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MEMORANDUM FOR SEE DISTRIBUTION

FEB 09 2016

SUBJECT: DoD Requirements Overview for Procure-to-Pay Data Exchanges One through Four

The Department faces challenges related to auditability. Key enterprise financial metrics indicate a significant number of unmatched transactions, especially within the Contract Pay and Vendor Pay business areas. To address and reverse these trends, the Procure-to-Pay Process Advocates Working Group (P2PPAWG), co-chaired by the Director, Defense Procurement and Acquisition Policy, and the Deputy Chief Financial Officer, has been determining root causes within the Department's end-to-end processes.

Analysis has shown that data exchanges (or "handshakes") between functional communities lack standard business rules and internal controls necessary to eliminate material weaknesses, facilitate downstream business processes, and achieve system to system interoperability. In response to these findings, the P2PPAWG has developed a requirements overview to forecast the ways in which requiring, procuring, accounting, and entitling communities should conduct business across four critical P2P data exchanges.

The overview is available at http://www.acq.osd.mil/dpap/pdi/docs/P2P_handshake_requirements_overview.pdf and describes how to conduct these handshakes. It forecasts the creation of supplemental standard operating procedure documents that will provide additional detailed requirements for each data exchange. For questions, the procurement point of contact is Mr. Bruce Propert (david.b.propert2.civ@mail.mil or 703-697-4384) and the financial management point of contact is Mr. Greg Little (gregory.b.little2.civ@mail.mil or 703-614-7496).

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Procure-to-Pay (P2P) Requirements Overview for Data Exchanges ("Handshakes" 1, 2, 3 & 4)

Version 1.0 as of February 5, 2016

Table of Contents

Table of Contents 2
1 Purpose 3
2 Background 3
3 Handshake Definitions 5
4 Roles and Responsibilities 7
5 Concluding Remarks 7

1 Purpose

This document provides a requirements overview of the procedures that contracting, accounting and entitlement communities will use to conduct business across "Procure-to-Pay" (P2P) processes that require exchanging data (analogous to offering and accepting a handshake) between different communities or systems. These exchanges occur within and across the Business Enterprise Architecture (BEA) processes for:

1. Create Purchase Requisition (P2P)
2. Award Procurement Instrument & Supplemental Procurement Instrument (P2P)
3. Manage Procurement Instrument Entitlement (P2P)

The BEA defines a variety of End-to-End (E2E) processes that guide and constrain implementation of interoperable defense business system solutions and ensure that information technology investments are aligned with strategic business capabilities. This document reflects existing policy, and provides specific procedures (and system modifications) to improve and automate operational data exchanges (or "handshakes") occurring within the BEA P2P process steps identified above. The Director, Defense Procurement and Acquisition Policy (DPAP) and Deputy Chief Financial Officer (DCFO) will work with Components to develop more detailed standard operating procedures (SOPs) and policy updates that are specific to each data exchange explained in this document. Components should plan to adjust current procedures to ensure that their business models align with this document.

DoD Components should note that the contents of this document do not replace any guidance contained within the Federal Acquisition Regulations (FAR), or the associated policy contained within the DoD Financial Management Regulation (FMR) and Defense Federal Acquisition Regulation Supplement (DFARS). Should conflicts exist between this document and any resulting SOPs, and any formal policy documents, the FAR, DFARS, and FMR are the prevailing government regulations.

2 Background

Components face increasing demands from both users who demand that business be conducted more efficiently and policy makers who require increasing visibility into how the Department of Defense spends its money. Having to maintain interoperability with diverse Defense stakeholders, and their specific IT environments, compounds these challenges. Accounting and entitlement systems often lack the detailed information necessary to ensure traceability to discrete award identification numbers. In addition, the procurement and financial eBusiness environment currently operates in an interim state, with both legacy and target systems in use that possess different levels of IT sophistication.

This document has been developed in conjunction with DoD Components to minimize the impact to current processes and expected system changes, while meeting accountability requirements, improving overall operations, supporting "end to end" business process/activities, and limiting non-compliance with established policies. If successful, they will ensure that

transparency requirements are met. The overarching objectives of this effort are to enable stakeholders to:

1. Consistently trace electronic transactions from purchase request to payment for all procurement actions across the Department of Defense, to include tracking of funding and execution data[1];
2. Help to reduce or eliminate unmatched financial transactions within the DoD enterprise P2P E2E process;
3. Ensure that committed funds are sufficient for, and traceable to, the specific line items within an award;
4. Reduce the risk of Anti-Deficiency Act violations;
5. Comply with the Federal Funding Accountability and Transparency Act (FFATA) as modified by the Digital Accountability and Transparency Act;
6. Support DoD Financial Improvement and Audit Readiness (FIAR) goals;
7. Support Records Management Requirements established in DoDI 5015.2.

The objectives cited above will be achieved by instituting a standard set of the minimum data elements, business rules; and identifying roles and responsibilities related to requiring, accounting, procurement, and entitlement handshakes. Aligning with these requirements will ensure that the following data exchanges (or handshakes) that fall within the previously explained BEA P2P processes execute successfully with limited, or no, manual intervention:

1. *Certify Funds Handshake* (the commitment of funds to complete a funded purchase request (PR) and routing of the PR data to contracting (P2P process: Create Purchase Requisition));
2. *Validate Funds Handshake* (commonly referred to as pre-award Funds Validation or "funds-check" just prior to awarding the procurement instrument (P2P process: Award Procurement Instrument));
3. *Record Obligation Handshake* (the recording of an obligation in the accounting system upon procurement award and decommitting excess funds (P2P process: Award Procurement Instrument & Administer Supplemental Procurement Instrument));
4. *Evaluate Procurement Instrument for Entitlement Handshake* (the recording of contract data in the entitlement system to facilitate payment request processing (P2P process: Manage Procurement Instrument Entitlement)).

These handshakes are part of the BEA, specifically the enterprise architecture for the DoD Business Mission Area. In addition, the handshakes referenced in this document trigger other BEA E2E processes (e.g. Manage General Ledger Transactions) found within the Budget-to-Report (B2R) E2E model. The data exchanges are depicted below (in green boxes) and commonly referred to as handshakes 1, 2, 3 and 4 (respectively).

[1] Specific data elements will be identified in subsequent Standard Operating Procedures for each Information Exchange.

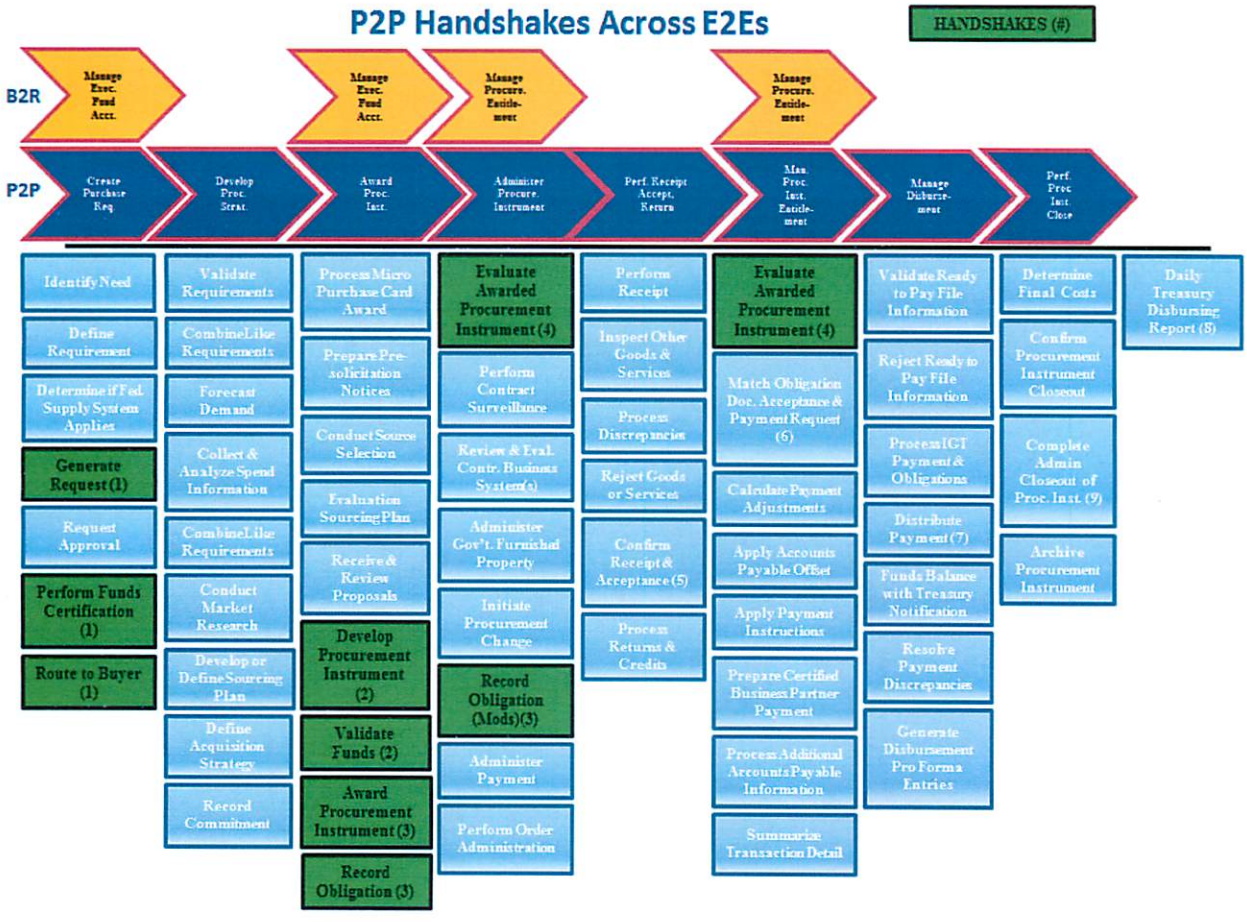

Figure 1 – BEA's P2P Process with Handshakes 1, 2, 3, and 4 Highlighted

This document's requirements apply to all systems that will not be retired within 36 months of this document's publication. Some legacy systems' anticipated lifespan may exceed this timeframe, and will not be able to implement this document's requirements in a cost effective manner. Any systems that cannot comply with these document's requirements may submit a waiver request to the P2PPAWG co-chairs. This request must document the business case for non-compliance, as well as the compensating controls that Components will implement to ensure that the outcomes identified in section 3 are still met.

3 Handshake Definitions

These handshakes are defined as follows:

Handshake 1:

- Definition:
  - The acceptance of a purchase request generated by requiring, accounting, or resourcing activities that thoroughly documents the requirement and commits sufficient funds for execution.
- Outcome to ensure:

- Alignment between PRs and funding sources to enable enterprise level traceability and transparency of both contracting data and accounting data.
- Identification of requirement, funding and payment organizations.
- Ability to consistently trace PR line items through to contract line items.
- PRs contain the line item and funding data needed to satisfy the contracting officer's fiduciary and contract set up responsibilities
- Transactional PR data received by contracting conforms to DoD enterprise standards.
- Funds are certified for appropriate time, purpose, and amount.

Handshake 2:

- Definition:
  - The execution of a pre-award funds validation or "funds-check" by accounting and procurement systems to ensure that funds committed at Handshake 1 remain unchanged and certified, and therefore available, suitable, and in alignment with the award instrument (with emphasis on proposed contract line item structure) immediately prior to awarding the contract action.
  - Funds remain certified for appropriate time, purpose, and amount prior to award.

- Outcome to ensure:
  - Committed funds align to the proposed obligation at the accounting citation level.
  - Traceability between each commitment action and the planned obligation is maintained.
  - Anti-deficiency situations and unmatched disbursements are eliminated or avoided.

Handshake 3:

- Definition:
  - Contracting organizations providing an electronic copy of the contract action data to each affected accounting system at time of award.
  - Accounting organizations record the obligation in the applicable accounting system and decommit excess funds.
- Outcome to ensure:
  - Obligations are posted promptly and accurately in all appropriate accounting systems and excess funds decommitted.
  - Requiring organizations receive notification that committed funds have been obligated by an executed contracting action.
  - Sufficient information is recorded in order to enable downstream processes (e.g. receipt/acceptance, entitlement, and invoice to obligation matching).
  - Unmatched transactions that require manual intervention to correct errors (e.g. missing, incomplete, and LOA obligation errors) are reduced.

Handshake 4:

- Definition:
  - Electronically recording the contract action in the entitlement system following award, requiring no manual intervention to record the contract data. The contract action needs to be recorded in all affected entitlement systems.
- Outcome to ensure:
  - Contract actions are posted promptly and accurately in the appropriate entitlement system enabling timely and accurate payment of invoices

- Sufficient information is recorded in order to enable downstream processes (e.g. receipt/acceptance, invoice matching, financial reporting)
- Reduced occurrence of unmatched transactions that result in manual processing to correct errors (e.g. late or erroneous payments, use of incorrect funding)

4 Roles and Responsibilities

- **Requiring Activity:**
  - Generate purchase requests to correspond with needs and available funds. Provide sufficient level of detail to generate the requirement with an initial line item structure that provides enough information for the contracting office to perform its fiduciary and contract preparation responsibilities to generate a contract action.
- **Accounting Activity:**
  - Ensure traceability and auditability of proposed contract award line items to funding sources.
  - Verify funds availability and suitability for intended purpose (i.e. time, purpose, and amount)
  - Record required commitment, pre-award "funds check," and obligation (award) data elements in the relevant accounting system (s).
  - Should the activity receive any notification regarding changes to the PR structure prior to award, it shall coordinate with the requiring activity to adjust the PR as necessary.
- **Contracting Activity:**
  - Develop the draft procurement instrument and associated contract line item structures.
  - Request a pre-award funds validation ("funds check") with the Accounting or Resource / Funding activity.
  - Ensure traceability from PR to contract line items by recording appropriate PR and accounting line item information in the contracting systems.
  - In accordance with the DFARS Procedures, Guidance, and Information 204.201 on contract distribution, provide electronic copies of contract actions to the accounting and entitlement offices for appropriate recording and storage of contract data.
- **Resource / Funding Activity:**
  - Ensure that accurate information is available regarding funding.
  - Cancel commitments if funds expire or are no longer suitable or available.
  - Notify contracting and accounting activities of any changes on current commitments prior to contract execution.
  - Correct or modify PR data that fails "funds check."
- **Entitlement Activity:**
  - Record contract (obligation) data elements in the relevant entitlement system(s). Record contract actions following award in all affected systems.

5 Concluding Remarks

The Director, DPAP and DCFO plan to work with Components to develop detailed standard operating procedures and policy updates that are specific to each data exchange (or handshake) described in this document. Each SOP will clarify exchange-specific requirements, and contain the detail necessary to document system implementation plans.