case analysis comparing the various e-commerce options available to DSCP and determining the best value. Simultaneously, we are developing our enterprise architecture to determine the best fit for a transition to e-business. Our objective in these initiatives is to leverage the commercial momentum and lessons learned and to speed to market a solution that improves customer support

at lower cost. This innovation is exportable and reproducible for any organization with similar business requirements.

DSCP Business Systems Modernization (BSM) initiative currently being implemented is designed to replace its mission-critical legacy systems with a new enterprise Information Technology (IT) environment based on commercial-off-the-shelf (COTS) software and best commercial practices. The BSM strategy is to first focus on replacing DLA's primary materiel management systems, the Standard Automatic Materiel Management System (SAMMS) and the Defense Integrated Subsistence Management System (DISMS), with an expanded enterprise computing environment and COTS software packages. The BSM strategy, over the course of several years, will result in a new Agency-wide computing architecture which will enable DLA to re-engineer its logistics processes to reflect best commercial business practices. This will be exportable to other organizations.

The BSM Team is deeply involved in the various Integrated Process Teams (IPT) including the Concept Demonstration Teams. These teams are segmented into procurement, order management, inventory management, technical services, and information technology. The teams are concentrating their efforts on reaching the first milestone of mapping out the current "as is" process and planning the "to be" process. This effort will not only enable DLA to achieve its long range business objectives, but also support improved Military readiness through accessibility and velocity of logistics information. The IPTs are composed of DLA employees from all of the ICPs and other DLA activities and the contractor, Accenture. In addition to the functional teams, there are two other teams working "people" issues; the Change Management Team and the Knowledge Transfer/Training teams. These two teams are developing short and long-range strategies to insure the workforce is fully informed about BSM and is capable of adapting to the new systems.

The DSCP Directorate of C&T found itself in a position of wanting to improve customer service by providing easy access to item information and ordering assistance. The solution came from the World Wide Web and the Automated System for Cataloging and Ordering Textiles (ASCOT), now called "Warfighter.net." Warfighter.net is an internally developed web-based catalog that includes every item that Clothing and Textiles manages. Its capabilities include: item pictures, search, order, requisition status checking, and market baskets. It processes incoming requisitions and sends them to the SAMMS mainframe system. A major overhaul of the ASCOT (Warfighter.net) was planned for Fiscal Years 2000-2001 to bring the system up-to-date with current technology. However, the current plan is now to provide the Electronic Mall (EMALL) with the functional requirements and only investigate the major redesign of ASCOT (Warfighter.net) if not feasible on EMALL. The system allows all users to search the catalog and find information about a particular item along with the assigned Item Manager's name, phone number, and email address. Access is unrestricted for browsing the catalog, but placing an order and checking requisition status require an identification and password. After the user verification check, the customer is free to order on-line, receiving an immediate email confirmation of the order. In addition, customers have a payment option when using ASCOT (Warfighter.net). The system allows billing through normal military billing or to a Government credit card. Customers used to ordering in a paper environment see the largest benefit from ASCOT (Warfighter.net). Cycle times for requisition processing can be reduced from days to hours as ASCOT (Warfighter.net) requisitions are sent up to our mainframe system within an hour, queued, and then processed twice daily.

Even customers that do not order on-line can benefit from this system by viewing actual item pictures when they are not sure which item to order. They can also obtain status for all of their C&T requisitions.

The system is very user-friendly and contains a frequently asked questions area. In addition, there is on-line help via hyperlinked text for most of the data fields to aid customers. Market Baskets (pre-defined item lists) were developed for certain customers that order only a particular group of items. This eliminates searching and the potential for ordering wrong stock.

(c) Describe how your financial management information is used to ensure your desired outcomes and effect performance.

DSCP uses its extensive financial reporting network to gather and report a wide range of financial data that ultimately is used in conjunction with other performance information to provide indicators of DSCP business performance. Management having been provided this information then determines if expected performance has been achieved or if corrections need to be made. DSCP has adopted the balanced scorecard as its primary method of tracking performance and that in conjunction with its strategic plans and business plans form the basis of its performance tracking toolbox. When operating under the revolving Defense Working Capital Fund, meeting desired outcomes means that every possible sales dollar is used appropriately and as planned to provide our Military customers with what they need, where and when they need it, and at the lowest cost possible.

DSCP's Medical Emergency Supply Operations Center (ESOC) and Customer Support Section have been extremely busy since the September 11, 2001, terrorist attacks on the World Trade Center and the Pentagon. The Medical ESOC is the first and last line of support for DSCP's customers during emergency and contingency situations. Emergency requirements are requisitions in Issue Priority Group I. In addition to processing requisitions, the Medical ESOC provides stock availability, requisition status, or any other supply support that requires immediate attention. The Medical ESOC is the Medical Directorate's operating and troubleshooting arm of the DSCP Commander for critical supply matters which impact worldwide materiel readiness of the Armed Forces. This section resolves critical supply problems related to high priority requisitions. This section also manages, controls, and assists in the processing of high priority Joint Chiefs of Staff (JCS) special projects and command interest items and is directly responsible for providing worldwide high intensity acquisition support for life-and-death relief efforts, humanitarian efforts, DoD, combat operations, mobilizations, and deployments.

Immediately following the attacks on September 11, the Medical ESOC expanded its operations to 24 hours a day, seven days a week and has been processing medical requisitions at a very intense pace ever since. Thus far, the Medical ESOC has processed in excess of 4,300 requisitions, totaling more than \$17 million. All the Military Services have required extensive requisition processing, combined with the heightened sense of urgency that the ESOC places on each and every materiel order. Requisitions include procurement of pharmaceuticals, medical/surgical, medical equipment, and readiness unique materiel supply items.

During this time, the Medical ESOC took the opportunity to showcase several of the Medical Directorate's premier materiel support programs developed by the Readiness Commodity Business

Unit (CBU). Specifically, the Vendor Managed Inventory (VMI) and Corporate Exigency Contract (CEC) programs have been moved to the forefront in meeting the supply requirements of our customers. These programs provide various procurement mechanisms for getting the medical item to the customer in a timely manner.

The VMI initiative focuses on partnering with the healthcare industry's distributors in providing inventory management and guaranteed availability for shelf life medical readiness items. Today we have a VMI contract covering pharmaceutical and medical surgical items. Both contracts are long-term partnerships with distributors. The pharmaceutical contractor is Bindley Western Industries and the medical surgical contractor is Allegiance Healthcare Corporation. The Pharmaceutical VMI program uses peacetime sales dollars and underwriting distributors' safety level expenses as leverage against the commercial inventory/sales volume to provide guaranteed coverage to support Services' readiness requirements. DSCP Medical also processes urgent customer requirements that match items already resident in the Medical/ Surgical VMI program to help underwrite inventory levels at the distributors. The benefit of the VMI program is DoD guaranteed access to shelf-life materiel to ensure materiel availability for early deploying units.

The CEC program establishes long term partnerships with manufacturers to provide sustainment materiel to meet the Services' requirements in times of conflict or military need. The intent is to buy access to materiel by partnering with industry vice purchasing materiel for depot warehousing. To maximize overall access and coverage the CEC concept calls for making multiple contract awards in the same product line or product group. The CEC thereby ensures the industrial base is prepared to respond to the Military Services' increased demands in support of contingency operations prior to production by the manufacturers. In addition, these contracts will serve as a process for the industrial base to respond more effectively and rapidly in the execution of filling Military Service requirements since the mechanism for placing procurements will already be in place and tested. The CEC ensures materiel is available for access and thereby promotes a high degree of medical readiness for a contingency.

(d) What were your results?

The results of DSCP's initiatives in the area of financial management are measured in increased sales, reduced costs, customer satisfaction, right-sizing, reduced inventories, payments of obligations, reporting systems, supply availability, and overall systems innovations.

In FY 01, DSCP sold over \$6.2 billion of clothing and textiles, medical, subsistence, and general and industrial supplies to our customers worldwide. All four commodity directorates not only achieved new highs as compared with previous fiscal years, but also for the second time in DSCP's history each of our commodity directorates exceeded \$1 billion in sales.

Clothing and Textiles commodity sales for FY 01 increased by 6.6 percent to \$1,252.6 million. Recruit clothing accounted for \$696.7 million (or 56 percent of the total sales for this commodity). Organizational Clothing and Equipment sales totaled \$402 million and Readiness Sales accounted for the balance.

Medical commodity sales for FY 01 were \$2,047.4 million which represents the highest total ever for this commodity. The FY 01 sales volume exceeds the previous year by \$318 million or by 18.7%.

The higher volume is attributable to increases in Prime Vendor, National Mail Order Pharmacy, and the ECAT business. The sales distribution for Pharmaceutical, Medical Surgical, Equipment, Readiness Commodity Business units, and Army Single Stock Fund was \$1,283 million, \$155.8 million, \$183.8 million, \$10.3 million, and \$414.5 million respectively.

Subsistence commodity sales totaled \$1,466.9 million, an 7.6 percent increase from the previous year. The success of the Prime Vendor program, especially higher than expected Meals-Ready-to-Eat (MRE) sales, has once again made FY 01 a banner year. The Prime Vendor program in Subsistence, as in prior years, is rolled-out throughout the United States and in the European and Pacific theaters, and we anticipate this business to grow as our sales base continues to expand.

The General and Industrial commodity sales for FY 01 were \$312.2 million higher than the previous year, achieving total sales of \$1,532.9 million. Significant increases (\$191.1 million from FY 00 to FY 01) have been realized in the Prime Vendor program initiatives that were developed and implemented to provide ease of ordering, quick delivery, and tailored customer support.

In FY 01 we continued to have a decrease in our wholesale inventories. As we continue to engage in commercial business practices and strengthen our role as a global logistics supply chain integrator, the need for wholesale or retail level inventories continues to be reduced. From FY 97 through FY 01, Subsistence, Clothing and Textiles, Medical and General & Industrial commodities accomplished inventory reductions of 38, 21, 1, and 32 percent respectively.

During the time period of FY 96 to FY 01, DSCP reduced its workforce by 25.6 percent, while gross sales for the same period rose 34 percent.

On a scale of 1 through 4, where 1 is Very Dissatisfied and 4 is Satisfied, the overall customer satisfaction for all commodities, DSCP averaged 3.9 for both FY 99 and FY 00. DSCP initiated and implemented several electronic systems for financial reporting, procurement, reporting, cost control, contracting, ordering, cataloging, and e-commerce, as follows:

- ?? Report Web System
- ?? Executive Information System (EIS)
- ?? Activity Based Costing (ABC) System
- ?? Total Order and Receipt Electronic System (STORES)
- ?? Fresh Fruit and Vegetable Order Receipt System (FFAVORS)
- ?? Automated Ordering for Schools
- ?? Medical Electronic Catalog (ECAT)
- ?? Business Systems Modernization (BSM)
- ?? Automated System for Cataloging and Ordering Textiles
- ?? (ASCOT)/Warfighetr.net
- ?? Customer Demand Management Information Application (CDMIA)

As a result of DSCP's diligent financial performance and managerial performance, this Agency has received numerous awards that recognized its efforts:

- ?? Award for Quality Improvement for the Year 2000, The President's Quality Award (PQA) Program

- ?? Fourteen Hammer Awards – 1995-2000
- ?? Federal Executive Awards – 35 (Gold, Bronze, and Silver) for 1999
- ?? Government Technology Leadership Award for the Year 2001

- ?? The 14th Annual Government Award for the Year 2001
- ?? Corps of Engineers Award for the Year 2001
- ?? Thirteen (13) DLA “Scissor” Awards - 1997-2000

The innovations developed at DSCP are transportable to organizations with similar business related missions.