

**Defense Logistics Agency
Defense Wide Working Capital Fund (DWWCF)
Document Automation and Production Service
FY 2002 Amended Budget Submission**

FUNCTIONAL DESCRIPTION: The Document Automation and Production Service (DAPS) is responsible for the DoD printing, duplicating, and document automation programs. This responsibility encompasses the full range of automated printing services to include: conversion, electronic storage and output, and the distribution of hard copy and digital information. DAPS provides time sensitive, competitively priced, high quality products and services that are produced either in-house or procured through the Government Printing Office (GPO).

DAPS manages this worldwide mission through a customer service network comprised of a Headquarters located at Mechanicsburg, Pennsylvania, 80 major field locations and 185 smaller document automation facilities.

CUSTOMERS: DAPS primary customers are Army (20.7 percent), Navy (28.3 percent), Air Force (21.3 percent), and Defense Agencies (19.9 percent) and non-DoD customers (9.8 percent). Both appropriated and DWCF-funded activities are included in each Service's percentage.

BUDGET HIGHLIGHTS

SPECIAL INTEREST ITEMS:

In August 1999, DLA notified Congress of its decision to conduct a public-private competition in accordance with Circular A-76 guidance for the production functions of DAPS. Approximately 1,400 DAPS employees will be affected. Because of the complexity of DAPS overseas operations, those functions are excluded from the study. The submission of the most efficient organization plan is scheduled for August 2001, and the announcement of the competition winner is scheduled for June 2002.

Since becoming the Department's manager for printing and duplication in 1992, DAPS closed or consolidated approximately 200 printing facilities. Continuing this trend of streamlining operations, DAPS closed or consolidated an additional 12 facilities and consolidated its four regions into two in FY 2000. Savings resulting from these actions are reflected in this submission.

In March 2001, U.S. Army Printing Facilities in the Republic of Korea transferred to DAPS. DAPS provides its traditional services as well as mobilization support for the Army. The Army will recognize annual operating savings of \$121 thousand and a cost avoidance of \$281 thousand from the digitization of a forms warehouse.

DAPS "merchant status" allows it to accept International Merchant Purchase Authorization Cards (IMPAC) from all customers. Use of the IMPAC card reduces a customer's administrative and DFAS costs. During FY 2000, over \$112 million in products and services were purchased using IMPAC cards.

During FY 2000, DAPS entered into a national paper contract. The contract will result in reduced storage space requirements, quicker delivery time, and approximately 10 to 15 percent reduction in paper. The paper contains 30 percent post-consumer waste fiber and meets the requirement set forth in Executive Order 13101, Greening the Government through Waste Prevention, Recycling, and Federal Acquisition.

PERFORMANCE INDICATORS: DAPS has five performance indicators in the DLA Performance Contract.

- 1) **Conversion to Digital Format:** This performance metric measures the number of pages (in millions) converted to digital format during the year. Conversions may be accomplished either in-house or by contract and includes hardcopy to digital, system output to digital and from one form of digital to another. DAPS successfully exceeded its goal of 31.9 million pages converted with an actual production of 46.2 million pages.
- 2) **Customer Satisfaction:** This performance metric measures satisfied customers as the percentage of customers ranking DAPS performance as "satisfied" or "very satisfied." DAPS uses a survey, professionally prepared and administered by an independent entity to determine an overall customer satisfaction rating. The survey conducted during FY 2000 showed that DAPS met its goal of 93 percent customer satisfaction.
- 3) **Production Efficiency Factor:** This performance metric measures our production efficiency in terms of units produced per hour. The units are converted to standard hours earned. Employee time is captured by cost center as hours available. The employee hours available are divided into the hours earned to produce the production efficiency factor shown as a percentage. DAPS did not meet its production efficiency goal of 100%, the actual was 95.6% percent for FY 2000. The Goals are 100% for FY 2001 and FY 2002.
- 4) **Rework:** The percentage of revenue lost from orders not accepted by customers and reworked by DAPS. DAPS created a metric to measure the cost of rework.
 - **In-House Rework Percentage:** This performance metric is calculated by dividing revenue lost from orders not accepted by the total in-house production revenue. During FY 2000, DAPS met their goal of 0.46 percent.

5) **Discrepancy Reports:** The percentage of GPO orders for which Notice of Quality Defects Noncompliance Change Report or when unsatisfactory GPO customer survey is received. DAPS created a metric to measure Discrepancy Reports.

- **Commercial Rework Percentage:** This performance metric is calculated by dividing problem jobs by total jobs submitted to the Government Printing Office (GPO). FY 2000 Goal was 2 percent revenue loss due to rework requirement. DAPS actual for FY 2000 was 2.1 percent. DAPS is in the process of establishing a memorandum of agreement with GPO which will address performance goals.

FINANCIAL PERFORMANCE MEASURE: In addition to program performance measures, DLA measures the effectiveness of program budgeting and execution with a unit cost performance measure. DAPS Annual Operating Budget (AOB) measures this performance by dividing the total units by the total cost.

	<u>FY00 Goal</u>	<u>FY00 Actual</u>
Unit Cost per In-house Production Unit	.0494	.0536

DAPS did not achieve its unit cost goal due to the reduction in workload, increase in document electronic conversion, which is more costly than hard copy. Hard copy pages fell 13 percent from FY 1999 to FY 2000. Hard Copy pages is one of the largest unit cost drivers for DAPS. While electronic conversion may be more costly for DAPS in the short term, there will be long term cost savings for DoD.

WORKLOAD: DAPS workload reflects the transition of the Department from “hard copy” to digital documents. The number of pages converted to digital by DAPS in FY 2000 increased by 13 percent from FY 1999 to over 46 million. Hard copy pages fell 13 percent from FY 1999 to FY 2000. This trend is expected to continue through the budget year resulting in a decrease in total units and increase in unit cost.

NET OPERATING RESULT (NOR)/ACCUMULATED OPERATING RESULT (AOR):

The NOR measures the short range, single fiscal year, impact of revenue and expenses incurred by the business. For example, a positive annual NOR demonstrates that revenues exceeded expenses for the business activity. A negative NOR - just the opposite.

AOR reflects the long term, multi-year, results of previous NORs. Its measurement describes the accumulated affects of NORs and demonstrates the fiscal strength over a longer time. The budgeted goal is to break-even by the budget year.

The following chart depicts the actual NOR / AOR for FY 2000, and projected NOR / AOR for FY 2001 and FY 2002:

(\$ Millions)	FY 00 (Actual)	FY 01	FY 02
NOR	(12.9)	23.1	6.5
AOR	(29.6)	(6.5)	0.0

DAPS finished FY 2000 with a negative NOR of \$12.9 million due to lower than planned workload. Rates for FY 2001 were set to recover losses from a prior year (FY 99). Rates were set for FY 2002 to recover losses experienced in FY 2000. The FY 2002 NOR reflects a requested direct appropriation of \$0.1 million for utility cost increases.

PERSONNEL: DAPS continues to right size its workforce to reflect changes in workload and facility consolidations. This submission reflects full-time equivalent reductions of 12.3 percent in FY 2000, 2 percent in FY 2001, and 3.7 percent in FY 2002.

CAPITAL BUDGET: The capital budget is the account available for investments that exceed the \$100,000 expense/investment criteria. These investments fall into one of four categories: (1) Automated Data Processing Equipment (ADPE), (2) Non-ADPE, (3) software developed for operational and management information systems, and (4) minor construction projects. A capital budget item is assumed to have zero salvage value and is depreciated on a straight-line basis over its useful life. This depreciation is expensed and recovered, as business related cost, in DAPS prices.

DAPS is being very prudent in making capital investments, as they are currently going through an A-76 competition. Only those investments that are absolutely required for the short term and investments where payback/savings are optimal are being executed. The FY 2002 capital budget has an overall increase above the FY 2001 capital budget by \$1.0 million. This is primarily due to an increase in ADP replacement requirements. Non-ADP decreases by \$0.5 million in FY 2002 and Software Development also decreases by \$0.2 million in FY 2002.

PRODUCTIVITY INITIATIVES/COST REDUCTIONS: DAPS primary challenge is to reduce the current infrastructure costs by reducing short-term fixed costs in response to reductions in customer demand to achieve NOR objectives. To meet this challenge, this budget submission incorporates productivity improvements, i.e., workload balancing and cost savings from capital investments, consolidation actions and management initiatives.

ACTIVITY GROUP PROFILE

(Dollars and Workload in Millions)

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Cost of Goods Sold	385.6	393.5	398.8
Pass through/Other Appropriation			0.1
Net Operating Results	(12.9)	23.1	6.5
Accumulated Operating Results	(29.7)	(6.5)	0.0
Workload			
In-House Production (Units)	3667.2	3470.0	3281.4
Unit Cost			
In-House Production	0.0536	0.0518	0.0535
Customer Rate	0.0482	0.0622	0.0594
Customer Rate Change	0.6%	11.5%	2.2%
Document Conversion	46.2	68.0	79.5
Customer Satisfaction	93.0%	93.0%	93.0%
Production Efficiency	95.6%	100%	100%
Rework Requests	0.46%	0.42%	0.38%
Discrepancy Reports	2.1%	2.0%	1.8%
Civilian End Strength	1531	1525	1525
Civilian Full-Time Equivalents	1616	1584	1526
Capital Budget Program			
Equipment (Non-ADP)	0.0	1.8	1.3
Equipment (ADP/T)	0.4	3.6	5.3
Software Development	0.1	0.5	0.3
Minor Construction	0.1	0.0	0.0
TOTAL	0.6	5.9	6.9

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 Changes in the Cost of Operations
 (\$ in Millions)

	<u>Expenses</u>
FY 00 Actual:	385.6
FY 01 Estimate in President's Budget	364.7
Pricing Adjustments:	
Annualization of FY 00 Pay Raise	(0.1)
FY 01 Pay Raise	0.2
General Purpose Inflation	0.3
Program Changes:	
FY 00 Experience:	
Printing and Reproduction	21.6
US Army Korea functional transfer	2.0
Lower depreciation/lower capital investment	(1.2)
Higher average annual labor rates	3.0
Credit card interchange fees	1.0
Contract facilities operations	2.0
FY 01 Current Estimate:	393.5
Pricing Adjustments	
Annualization of Prior Year Pay Raises	0.7
FY 02 Pay Raise	
Civilian Personnel	2.1
Fund Price Changes	0.0
General Purchase Inflation	5.0
Other Price Changes	0.0
Program Changes:	
Printing and Reproduction	3.6
Energy Increase	0.1
US Army Korea functional transfer	(0.8)
A-76 contract support	(0.7)
In-House Workload Reduction	(4.7)
FY 02 Estimate:	398.8

Exhibit Fund-2 Changes in Cost of Operatiuons

DEFENSE LOGISTICS AGENCY
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 Source of New Orders and Revenue
 (\$ in Millions)

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
1. New Orders			
a. Orders from DoD Components	259.5	276.5	278.7
Department of the Navy	75.8	80.2	80.9
Operations and Maintenance, Navy	41.8	44.3	44.7
Operations and Maintenance, Marine Corps	11.2	11.8	11.9
O&M, Navy Reserve	4.1	4.3	4.4
O&M, Marine Corps Reserve	0.0	0.0	0.0
Aircraft Procurement, Navy	0.7	0.7	0.7
Shipbuilding & Conversion, Navy	0.6	0.6	0.6
Research, Development, Test & Eval, Navy	0.3	0.3	0.3
Military Construction, Navy	0.1	0.1	0.1
Other Navy Appropriations	0.2	0.2	0.2
Credit Card Purchases, Navy	16.8	17.7	17.9
Department of the Army	74.9	81.2	81.8
Army Operation and Maintenance	20.7	23.9	24.1
O&M, Army Reserve	1.1	1.2	1.2
Army National Guard	1.7	1.8	1.8
Army Res, Dev, Test & Eval Accounts	2.3	2.4	2.4
Army Procurement Accounts	0.2	0.2	0.2
Army Other	0.7	0.8	0.8
Credit Card Purchases, Army	48.2	50.9	51.3
Department of the Air Force	71.6	75.8	76.4
Air Force Operation & Maintenance	31.3	33.4	33.6
O&M, Air Force Reserve	1.1	1.2	1.2
Air Force National Guard	0.8	0.9	0.9
Air Force Res, Dev, Test & Eval Accounts	1.4	1.5	1.5
Air Force Procurement Accounts	2.9	3.1	3.1
Air Force Other	0.1	0.1	0.1
Credit Card Purchases, Air Force	34.0	35.7	35.9
DoD Appropriated Accounts	37.2	39.4	39.7
Operation & Maintenance Accounts	11.5	12.2	12.3
Res, Dev, Test & Eval Accounts	0.4	0.4	0.4
Procurement Accounts	0.1	0.1	0.1
Military Construction, Defense	0.0	0.0	0.0
Defense Health Program	10.2	10.8	10.9
DoD Other	0.5	0.5	0.5
Credit Card Purchases, Defense	14.5	15.3	15.4
b. Orders from other Fund Activity Groups	71.3	95.0	95.7
c. Total DoD	330.8	371.5	374.4
d. Other Orders	36.1	40.1	40.5
Other Federal Agencies	28.1	31.2	31.6
Credit Card Purchases	4.9	5.4	5.5
Non-Federal Agencies and Other	3.1	3.4	3.5
Total New Orders	366.9	411.6	414.9
2. Carry-In Orders	101.2	95.4	90.4
3. Total Gross Orders	468.1	507.0	505.3
4. Funded Carry-Over	95.4	90.4	100.1
5. Total Gross Sales	372.7	416.6	405.2

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 Revenue and Expenses
 (\$ in Millions)

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Revenue			
Gross Sales	372.7	416.6	405.2
Operations	0.0	0.0	0.0
Capital Surcharge	0.0	0.0	0.0
Depreciation excluding Major Construction	0.0	0.0	0.0
Major Construction Depreciation	0.0	0.0	0.0
Other Income	0.0	0.0	0.0
Refunds/Discounts (-)	0.0	0.0	0.0
Total Income:	372.7	416.6	405.2
Expenses			
Cost of Material Sold from Inventory	0.0	0.0	0.0
Salaries and Wages:			
Military Personnel Compensation & Benefits	0.0	0.0	0.0
Civilian Personnel Compensation & Benefits	79.6	77.4	76.9
Travel & Transportation of Personnel	2.5	2.2	2.1
Materials & Supplies (For Internal Operations)	29.0	25.7	25.2
Equipment	0.4	2.7	2.8
Other Purchases from Revolving Funds	2.8	3.0	3.1
Transportation of Things	1.0	1.2	1.1
Depreciation - Capital	4.9	5.1	5.1
Printing and Reproduction	171.7	197.6	204.3
Advisory and Assistance Services	0.7	0.7	0.0
Rent, Communications, Utilities, & Misc. Charges	23.0	21.6	21.6
Other Purchased Services	70.0	56.4	56.6
Total Expenses:	385.6	393.5	398.8
Operating Result	(12.9)	23.1	6.4
Less Capital Surcharge Reservation			
Plus Passthroughs or Other Appropriations Affecting NOR			0.1
Net Operating Result	(12.9)	23.1	6.5
Prior Year Adjustments	27.4		
Prior Year AOR	(44.2)	(29.6)	(6.5)
Accumulated Operating Result	(29.6)	(6.5)	(0.0)
Non-Recoverable Adjustment Impacting AOR:			
Surcharge Prohibition	0.0		
Accumulated Operating Results for Budget Purposes	(29.6)	(6.5)	(0.0)

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International Travel

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	<u>FY 2000</u>
<u>Total Obligations (\$ in Millions)</u>	\$0.3
Total Number of individuals:	99