

The Department of the Navy is Full Speed Ahead

On innovative, Web-based Purchasing System

A T - A - G L A N C E

- With Citidirect the Navy has an automated process that is easy to use and manage.
- Citidirect offers a level of detail that includes merchant name, address and type as well as additional designations helping the Navy keep tally of its spending.

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The government, like business, has recognized the need to work faster, smarter and cheaper. In 1997, the U.S. Deputy Secretary of Defense issued a challenge to his department: move to a paper-free procurement process in order to reduce infrastructure, cut budget, save manpower and redirect conserved resources to more pressing

military needs. The U.S. Department of the Navy, consisting of the U.S. Navy and U.S. Marine Corps, responded to that challenge by fundamentally changing the way it handled its purchasing and payment processes. In its solution, the Navy has broken new ground with cutting-edge technology and is achieving their goals of paring infrastructure, reducing costs, conserving manpower and increasing operational control.

The Department of the Navy's (DoN) purchasing process was awash in a sea of paper — bogged down in redundant and time-consuming manual accounting and approval processes, onerous invoice reconciliation and certification and lengthy vendor payment schedules that frequently resulted in hefty prompt payment interest penalties. To make matters worse, the Navy was missing out on lucrative early pay-

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ment productivity rebates it could garner through prompt or early vendor payments.

The DoN determined that its paper and labor-intensive “micro-purchasing” category would offer the biggest opportunity for change. Eighty percent of the Navy’s purchasing activity was spent in this \$2500 and below category. These purchasing card expenditures translated into more than 2.25 million transactions — over \$1.5 billion annually and growing.

Six years ago a Purchase Card Program had been implemented which had helped to significantly reduce the number and costs of these small purchases. Though the program helped by making the process for these small purchases more efficient, the purchase card invoice payment and accounting process itself had become a manual, time-consuming and costly exercise.

The current manual accounting processes on the card were contributing to ongoing problems of unmatched disbursements and unliquidated damage obligations (funds not properly allocated to cover

charges). These two problems had in the past cost the Navy millions of dollars across all procurement processes and categories.

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“We needed a streamlined, complete process,” explains Navy Purchase Card Program Manager Larry Glasco. “We wanted a solution that would rid us of paper — take us to the next dimension and make a significant difference in how we conducted our business.”

In June of 1998 the Navy issued a tailored task order request — the federal government’s version of an RFP — requesting proposals for

a electronic, end-to-end solution that would enable the total automation of its purchasing process. These proposals would include automated procurement, obligations, accounting, approvals and payments. It looked to bid respondents to provide the details beyond the broad mandate of its desired end-to-end total solution.

In July of 1998 the DOD awarded a three-year Task Order (with seven one-year renewals) to Citibank Government Services and MasterCard. The success of Citibank and MasterCard was based on the innovative and trail-blazing solution they proposed...a solution that would propel the Navy’s process from its antiquated manual procedures to a Web-based total electronic system. This new innovative system, dubbed the Purchase Card Automation System (PCAS) by the DoN, is unique in both government and industry.

“The Department of the Navy is on its way to achieving positive results in streamlining its infrastructure,” explains Ira Jekowsky, Vice President of Public Sector

Payment Solutions,
MasterCard International.

Citibank Vice President, David Reed, who has honchoed the project from its inception, “The DoN solution is taking the payment process to the next level — demonstrating an innovative, world-class approach that can serve as an example for both government and industry alike.”

Laying the groundwork

Integral to the ultimate success of the Navy program, was a solid foundation of research put together by the DoN and Citibank/MasterCard team. Extensive research began with feedback from the purchase card users themselves immediately upon the Task Order award. The research was conducted on two tracks: for the Navy’s needs in port and at sea. Representatives from over 20 of the Navy’s major commands were brought together to chart the process as it was, identify problems and then brainstorm solutions.

One of the biggest challenges identified was caused by the Navy doing what it does: cruising the high seas. “It was extremely difficult to

get invoices to personnel when their ships were out of port,” explains Reed. Having mail catch up with personnel so that they could review, sign off and then forward invoices back to the States was a time-consuming process. According to Reed, Citibank and MasterCard were asked to make solving this problem a top priority.

As the current program stood, over 30,000 thousand enlisted and civilian DoN employees were authorized cardholders. Over 9,000 authorized billing officials throughout the worldwide organization were required to process cardholder transactions. These cardholders ranged from a sailor aboard a ship, to a Marine in an overseas base to a civilian engineer stationed at a Naval or Marine Corps base. While many of the users were based domestically, the solution truly needed to be global since cardholders hailed from every corner on the globe.

Over nine thousand approving officials certified the monthly invoices for this purchase card population. Their purchases included

both goods and services — from office supplies like pencils and paper to a fuel pump for a truck or a repair service on a ship. With the government’s second largest Purchase Card Program, the Navy’s \$1.5 billion plus in expenditures included purchases from the open market, vendors under federal contract as well as other government agencies.

Overlaying the individual purchasers and their authorized purchasing programs were more than 20 different accounting systems. Integration with these systems would be one of the key elements to the success of this new process.

Tortuous and time-consuming

The process was tedious and time-consuming:

When an item was needed, the cardholder started the process with a request for purchase. They submitted that request in writing — with an estimate of cost — and sent it to their supervisor. The supervisor reviewed the request, signed off on the requisition and forwarded it to a department comptroller.

The comptroller's job was to review, approve and then manually obligate funds to the correct line of accounting (LOA) for the purchase. The requesting cardholder received the ok to purchase, usually within 5 - 15 days, and then made the purchase and recorded it in their purchasing log.

About a month later, the cardholder received a paper statement of all their purchases. Each purchase transaction had to be checked against the purchase log and assigned a 75-digit line of accounting that was manually written on the statement next to the purchase. In some cases a large department's statement could contain thousands of separate lines of accounting.

The statement — once reconciled by the cardholder — was forwarded to the approving official. The official did a review before certifying it for payment and sending it to a Defense Finance and Accounting Service (DFAS) central payment office where a clerk keyed the LOA into the accounts payable system. The system checked for funds availability under the

LOA to make sure they were available and obligated to cover the purchase.

Frequently the obligations were insufficient and didn't cover the invoice due to manual errors along the way. This is not surprising considering that a 75-digit LOA was manually recorded and keyed in by two different people. Another frequent problem was that the original requisition contained an "estimate" for the goods and services. If the buy turned out to cost more — the system rejected the invoice because of insufficient funds obligations.

Each time a line of accounting was entered by the central payment office it costs the Navy approximately \$12. With the potential for thousands of lines of accounting on just one invoice — manually entered twice by 42,000 authorized users — it's easy to see that costs would add up. Adding to these costs are the obligation exceptions that require the purchase card invoice to be manually pulled and investigated to uncover the reason for the discrepancy. These man-hour costs not only added to bottom line but also extended

the payment process to 30 to 60 days or longer.

At sea

With many ships deployed at any one time, getting invoices to personnel quickly was a priority. Using the mails, it was not unusual for invoices to arrive late as ships moved from port to port across the globe. This time greatly protracted the payment process and resulted in significant late interest payment penalties.

"We want our sailors focused on their shipboard duties when they're at sea," explains Gwilym H. Jenkins, Jr., Navy Rear Admiral. "As the system stood, invoice processing was taking too much of our sailors' time. So it was important to us that the solution make dealing with this administrative work easy and quick for our sailors and let them concentrate on their assigned jobs aboard ship."

Citibank and MasterCard had to come up with a way to get these invoices to ship personnel in a timely manner.

The Navy had a system called the Streamlined Automated Logistics Transmission System, SALTS for short, that it used to

convey official messages. It was an electronic system with limited bandwidth. Citibank's solution was to piggyback on this system and set up a way for authorized personnel to receive their invoices, review them, sign off and send them back. Navy personnel needed access to this information at their convenience — available 24 hours a day, seven days a week.

In the technical solution it devised, "e-boxes" were set up within the SALTS system that authorized users could access. Invoices were sent to the ships in downloadable files. Sailors accessed the system at their convenience and downloaded the file into their computers. They reviewed charges, authorized payment and then sent the file back to the e-box where it was transmitted to SALTS Central in Philadelphia. Citibank picked up the file, converted it to EDI files and entered it into the DoN system for payment.

Since January 2000, this new system has helped to compress invoice turnaround from 37 days to 5 days and reduce the number of delinquent payments. "The system has delivered

for us," comments Rear Admiral Jenkins.

New horizons

The land-based, CitiDirect/PCAS system currently being deployed will give the Navy an automated process that is easy to use and manage while at the same time delivering a timely and efficient payment process.

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The total solution will eventually provide the Navy with a comprehensive end-to-end process. This will include: establishing individual card accounts, logging buys, obligating funds to cover purchases, issuing and e-statements, certifying and

approving e-statements, submitting for EFT payments and maintaining the overall purchase card program through online card management and reports. Additionally, the CitiDirect system will interface with DoN accounting systems using EDI transaction sets that will actually post the accounting information to their financial systems.

Easy account allocation

In the new Web-based system, the buyer's electronic statement will be available 24 hours a day and be updated daily. The CitiDirect system will offer information that is more complete, including merchant name, address and type. Additional designations like woman- or minority-owned – will help the Navy keep tally of its spending in mandatory purchasing categories.

The CitiDirect system will also help users navigate lines of accounting with speed and ease. In this web-based solution, each cardholder will work from a pre-approved group of LOA's, listed on a drop-down menu, and individually assigned based on purchasing type. The system

will enable ready manipulation of lines of accounting by authorized personnel as duties or circumstances change.

CitiDirect will offer the cardholder an automated reconciliation of the monthly statement. The administrative assistant will review the cardholder's charges, check them against the cardholder's online purchasing log and note any exceptions. This is a tremendous time saver since statement reconciliation could take days under the old system.

The cardholder will forward the reconciled charges to his/her approving official where they will be certified and sent in a secured and "locked down" file to DFAS' accounting system. The system will search out and match the obligated funds and make payment via EFT. From e-statement receipt to the EFT payment will average 7-10 days with a projected target of just 5-7 days.

A large percent of the invoices prior to the PCAS system were subject to interest penalty because of late payment. By speeding the process each step of the way — and eliminating steps like

the need for additional approvals by a department comptroller and the manual input of accounting information at the central payment office — interest penalties for late payments will be all but eliminated.

~The Department of the Navy...sailing into a new age at top speed. In its wake...a sea of paper and the manual, time-consuming processes of another era.~

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