

DEFENSE FINANCE AND ACCOUNTING SERVICE

OVERVIEW

The Defense Finance and Accounting Service (DFAS) supports America's warfighters by providing real-time financial management, accounting, payroll, and commercial vendor payment services at low cost and high quality. DFAS operations touch a large population of DoD customers through the payment of civilian and military personnel, military retirees and annuitants, and by the collection and disbursement of DoD funds for contracts, debt management, security assistance, transportation, and travel.

In order to guarantee America's fighting forces are receiving high quality financial services at low cost, DFAS has developed a five-year Strategic Plan having six major objectives:

- Support the warfighter by reducing the cost of our operations. This is fundamental to our Nation's preparedness and key to customer satisfaction with DFAS support.**
- Improve quality, timeliness, and accuracy of our outputs. This is critical to our long-term growth and prosperity.**
- Meet or exceed all deliverables for the agency performance contract, a signed contract between DFAS and the Defense Management Council which identifies meaningful, measurable performance goals to improve service and reduce costs.**
- Strengthen internal controls and elevate fraud awareness. It is absolutely essential that we not only provide excellent service to our customers, but just as important, we must remain unwavering stewards of our customers' resources.**

Implement the DFAS information infrastructure and corporate database. This is essential to expedite system standardization and consolidation and is our linchpin to leverage technology in the 21st century.

- **Eliminate twenty legacy systems.**

By fiscal 2005 DFAS will save the Department of Defense nearly \$1 billion through several initiatives, including consolidation of operations, electronic technology, business process reengineering, and A-76 studies. DFAS will meet the objectives of the Quadrennial Defense Review and Defense Reform Initiative.

DFAS has become a much more lean organization. In FY 1998, DFAS closed the final 25 Defense Accounting Offices out of the 332 that were capitalized in 1991, two years ahead of schedule. DFAS activities now are carried out at 19 Operating Locations, leading to annual savings of \$120 million, simplified operations, standardized processes, improved customer service, and increased automation. We are leveraging technology to reduce or eliminate paper and improve efficiency, and improving the quality of service and internal controls.

We are also using Electronic Document Management and Electronic Commerce to transmit and store information electronically, contributing to the eventual goal of paperless transactions. Through EC/EDM, DFAS will eliminate costly manual processes, eliminating the need to store 4,500 linear feet of paper and saving more than \$20 million in fiscal 2000.

We are also reengineering our business processes to reduce costs. We have moved the Army, Air Force, and Navy onto one pay system, saving \$18 million in annual operating costs. DFAS also is improving finance and accounting business processes in conjunction with fielding migratory systems, developing new systems, and implementing corporate information management initiatives. The agency is standardizing and integrating finance and accounting systems, and centralizing operations at a smaller number of locations.

Using the principles outlined in Office of Management and Budget Circular A-76, DFAS created most efficient organizations in the areas of debt and claims management; facilities, logistics, and administration; and Defense Commissary Agency vendor pay, saving more than \$22 million annually. Additional A-76 studies are under way in the areas of Defense commissary accounting, DoD transportation accounting, DoD depot maintenance accounting, and civilian and retiree/annuitant payroll. DFAS expects to save a minimum of 25 percent through our A-76 program and expects additional savings of \$25 million a year when it is fully implemented.

With implementation of the Defense Civilian Pay System the Department has realized savings, as of December 1998, of over 2,400 positions by eliminating 26 payroll systems, reducing the number of pay locations from 349 to 3, and increasing the number of accounts assigned per technician from 380 to over 2,100 accounts. Implementation of the Defense Debt Management System has resulted in the elimination of four systems.

To improve the quality of financial operations, DFAS is standardizing finance and accounting systems within DoD, working toward compliance with the requirements of the Chief Financial Officers Act, and ensuring all DFAS systems will be Year 2000 compliant. Through standardization and consolidation, we have reduced the number of finance systems from 127 in FY 1991 to 18 in FY 1999. By the end of FY 2000, the number of systems will be reduced even further with an eventual goal of 9 systems by FY 2003, a total reduction of over 90 percent.

DFAS has also made significant progress in reducing accounting systems. By the end of FY 1998, we had reduced accounting systems by 46 percent, from 197 in FY 1991 to 91. By FY 2003, we will have eliminated another 68 systems, leaving only 23, a total reduction of over 90 percent.

Through future initiatives DFAS will save another \$941 million a year when compared to the 1993 DFAS baseline, and agency end-strength will be 16,200, down from 31,000 in 1993.

DFAS is committed to providing quality finance and accounting service at an affordable price. We will continually monitor and adjust our operations to produce the most cost-effective services for our customers and the Department. We are positioned to respond rapidly to meet our customers' needs both in garrison and on the battlefield.

DFAS MAJOR ACTIVITIES AND LOCATIONS

Financial Operations Business Area:

<u>Activity</u>	<u>Location</u>
DFAS Headquarters	Arlington, Virginia
DFAS - Cleveland Center	Cleveland, Ohio
DFAS - Columbus Center	Columbus, Ohio
DFAS - Denver Center	Denver, Colorado
DFAS - Indianapolis Center	Indianapolis, Indiana
DFAS - Kansas City Center	Kansas City, Missouri
Personnel Services Organization	Indianapolis, Indiana

Information Services Business Area:

<u>Activity</u>	<u>Location</u>
Infrastructure Services Organization	Indianapolis, Indiana

OPERATIONS BUDGET BY ACTIVITY GROUP

Financial Operations Budget Activity Group:

Since its formation in 1991, DFAS has accomplished much to become more efficient and reduce the costs of providing finance and accounting services for the Department of Defense. By the end of FY 1998, annual savings from consolidation, system standardization, process improvements, deploying Electronic Commerce/Electronic Data Interchange, and imaging technology and outsourcing amounted to \$463 million annually. Further significant savings are projected as annual savings increase to \$594 million by FY 2000. These increased savings stem from initiatives proposed during the Quadrennial Defense Review (QDR), where DFAS played a major role by identifying additional opportunities for savings in infrastructure costs. The resulting savings will be reflected in the future prices DFAS charges for its accounting services and realized in the operating budgets of our military customers.

By transitioning from dedicated, component-unique services to DoD-wide services, DFAS has undertaken initiatives to aggressively implement standard “migratory” systems for civilian and military pay, retiree/annuitant pay, vendor payments, travel payments, transportation payments, debt management, and center-level disbursing. Annual savings from the standardization initiatives are estimated at \$129 million annually in FY 1998, projected to increase to \$141 million annually by FY 2000. An important component in the system standardization effort is that all systems will be fully compliant with the Chief Financial Officers Act and Federal Managers’ Financial Integrity Act.

By the end of FY 1998, DFAS had completed its consolidation effort by closing all of its Defense Accounting Offices and transferring their missions to one of our new Operating Locations. More than 2,500 positions have been saved through the consolidation effort. Savings are estimated at almost \$120 million annually by FY 2000. In the same period, the number of employees performing these finance and accounting functions declined significantly.

An important initiative involves the reengineering and streamlining of vendor payments through use of the DoD Purchase Card. Changes resulting in simpler, faster procurement, faster payment to vendors, less processing of financial documentation, and faster processing of commercial invoices will significantly reduce government costs - both in dollars and manpower.

DFAS is pursuing an aggressive Business Process Improvement program to refine, streamline, and improve all of our business processes. Streamlining and reengineering have resulted in the consolidation of garnishment operations, debt and claims management, civilian payroll, nonappropriated fund payroll, and the identification of many more candidates for reorganization and improvement. Combined with the DFAS outsourcing initiative, annual savings of \$243 million are projected by FY 2000.

DFAS is committed to employing the most cost-effective solution to business problems, including the use of modern technology in the form of Electronic Commerce/Electronic Data Interchange and Electronic Document Management where appropriate. The use of such technologies will reduce costs for document storage, labor, postage, and supplies. Electronic Document Management, for example, will reduce costs by reducing the volume of paper, improving the management of work flows through automated gathering and routing systems, and speed processing by inserting networking functions to control electronic folding, distribution, cataloguing, and document maintenance.

Operating Results:

	Dollars in Millions		
	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Revenue	\$1,564	\$1,614	\$1,624
Costs	1,589	1,664	1,604
Net Operating Results	-25	- 50	20
Capital Surcharge	-0-	-0-	-0-
Prior Year Results	39	14	-36
Accumulated Op Results	14	-36	-16

Personnel:

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Civilian End Strength	16,842	17,426	16,292
Civilian Workyears	17,481	17,494	16,350
Military End Strength	1,435	1,343	1,250
Military Workyears	1,435	1,343	1,250

FY 1998 to FY 1998:

In FY 1998, actual operating costs were 5 percent below the target because workload and depreciation were lower than projected in the budget. Similarly, customer revenue dropped by 4 percent as the result of the lower than projected workload. Civilian workyear utilization was also below plan. Workyear underexecution occurred largely as a result of a conscious effort to posture DFAS for future programmed workyear reductions by phasing out workyears before the year of execution. The capital program obligated over 99 percent of its program, ensuring maximum use of available funds. This capital investment ensured that continued progress was made toward developing the software solutions to meet statutory compliance requirements and increase system standardization.

FY 1999 President's Budget to FY 1999 Current Estimate:

When compared to last year's President's Budget, estimated FY 1999 costs increase for a variety of reasons. Overall information management costs grow, due to increasing software maintenance and information processing cost reimbursements to the Defense Information Systems Agency. Additionally, the DFAS mission was expanded, as the Agency became responsible for managing the Overseas Military Banking Contract program.

FY 1999 costs also increase to reflect one-time start-up costs for consolidating Finance and Accounting operations in Europe and for higher than budgeted Commercial Invoice processing workload. DFAS projected a much larger decline in Commercial Invoices Paid workload due to increased use of government charge cards. FY 1998 experience in Commercial Invoices did demonstrate reduced workload, but not to the extent projected. DFAS is working closely with the Military Departments to expand use of government charge cards. These increases are partially offset by workload reductions since last year in travel vouchers and contract payments.

FY 1999 to FY 2000:

	\$ in M
FY 1999 Program	\$1,664
Price Growth	44
Program Change	-30
Depreciation	2
Savings	-76
FY 2000 Program	\$1,604

Costs and workyears fall in FY 2000 as DFAS management initiatives are implemented. DFAS will realize savings from competitive sourcing studies in such areas as depot maintenance accounting, transportation accounting, and civilian pay. Cost efficiencies also occur as the result of reengineering military pay and expanding the use of electronic document management to process commercial payments and contract payments. Finally, DoD Purchase Card process improvements lower DFAS workload and work content, generating additional savings for DFAS and the Department. End-to-end testing of Y2K systems changes were completed in FY 1999 and costs have decreased to reflect this. As the following table illustrates, costs in FY 2000 for all outputs, except support to others, decline or remain the same despite the impact of inflation. Support to others reflects a \$12.5 million increase in the Defense Leadership and Management Program (DLAMP).

Costs by Output Category:

	Dollars in Millions		
	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Civilian Pay Accounts Maintained	\$70	\$55	\$54
Active Mil Pay Acts Maintained	153	155	144
Military Pay Incremental - Army	62	55	55
Military Pay Incremental - Marine Corps	-0-	3	3
Retired Mil Pay Acts Maintained	60	60	58
Reserve Mil Pay Acts Maintained	38	38	39
Contract Invoices Paid - MOCAS	100	122	114
Contract Invoices Paid - SAMMS	37	25	26
Travel Vouchers Paid	80	74	69
Transportation Bills Paid	36	33	32
Commercial Invoices Paid	193	202	178
Out-of-Service Debt Cases Closed	15	26	27
Monthly Trial Balances Maintained/DBH	650	703	703
Acctng & Fin Spt/Commissary	7	9	8
FMS Cases Managed	36	38	38
Support To Others	53	66	56
Total Costs	\$1,589	\$1,664	\$1,604
Customer Rate Changes (%)			
Financial Operations		3.7	1.5

DFAS has 16 output categories which cover the broad range of accounting and finance activities. All outputs except Support to Others are workload-driven and thus have individual unit cost rates. The Support to Others output is managed on a cost reimbursable basis.

In FY 2000, costs decline significantly in four outputs. The Military Pay business process improvement program reduces costs by 7 percent due to streamlined processing. Costs for Commercial Invoices Paid decline by 11 percent due to two factors: increased use of the DoD Purchase Card for small purchases by DFAS' customers, and introduction of Electronic Document Management (EDM) into the Commercial Invoices Paid business area reduces DFAS processing costs. Contract Invoices Paid-MOCAS also reflects a 7 percent reduction, primarily attributable to the ongoing streamlining of document conversion into EDM. Finally, costs to process Travel Vouchers are reduced as the Defense Travel System (DTS) is introduced into the Department of Defense. DTS will greatly streamline DFAS processing costs for Travel Vouchers Paid, as DFAS will provide mostly disbursing and electronic audit of travel for our customers.

Workload by Output Category:

	Units in Millions		
	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Civilian Pay Accounts Maintained	19.1	18.5	18.3
Active Mil Pay Accts Maintained	18.2	17.9	17.7
Military Pay Incremental - Army	5.0	4.8	4.8
Military Pay Incremental - Marine Corps	-0-	.3	.3
Retired Mil Pay Accts Maintained	26.5	27.0	27.4
Reserve Mil Pay Accts Maintained	11.3	11.1	10.9
Contract Invoices Paid - MOCAS	1.0	1.0	1.0
Contract Invoices Paid - SAMMS	3.9	4.0	3.9
Travel Vouchers Paid	5.5	4.7	5.3
Transportation Bills Paid	2.1	2.1	2.1
Commercial Invoices Paid	12.3	11.9	10.9
Out-of-Service Debt Cases Closed	.1	5.2	5.2
Monthly Trial Balances Maintained/DBH	.6	.5	10.0
Acct & Fin Spt/Commissary	.1	.1	.1
FMS Cases Managed	.2	.2	.2

DFAS workload continues to decline in consonance with projected customer dollar and personnel resources, with the exception of Retired Military Pay Accounts and Travel Vouchers Paid. Retired Pay Accounts Maintained workload is projected to increase by about 2 percent as military members retire due to the force drawdown. Travel Vouchers Paid workload increases in FY 2000 as Navy disburse-only transactions, previously performed by Navy personnel, are included in the revised Disburse-Only Travel output.

In FY 2000, DFAS transitions from “Trial Balances Maintained” as the workload measure for accounting services to “Direct Billable Hours”, or DBH. This move places DFAS on similar footing with private sector accounting firm billing practices and responds to the fact that the number of Trial Balances did not reflect the work content, and therefore the cost, required to support each customer for accounting services. DFAS has been capturing DBH workload by customer supported offline since FY 1997. This data was used to determine the customer supported and to allocate costs to the customer. In general, working capital fund customers require more accounting support than appropriated fund customers. However, since working capital funds are “no year” funds, they produce less trial balances than appropriated funds; therefore, using Trial Balances as the workcount required appropriated funds to pay a larger share of the accounting bill. DBH associates the time used to support a customer to that customer for accounting services.

Operating Results:

	Dollars in Millions		
	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Revenue	\$1,564	\$1,614	\$1,624
Costs	1,589	1,664	1,604
Net Operating Results	-25	-50	20
Capital Surcharge	-0-	-0-	-0-
Prior Year Results	39	14	-36
Accumulated Op Results	14	-36	-16

The FY 1998 net operating loss was \$25 million compared to the estimated loss of \$55 million contained in the FY 1999 President's Budget. The decrease in the loss was primarily due to reduced costs below the program. This resulted in accumulated operating results of \$14 million.

DFAS projects incurring a \$50 million operating loss in FY 1999. This results from delayed savings from the military pay business process improvement while the Defense Joint Military Pay System (DJMS) was fielded throughout the Navy and a one-year delay in the savings from Electronic Document Management process improvements in the contract pay area. Decreased revenue resulting from lower Contract Invoices Paid-MOCAS and Commercial Invoices Paid workload accounts for the remaining \$26 million loss. The FY 2000 gain is required to cover these cost increases. Due to a change in the DWCF policy which seeks to minimize billing rate fluctuations, \$16 million of the cumulative loss will be recovered in the FY 2001 billing rates.

FY 2000 President's Budget
Revenue and Expenses
Component: Defense Finance and Accounting Service
Business Area: Financial Operations
Date: February 1999
(Dollars in Millions)

	FY 1998	FY 1999	FY 2000
Revenue			
Gross Sales			
Operations	1,394.6	1,398.8	1,405.4
Capital Surcharge	0.0	0.0	0.0
Depreciation exc Maj Const	169.4	215.7	218.2
Major Construction Dep	0.0	0.0	0.0
Other Income			
Refunds/Discounts (-)			
Total Income:	1,564.0	1,614.5	1,623.6
Expenses			
Cost of Material Sold from Inventory (DeCA)			
Salaries and Wages:			
Military Personnel Comp & Ben	45.6	43.3	45.8
Civilian Personnel Comp & Ben	824.1	837.7	827.3
Travel & Transportation of Personne	19.8	19.7	19.0
Materials & Supplies (Internal Operation	12.5	12.7	12.8
Equipment	23.5	22.7	17.1
Other Purchases from Revolving Funds	255.5	293.3	238.8
Transportation of Things	1.5	1.3	1.3
Depreciation - Capital	169.4	215.7	218.2
Printing and Reproduction	2.9	1.7	1.6
Advisory and Assistance Services	2.8	4.3	4.2
Rent, Comm, Utilities, & Misc Charges	65.5	64.7	62.9
Other Purchased Services	166.2	147.1	154.6
Total Expenses	1,589.3	1,664.2	1,603.6
Operating Result	-25.3	-49.7	20.0
Less Capital Surcharge Reservatio	0.0	0.0	0.0
Plus Appropriations Affecting NOR/AOF	0.0	0.0	0.0
Other Changes Affecting NOR/AOR	0.0	0.0	0.0
Net Operating Result	-25.3	-49.7	20.0
Other Changes Affecting AOF	39.0	13.7	-36.0
Accumulated Operating Results	13.7	-36.0	-16.0

FY 2000/FY 2001 President's Budget
Source of New Orders and Revenue
Component: Defense Finance and Accounting Service
Business Area: Financial Operations
Date: February 1999
(Dollars in Millions)

	FY 1998	FY 1999	FY 2000
1. Orders From DoD Components:			
Air Force, O&M	\$315.1	\$311.7	\$284.5
Army, O&M	\$520.9	\$523.4	\$524.3
Defense Agency, O&M	\$27.9	\$49.0	\$31.0
Defense Information Systems Agency, O&M	\$2.9	\$2.2	\$3.3
Defense Logistics Agency, O&M	\$17.6	\$13.9	\$12.0
Defense Technical Information Center, O&M	\$0.3		
Marine Corps, O&M	\$66.1	\$82.6	\$80.2
Military Traffic Management Command, O&M	\$1.7		
Navy, O&M	\$339.7	\$343.0	\$284.7
Tricare Medical Activity, O&M	\$71.4	\$67.1	\$58.0
Armed Forces Radiation Research Insitute, RDT&E	\$0.1	\$0.1	\$0.1
Army, RDT&E	\$29.0	\$28.2	\$16.1
Ballistic Missile Defense Organization, RDT&E	\$0.6	\$0.7	\$0.6
Defense Advance Research Project Agency, RDT&E	\$0.6	\$0.7	\$1.1
Defense Agency, RDT&E		\$0.3	\$0.1
Defense Technical Information Center, RDT&E		\$0.3	\$0.3
Navy, RDT&E	\$3.1	\$11.0	\$3.5
SDA White Sands, RDT&E	\$0.1	\$0.1	\$0.2
2. Orders from Other Fund Business Areas:			
Air Force, DWCF	\$14.7	\$16.8	\$37.2
Air Mobility Command, DWCF	\$4.6	\$5.6	\$5.6
Army, DWCF	\$5.7	\$5.7	\$25.3
Communication Information Services Activity, DWCF	\$0.2	\$0.0	\$0.1
Defense Agency, DWCF	\$0.1	\$0.5	\$0.2
Defense Automated Printing Service, DWCF	\$1.2	\$1.5	\$2.6
Defense Commissary Agency, DWCF	\$15.9	\$16.6	\$19.8
Defense Information Systems Agency, DWCF	\$4.6	\$3.3	\$2.9
Defense Information Technology Contraction Office, I	\$2.2	\$2.0	\$2.9
Defense Logistics Agency, DWCF	\$49.9	\$56.3	\$81.0
Defense Travel Systems, DWCF		\$0.1	
DFAS Financial Systems Organization, DWCF	\$4.4	\$5.3	\$4.6
DFAS Information Systems Organization (ISO), DWC	\$0.4	\$0.4	\$0.4
Joint Logistics Systems Center, DWCF	\$0.2	\$0.2	\$0.3
Marine Corps, DWCF	\$2.5	\$0.3	\$1.3
Military Sealift Command, DWCF	\$0.4	\$0.4	\$0.8
Military Traffic Management Command, DWCF	\$0.4	\$2.2	\$5.2
Navy, DWCF	\$21.1	\$24.4	\$96.1
3. Total DoD:	\$1,525.6	\$1,576.2	\$1,586.3
4. Other Orders			
Trust Fund-FMS	\$38.4	\$38.3	\$37.3
5. Total Gross Orders:			
	\$1,564.0	\$1,614.5	\$1,623.6
6. Change to Backlog:			
7. Total Gross Sales:	\$1,564.0	\$1,614.5	\$1,623.6

FY 2000 Budget
Changes in the Costs of Operation
Component: Defense Finance and Accounting Service
Business Area: Financial Operations
Date: February 1999
(Dollars in Millions)

	Expenses
FY 1998 Est Actual:	\$1,589
FY 1999 Estimated in President's Budget:	\$1,625
Estimated Impact in FY 1999 of Actual FY 1998 Experience:	
Workload Reduction	-\$11
Pricing Adjustments:	
Civilian Labor	\$3
Program Changes:	
Facility Maintenance (Bldg 1 pass through)	-\$35
Training (FMET pass through)	-\$35
Overseas Military Banking Contract	\$12
European Consolidation One Time Costs	\$8
Comm Invoice Workload	\$35
MilPay BPR/EDM delay	\$20
Fund Purchases (IPC, CDA Maint)	\$21
Y2K End to End Testing	\$21
FY 1999 Current Estimate:	\$1,664
Pricing Adjustments:	
Annualization of Prior Year Pay Raises	\$6
FY 2000 Pay Raise	
Civilian Personnel	\$29
Military Personnel	\$2
Fund Price Changes	-\$1
General Purchase Inflation	\$5
Productivity Initiatives and Other Efficiencies:	
DoD Purchase Card	-\$15
Military Pay BPR	-\$21
Outsourcing	-\$7
Electronic Data Management	-\$19
Process Improvements	-\$11
Program Changes:	
DISA Reimbursement	-\$20
Y2K End to End Testing	-\$21
DLAMP	\$13
European Consolidation One Time Costs	-\$8
MILCON OPLOC workstations	\$6
Other Changes:	
Depreciation	\$2
FY 2000 Estimate:	\$1,604

Information Services Budget Activity Group:

The Information Services Budget Activity provides for the operation of the DFAS Systems Engineering Organizations (SEO). The primary mission of these organizations is to provide fee-for-service software development and maintenance for DFAS automated accounting and finance systems. The DFAS Financial Operation's budget activity buys software development and maintenance services from the SEOs using a stabilized Direct Billable Hour (DBH) rate. Additionally, they also provide other Information Technology (IT) technical support charged on a cost reimbursable basis.

System Engineering Organizations are located at each of the five DFAS Centers, as well as one in Pensacola, Florida, and another in Lexington Park, Maryland. Additionally, there is a small staff element located in Indianapolis, which provides management for DFAS Federal Information Processing (FIP) acquisitions, systems management, and technology support. The following table provides the Budget Activity's in-house workforce:

Personnel	FY 1998	FY 1999	FY 2000
Civilian End Strength	1,391	1,377	1,314
Civilian Workyears	1,352	1,371	1,320
Military End Strength	88	91	91
Total Costs \$M	\$204.9	\$219.7	\$203.6

The Activity augments its work force with contractors to meet the demands of software development and for technical expertise not available in-house, such as for Certified Network Engineers. Currently, approximately 30% of the ISO's work effort is provided by contract support.

During FY 1999, a business process change within DFAS realigned the System Engineering Organizations to Center or DFAS Headquarters staffs. This change in operational control provided the following management improvements:

- 1. Placed the responsibility for both Financial Operations and Information Services under a single manager. Benefits include enhanced corporate planning and allocation of software development and maintenance funds.**
- 2. Provided the DFAS Center Director with an organic Information Technology (IT) staff.**
- 3. Placed the responsibility for all shared IT infrastructure services with Budget Activity. Benefits derived from this realignment were improved visibility of the full scope and cost of the infrastructure services, improved implementation of corporate level decisions regarding what services were needed and a reduction in the administrative workload associated with resourcing the DFAS IT Infrastructure.**

FY 1999 President's Budget to FY 1999 Current Estimate:

The current FY 1999 direct billable hour (DBH) workload projection of 2.9 million DBH is .2 million (7%) higher than the President's Budget FY 1998 projection from last year. This is due to the SEO's increased involvement with accounting system development projects in concert with the DFAS Defense Accounting System Program Management Office.

The current FY 1999 budget for the Support to Others output of \$56.7M decreased by \$9.0 million from last year's FY 1998 budget. This decrease is due to DFAS business process change that resulted in placing the responsibility for all shared Information Technology infrastructure services with one organization centrally funded from the DFAS Financial Operations Budget Activity.

FY 1999 Current Estimate to FY 2000:

The \$16.1 million decrease from FY 1999 to FY 2000 represents a combination of workload decreases, reduced Defense Information Systems Agency (DISA) rates and full implementation of the realignment of the System Engineering Organizations.

In the DBH output, the reduction of \$13.9M is composed, in part, of a \$1.4M pay raise adjustment, offset by a \$4.5M workload decrease, a \$1.5M DISA rate reduction, and cost reductions within the Budget Activity resulting from the realignment of work and support staffs, not directly related to software development, into the DFAS Financial Operations business area. The Support to Others output decrease of 2.2M is the result of minor changes in the level of planned system implementations offset by reductions in General & Administrative support staff and costs of the SEO realignment.

Costs by Output Category:

\$ in Millions	FY 1998	FY 1999	FY 2000
Direct Billable Hours	\$132.8	\$163.0	\$149.1
Support To Others	\$72.1	\$56.7	\$54.5
	=====	=====	=====
Total	\$204.9	\$219.7	\$203.6

The Direct Billable Hours output reflects all costs required to perform software development and maintenance. The output is based on 1650 hours per direct in-house workyear and 1800 hours per contract support workyear. Direct hours include civilian, military, overtime, and contract support hours.

The Support to Others output reflects SEO participation in the implementation support for software systems as well as, defining and implementing the DFAS Corporate Information Infrastructure.

Approximately 85% of the Activity personnel develop and maintain software, while 15% support system deployment and other information technology activities.

Workload by Output Category:

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Direct Billable Hours	2.5	2.9	2.8

The Activity works closely with its customers; primarily the DFAS Financial Operations budget activity, to estimate FSO workload. These discussions determine the number of hours required by system for software development and maintenance. Workload is relatively stable in all years. This reflects the continuing advancement of the DFAS migratory strategy for DoD Finance and Accounting systems. The FY 2000 DBH workload decrease is due to the replacement of legacy systems.

Operating Results:

	\$ in Millions		
	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Revenue	\$208.9	\$219.9	\$203.3
Costs	\$204.9	\$219.7	\$203.6
Net Operating Results	\$4.0	\$0.2	(\$0.3)
NOR Adjustment	(\$3.9)	\$0.1	\$0.3
Accumulated Op Results	\$0.1	\$0.3	\$0.0
Direct Billable Hour Unit Cost Rate	\$52.60	\$57.13	53.75
Direct Billable Hour Billing Rate	\$55.72	\$57.19	53.64
Composite Rate Change (%)		3%	-6%

In FY 1999, upward pressure on the DBH unit costs is from the higher costs of contract support. The FY 2000 DBH unit cost decrease is due to cost reductions associated with the System Engineering Organization realignment.

Economies and Efficiencies:

In addition to the SEO realignment, the Information Services budget activity has several ongoing initiatives to standardize, modernize, and reduce costs in the software development process. The Activity's Software Process Improvement (SPI) program seeks to improve and standardize software development, modification, and re-engineering practices. Efforts in the areas of configuration management project tracking, requirement analysis, and release management are projected to offset some on the increase in contract support costs.

The Activity's Managing Application Performance program is a joint effort with the DISA to lower processing costs and to improve the performance of DFAS financial applications software. The program ensures that efficiency and responsiveness are built into applications as they are developed and continues to monitor system performance in production by instituting performance checkpoints.

A long-term efficiency, the DFAS Corporate Repository that is a portion of the DFAS Corporate Information Infrastructure (DCII), will enhance the Activity's ability to share software code and objects. As additional DFAS systems migrate to the DCII environment the cost of both development and maintenance will decline.

FY 2000/FY2001 Budget
Revenue and Expenses
Component: Defense Finance and Accounting Service
Business Area: Information Services
Date: February 1999
(Dollars in Millions)

	FY 1998	FY 1999	FY 2000
Revenue			
Gross Sales			
Operations	200.3	210.7	196.0
Capital Surcharge	0.0	0.0	0.0
Depreciation exc Maj Const	8.6	9.2	7.3
Major Construction Dep	0.0	0.0	0.0
Other Income			
Refunds/Discounts (-)			
Total Income:	208.9	219.9	203.3
 Expenses			
Cost of Material Sold from Inventory (DeCA)			
Salaries and Wages:			
Military Personnel Comp & Bene	2.8	3.1	2.2
Civilian Personnel Comp & Bene	91.0	90.4	90.6
Travel & Transportation of Personnel	3.1	3.7	3.3
Materials & Supplies(Internal Operations)	2.1	2.1	1.3
Equipment	1.1	1.2	1.1
Other Purchases from Revolving Funds	10.7	14.5	11.7
Transportation of Things	0.0	0.1	0.1
Depreciation - Capital	8.6	9.2	7.3
Printing and Reproduction	0.6	1.0	1.0
Advisory and Assistance Services	0.0	0.0	0.0
Rent, Comm, Utilities, & Misc Charges	2.8	4.3	3.7
Other Purchased Services	82.1	90.1	81.3
Total Expenses	204.9	219.7	203.6
 Operating Result	4.0	0.2	-0.3
Less Capital Surcharge Reservation	0.0	0.0	0.0
Plus Appropriations Affecting NOR/AOR	0.0	0.0	0.0
Other Changes Affecting NOR/AOR	0.0	0.0	0.0
 Net Operating Result	4.0	0.2	-0.3
Other Changes Affecting AOR	-3.9	0.1	0.3
 Accumulated Operating Results	0.1	0.3	0.0

FY 2000/FY 2001 President's Budget
Source of New Orders and Revenue
Component: Defense Finance and Accounting Service
Business Area: Information Services
Date: February 1999
(Dollars in Millions)

	FY 1998	FY 1999	FY 2000
1. Orders From DoD Components:			
Army, O&M	\$0.0	\$0.0	\$0.0
Air Force, O&M	\$0.1	\$5.2	\$3.3
Navy, O&M	\$2.1	\$12.7	\$6.3
Marine Corps, O&M	\$7.9	\$5.9	\$5.4
Defense Agency, O&M	\$0.0	\$0.0	\$0.0
2. Orders from Other Fund Business Areas:			
Defense Agency, DWCF	\$198.8	\$196.1	\$188.3
3. Total DoD:	\$208.9	\$219.9	\$203.3
4. Other Orders			
Trust Fund-FMS	\$0.0	\$0.0	\$0.0
5. Total Gross Orders:			
	\$208.9	\$219.9	\$203.3
6. Change to Backlog:			
7. Total Gross Sales:	\$208.9	\$219.9	\$203.3

FY 2000/FY2001 Budget
Changes in the Costs of Operation
Component: Defense Finance and Accounting Service
Business Area: Information Services
Date: February 1999
(Dollars in Millions)

	Expenses
FY 1998 Actual	\$204.9
FY 1999 Estimated in President's Budget:	\$221.3
Estimated Impact in FY 1999 of Actual FY 1998 Experience:	\$0.0
Program Changes:	
Y2K End-to-End Testing	\$1.3
Increase in Software Dev/Mod Customer Orders	\$12.2
Infrastructure Realignment	(\$15.5)
Pricing Adjustments	
FY 1999 Inflation	\$0.4
FY 1999 Current Estimate:	\$219.7
Pricing Adjustments:	
FY 2000 Pay Raise	
Military Personnel	\$0.1
Civilian Personnel	\$3.2
Other Price Changes	\$0.0
Productivity Initiatives and Other Efficiencies:	
Infrastructure realignment	(\$8.9)
Other Productivity	(\$0.6)
Program Changes:	
Decrease in Dev/Mod Customer Orders	(\$7.0)
Decrease in C Goal work	(\$1.4)
DISA Rate Reduction	(\$1.5)
FY 2000 Estimate:	\$203.6