

DEFENSE FINANCE AND ACCOUNTING SERVICE

OVERVIEW

The Defense Finance and Accounting Service (DFAS) serves the Nation and supports America's warfighters by providing financial management, accounting, payroll, and commercial vendor payment services to its millions of Defense customers. DFAS has a worldwide reach, supporting American forces in garrison, afloat, and on the front lines, as well as their families back home. In 1999, DFAS continued to provide quality and innovative financial management services while doing so at lower operating costs. Indeed, the effort to reduce costs – and enhance our level of service – in the face of tightening budgets and workforce reductions is a daunting task, yet DFAS's accomplishments during its short existence provide proof that our vision is attainable.

In order to guarantee America's fighting forces are receiving high quality financial services at low cost, DFAS has embraced seven major goals:

- Improve the delivery, timeliness, and accuracy of finance and accounting services, with a strong Corporate identity.
- Ensure financial information is timely, useful, and responsive to customers for decision making.
- Leverage technology and change processes to improve performance and reduce cost.
- Ensure employees are well-trained, equipped, and adaptable to change in an organization inspired by trust, open communications, and teamwork.
- Develop and deliver creative solutions to serve our customers' needs and exceed their expectations.
- Create an environment that fosters and rewards extraordinary contributions.
- Maintain an aggressive internal control program to ensure proper stewardship of DoD resources.

DFAS has revolutionized financial management within the DoD by eliminating redundancies, facilitating standardization of systems and operations, increasing productivity, and enhancing financial management support to DoD decision-makers. As the largest financial management operation in the world, DFAS's success is ultimately defined by how well it supports the individual soldier, sailor, airman, marine, and DoD civilian. Our customers want accurate, reliable, and timely support. We are striving to meet their needs through a dynamic infrastructure that incorporates the best practices of government and private industry.

Our achievements to date have been nothing short of remarkable.

- Converting to a new single system to pay approximately 710,000 DoD civilian employees, DFAS eliminated 26 other systems, closed 348 payroll offices, and saved nearly \$70 million since 1994. Over the same period, DFAS has reduced costs by more than \$17 million to pay nearly 2.5 million military personnel.
- Implementation of the Web Invoicing System (WinS) enables current paper-based vendors to send invoices electronically at little or no cost. Vendors enter their invoices into templates on a DFAS-owned Web server that processes and routes the invoices to the appropriate payment system. The vendor gains all the benefits of submitting their invoices electronically while eliminating the normal telecommunications cost associated with electronic data interface.
- Under the direction of the Under Secretary of Defense (Comptroller), DFAS, in coordination with effected DoD components, established a project to reduce problem disbursements. The focus was to resolve existing problem disbursements, improve current procedures, and upgrade our systems to prevent these conditions from occurring. As a result of these efforts, we reduced problem disbursements by 46 percent from \$10.1 to \$5.5 billion (absolute value) during the last nine months of 1999.
- Cross-disbursement transactions are disbursements and collections made by a disbursing office assigned to one DFAS Center and accounted for by an accountable station assigned to another DFAS Center, DoD Component or Federal Agency. The DFAS aggressively pursued the use of an on-line payment and collection process to replace the current cross-disbursement process. As of September 1999, aged in-transits were reduced from a net value of \$5.5 to \$1.1 billion, an 80 percent decrease.
- We began development of the software required to distribute Leave and Earning Statements over the Internet. In addition to improving the timeliness of military personnel receiving their LES, the program will reduce the manpower and mailing costs to distribute these documents.
- We revised the Defense Debt Management System to take advantage of enhanced collection methods permitted by the Debt Collection Improvement Act. Collections resulting from our participation in the Treasury Offset Program have increased 100 percent from \$17 million last year to \$34 million this year. Collections from the Federal Salary Offset Program increased 33 percent from \$3 million last year to \$4 million this year.
- DFAS' financial statements received a qualified opinion rather than a disclaimer opinion for Fiscal Year (FY) 1999 from our outside auditors. We are the only DoD activity

other than the Military Retirement Trust Fund to receive any type of audit opinion other than a disclaimer. Our goal for FY 2000 is to build upon this success by achieving an unqualified opinion.

These are just a few of our many accomplishments. During the past year alone, we accomplished many firsts from ensuring the DoD financial processes continued beyond January 1, 2000 to developing paperless processes that provide real-time finance and accounting support and, as important, the direction DFAS is headed in the future. The dawning of the new millennium brings renewed expectations from our customers, partners, stakeholders, and workforce. The needs of our customers are changing and DFAS must respond without any interruption in service. Our mission and vision reflect this mandate.

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. We have consolidated 332 installation-level finance and accounting offices into five DFAS Centers and 19 operating locations, including the one in Kaiserslautern, Germany that was activated in August 1999. Consistent with the President's directive to do more with less, DFAS has trimmed its workforce from 30,000 personnel in 1993 to less than 20,000 this year through consolidations and other process improvements. These successes 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. 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.

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 is going to 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, non-appropriated fund payroll, and the identification of many more candidates for reorganization and improvement.

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 reduces costs for document storage, labor, postage, and supplies. Electronic Document Management, for example, reduces 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, cataloging, and document maintenance.

The following table identifies costs, revenue, and workforce data for FY 1999 through FY 2001:

	Dollars in Millions		
	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Costs	\$ 1,621.7	\$1,662.3	\$1,599.4
Revenue	1,568.3	1,670.5	1,630.9
Personnel:			
Civilian End Strength	17,474	16,936	16,238
Civilian Workyears	16,728	16,989	16,290
Military End Strength	1,517	1,442	1,280
Military Workyears	1,517	1,442	1,280

FY 1999 Budget to FY 1999 Actual:

In FY 1999, actual operating costs were below target because of our aggressive reduction of workyears to posture DFAS for future cost reductions. In addition, workload realized was below the budgeted level in several areas. Similarly, customer revenue dropped as a result of the reduced workload.

FY 2000 President's Budget to FY 2000 Current Estimate:

When compared to last year's President's Budget, estimated FY 2000 costs increase for a variety of reasons. Overall information management costs grew, due to increasing software maintenance and information processing cost reimbursements to the Defense Information Systems Agency. Additionally, FY 2000 costs also reflect capitalization of finance and accounting operations in Europe and S-4 legislative workarounds in the Military Pay outputs.

FY 2000 to FY 2001:

	\$ in Millions
FY 2000 President's Budget	\$1,604.0
Price Growth	46.7
Program Change	40.2
Productivity	<u>-28.6</u>
FY 2000 Program (Revised)	\$1,662.3

Costs and workyears are reduced in FY 2001 as DFAS management initiatives are implemented. Cost efficiencies will occur as the result of 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 2000 and costs have decreased to reflect this. As the following table illustrates, costs in FY 2001, for most outputs, decline or remain the same despite the impact of inflation. The remainder have only modest changes or reflect the increased shift to electronic commerce processing outputs.

FY 2001:

	\$ in Millions
FY 2000 Program (Revised)	\$1,662.3
Price Growth	39.6
Program Change	-35.9
Productivity	<u>-66.6</u>
FY 2001 President's Budget	\$1,599.4

Costs by Output Category:

	Dollars in Millions		
	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Civilian Pay Accounts Maintained	\$ 55.3	\$ 57.3	\$ 55.3
Active Mil Pay Acts Maintained	141.1	151.1	147.9
Military Pay Incremental	56.7	57.0	54.3
Retired Mil Pay Acts Maintained	59.1	60.5	57.6
Reserve Mil Pay Acts Maintained	40.4	42.2	40.2
Contract Payments - MOCAS	113.6	114.4	103.0
Contract Payments SAMMS	23.7	24.4	26.2
Travel Vouchers Paid	80.1	76.2	76.2
Transportation Bills Paid	31.3	22.7	21.5
Commercial Payments	196.8	161.5	155.6
Out-of-Service Debt Cases Managed	22.8	24.3	24.6
Monthly Trial Balances Maintained/DBH	687.0	720.2	725.3
Acctng & Fin Spt/Commissary	8.2	7.7	10.7
FMS Cases Managed	37.0	37.2	37.3
Support To Others	<u>67.7</u>	<u>105.6</u>	<u>63.9</u>
Total Costs	\$1,621.7	\$1,662.3	\$1,599.4

Total Cost Changes (%)

Financial Operations	2.4	(3.8)
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DFAS has 23 output categories which cover the broad range of accounting and finance activities. All outputs except Support to Others are workcount-driven and thus have individual unit cost rates. The Support to Others output is managed on a cost reimbursable basis.

In FY 2001, costs decline modestly in most outputs. Costs for Commercial Payments decline by 3.7 percent due to increased use of the DoD Purchase Card for small purchases by DFAS' customers and increased use of Electronic Document Management (EDM). Contract Payments-MOCAS also reflects a 9.9 percent reduction, primarily attributable to the ongoing streamlining of document conversion into EDM. Support to Others declines as European costs are migrated to the outputs.

Workload by Output Category:

	Units in Millions		
	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Civilian Pay Accounts Maintained	18.8	18.4	17.4
Active Mil Pay Accounts Maintained	17.8	17.6	17.5
Military Pay Incremental	5.2	5.0	5.0
Retired Mil Pay Accounts Maintained	27.1	27.4	27.8
Reserve Mil Pay Accounts Maintained	11.0	10.5	10.4
Contract Payments - MOCAS	1.0	1.0	0.9
Contract Payments – SAMMS	4.1	4.1	4.2
Travel Vouchers Paid	5.1	6.0	5.9
Transportation Bills Paid	1.8	1.3	0.9
Commercial Payments	10.2	9.9	10.0
Out-of-Service Debt Cases Closed	5.5	5.3	5.4
Monthly Trial Balances Maintained/DBH	.5	10.2	10.3
Fin & Acct Spt/Commissary	*	*	*
FMS Cases Managed	.2	.2	.2

* Too small to reflect in a chart reflected in millions.

DFAS workload continues to decline in consonance with projected customer dollar and personnel resources, with the exception of Retired Military Pay Accounts Maintained and Out of Service Debt Cases Managed. Retired Pay Accounts Maintained workload is projected to increase as military members retire due to the force drawdown. Out of Service Debt Cases Managed workload reflects aggressive measures to reduce historic backlogs in this area.

In FY 2000, DFAS transitioned 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 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Revenue	\$1,568.3	\$1,670.5	\$1,630.9
Costs	1,621.7	1,662.3	1,599.4
Net Operating Results	-53.4	8.2	31.5
Capital Surcharge	-0-	-0-	-0-
Prior Year Results	13.7	-39.7	-31.5
Accumulated Op Results	-39.7	-31.5	-0-

The FY 1999 net operating loss was \$53.4 million compared to the estimated loss of \$50 million contained in the FY 2000 President's Budget. The increase in the loss was primarily due to lower than anticipated billable workload. This resulted in accumulated operating results of \$ -39.7 million.

DFAS projects a \$8.2 million operating gain in FY 2000. This results primarily from savings of Electronic Document Management process improvements. The FY 2001 gain is required to balance the gains and losses.

DEFENSE BUSINESS OPERATIONS FUND

**COMPONENT: DEFENSE FINANCE AND ACCOUNTING SERVICE
ACTIVITY GROUP: FINANCIAL OPERATIONS**

**REVENUE AND EXPENSES
(Dollars in Millions)**

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Revenue			
Gross Sales			
Operations	1,364.7	1,457.6	1,442.5
Capital Surcharge			
Depr excl Major Constr	203.6	212.9	188.4
Major Constr Depr			
Other Income			
Refunds/Discounts (-)			
Total Income	1,568.3	1,670.5	1,630.9
Expenses			
Cost of Material Sold from Inventory			
Salaries and Wages:			
Military Personnel Compensation & Benefits	44.0	45.8	45.0
Civilian Personnel Compensation & Benefits	796.1	836.4	823.2
Travel & Transportation of Personnel	20.5	22.2	21.3
Materials & Supplies (For internal Operations)	17.9	13.7	12.4
Equipment	44.2	17.6	10.8
Other Purchases from Revolving Funds	251.2	233.2	224.7
Transportation of Things	1.5	1.7	1.6
Depreciation – Capital	203.6	212.9	188.4
Printing and Reproduction	20.4	17.4	17.2
Advisory & Assistance Services	24.1	4.0	3.9
Rent, Communication, Utility, & Misc. Charges	77.3	63.1	59.7
Other Purchased Services	120.9	194.3	191.2
Total Expenses	1,621.7	1,662.3	1,599.4
Operating Result	-53.4	8.2	31.5
Less Capital Surcharge Reservation			
Plus Passthroughs or Other Appropriations Affecting NOR			
Other Adjustments Affecting NOR			
Net Operating Result	-53.4	8.2	31.5
Other Changes Affecting AOR	13.7	-39.7	-31.5
Accumulated Operating Result	-39.7	-31.5	0.0

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

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
1. Orders From DoD Components			
Air Force, O & M	\$ 303.5	\$ 276.4	\$ 280.4
Army O & M	516.6	561.9	547.9
Defense Agency, O & M	37.0	39.1	38.7
Defense Commissary Agency, O & M		.1	
Defense Information Systems Agency, O & M	3.7	4.5	5.0
Defense Logistics Agency, O & M	16.0	8.9	8.4
Defense Travel System, O & M		.1	.1
Marine Corps, O & M	66.8	80.9	81.4
Navy O & M	333.9	280.4	262.3
Tricare Medical Activity, O & M	65.3	40.9	36.1
Armed Forces Radiation Research Institute, RDT&E	.1	.1	.1
Army, RDT&E	24.4	20.1	18.5
Ballistic Missile Defense Organization, RDT&E	.7	.6	.7
Defense Advance Research Projects Agency, RDT	.7	1.3	1.6
Defense Technical Information Center, RDT&E	.4	.3	.4
Navy, RDT&E	7.8	3.1	2.9
SDA White Sands, RDT&E	.1	.1	.1
2. Orders from Other Fund Business Areas:			
Air Force, DWCF	12.5	48.0	51.7
Air Mobility Command, DWCF	6.2	4.6	5.5
Army, DWCF	5.3	27.5	25.6
Defense Agency, DWCF	17.8	3.2	2.8
Defense Automated Printing Service, DWCF	1.4	3.1	3.5
Defense Commissary Agency, DWCF	18.6	24.5	26.5
Defense Information Systems Agency, DWCF	1.8	4.1	4.8
Defense Information Technology Contracting Office, DWCF	2.5	2.8	2.8
Defense Logistics Agency, DWCF	51.8	82.3	76.8
Defense Travel System, DWCF			
DFAS Financial Systems Organization, DWCF	6.7	4.4	4.6
Joint Logistics System Center, DWCF	.2	.2	.2
Marine Corps, DWCF	3.7	.5	.6
Military Sealift Command, DWCF	.3	2.7	3.3
Military Traffic Management Command, DWCF	2.3	10.2	11.3
Navy, DWCF	21.9	96.3	89.0
Tricare Medical Activity, DWCF			
3. Total DoD	\$1,530.0	\$1,633.2	1,593.6
4. Other Orders			
TRUST FUND-FMS	38.3	37.3	37.3
5. Total Gross Orders	\$1,568.3	\$1,670.5	1,630.9
6. Change to Backlog			
7. Total Gross Sales	\$1,568.3	\$1,670.5	1,630.9

Exhibit Fund-11 Source of Revenue

Changes in the Costs of Operation
Component Group: Defense Finance and Accounting Service
Activity Group: Financial Operations
Date: February 2000
(Dollars in Millions)

	<u>Expenses</u>
FY 1999 Actual	\$1,621.7
FY 2000 Estimated in President's Budget:	1,604.0
Pricing Adjustments:	
Annualization of Prior Year Raises	7.3
FY 2000 Pay Raise	
Civilian Personnel	28.9
Military Personnel	1.6
Fund Price Changes	5.7
General Purchase Inflation	3.2
Productivity Initiatives and Other Efficiencies	
Electronic Data	-4.0
Power Track	-4.6
Process Improvements	-20.0
Program Changes:	
Consolidation of Europe	33.8
Partnership for Fiscal Integrity	5.2
Human Resources Support of Other	5.0
S-4 Legislative Changes	2.5
Defense Security Services	.4
DISA IPC	6.6
Marine Corps Transfer	-1.0
DTS Slippage	4.4
Management Headquarters Cut	-1.3
Property and Plant Audit	.8
Other Changes	
VERA/VSIP	4.8
Depreciation	6.8
Y2K End to End Testing	-17.7
One Time Computer Upgrade for Y2K	-10.1
FY 2000 Current Estimate:	\$1,662.3

Exhibit Fund-2 Changes in the Costs of Operations

FY 2000 Estimate	\$1,662.3
Pricing Adjustments	
Annualization of Prior Year Pay Raises	9.4
FY 2001 Pay Raise	
Military Personnel	1.3
Civilian Personnel	23.5
Fund Price Changes	1.2
General Purchase Inflation	4.2
Productivity Initiatives and Other Efficiencies	
Outsourcing	-12.1
Electronic Data Management	-17.0
Process Improvements	-1.5
Power Track	-4.4
DoD Purchase Card	-13.0
Accounting Efficiencies	-18.6
Program Changes	
Workload Reductions	-7.6
S-4 Legislative Changes	5.7
DISA IPC	-8.9
Depreciation Policy Change	-23.9
Marine Corps Transfer	-1.2
FY 2001 Current Estimate	\$1,599.4

Productivity Initiatives and Other Efficiencies

Reduced workload in Commercial Payments and Transportation Bills allowed for reductions to the Performance Contract based on application of historical productivity ratios to reduced workload requirements. The accounting efficiencies were based on a manual count of Direct Billable Hour data on going since 1996. The workload and productivity ratios history indicated the reductions taken. Equipment reductions were based on an equipment upgrade required at the end of FY 1999 that reduced requirements for FY 2000.

Information Services Budget Activity Group:

The Information Services Budget Activity provides for the operation of the DFAS Systems Engineering Organizations (SEOs). 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 Operations budget activity buys software development and maintenance services from the SEOs using a stabilized Direct Billable Hour (DBH) rate. Additionally, the SEOs 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's Information Technology Infrastructure, DFAS Federal Information Processing (FIP) acquisitions, systems management, and technology support. The following table provides the Budget Activity's in-house workforce:

<u>Personnel</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Civilian End Strength	1,198	1,315	1,307
Civilian Workyears	1,222	1,320	1,312
Military End Strength	86	77	77
Total Costs \$M	\$221.9	\$225.9	\$207.3

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

FY 2000 President's Budget to FY 2000 Current Estimate:

The workload growth identified in this submission supports the DFAS migration strategy and represents an increase from the FY 2000 President's Budget. This growth, from that envisioned in the President's Budget, in contractor cost is partially offset by a General and Administrative savings. The small growth in cost reimbursable portion of this submission supports the Defense Joint Accounting System (DJAS) deployments.

FY 2000 Current Estimate to FY 2001:

Customer demand for Direct Billable Hour support will decrease slightly in FY 2001. Decreases in our contractor augmentation and a relatively minor decrease in our in-house workforce offset this workload decrease. Additionally, reductions in DJAS deployment support decreases in our contractor augmentation. These factors combine to reduce the total cost authority of the Budget Activity.

Costs by Output Category:

	(\$ in Millions)		
	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Direct Billable Hours	\$168.9	\$170.0	\$163.7
Support To Others	\$53.0	\$55.9	\$43.6
Total Costs	----- \$221.9	----- \$225.9	----- \$207.3

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

Workload by Output Category:

	(\$ in Millions)		
	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Direct Billable Hours	3.0	3.1	2.9

The Activity works closely with its customers; primarily the DFAS Financial Operations budget activity, to estimate SEO workload. These discussions determine the number of hours required by system for software development and maintenance. The workload changes reflect the continuing advancement of the DFAS migratory strategy for DoD Finance and Accounting systems.

Operating Results:

	(\$ in Millions)		
	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Revenue	\$228.0	\$219.9	\$207.1
Costs	\$221.9	\$225.9	\$207.3
Net Operating Results (NOR)	\$6.1	(\$6.0)	(\$0.2)
PY AOR Adjustment	\$0.1	\$6.2	\$0.2
Current AOR	\$6.2	\$0.2	\$0
Direct Billable Hour Unit Cost Rate	\$56.39	\$55.60	\$56.43
Direct Billable Hour Billing Rate	\$57.19	\$53.64	\$56.53
Composite Rate Change (percent) percent		-6 percent	5

Economies and Efficiencies:

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 2001 President's Budget
Revenue and Expenses
Defense Finance and Accounting Service
Information Services
February 2000
(Dollars in Millions)**

<u>Revenue</u>	FY 1999	FY 2000	FY 2001
Gross Sales			
Operations	220.0	213.1	202.9
Capital Surcharge			
Depreciation Exc Maj Const	8.0	6.8	4.2
Other Income			
Refunds/Discounts(-)			
Total Income:	228.0	219.9	207.1
<u>Expenses</u>			
Cost of Material Sold from Inventory (DeCA)			
Salaries and Wages:			
Military Personnel Comp & Bene	3.1	2.2	2.3
Civilian Personnel Comp & Bene	85.1	92.4	94.4
Travel & Transportation of Personnel	3.1	3.3	2.8
Materials & Supplies (Internal Operations)	1.9	1.5	1.6
Equipment	2.6	1.7	1.2
Other Purchases from Revolving Funds	17.6	14.7	14.7
Transportation of Things	0.1	0.0	0.0
Depreciation – Captial	8.0	6.8	4.2
Printing and Reproduction	0.0	0.0	0.0
Advisory and Assistance Service	0.0	0.0	0.0
Rent, Comm, Utilities, & Misc Charges	3.1	3.2	3.2
Other Purchased Services	97.3	100.1	82.9
Total Expenses	221.9	225.9	207.3
 Operating Result	 6.1	 -6.0	 -0.2
 Less Capital Surcharge Reservation			
Plus Appropriations Affecting NOR/AOR			
Other Changes Affecting NOR/AOR			
 Net Operating Result	 6.1	 -6.0	 -0.2
 Other Changes Affecting AOR			
Prior Year	0.1	6.2	0.2
 Accumulated Operating Results	 6.2	 0.2	 0.0

FY 2001 President's Budget
Source of Revenue
Defense Finance and Accounting Service
Information Services
February 2000
(Dollars in Millions)

	FY 1999	FY 2000	FY 2001
New Orders			
Orders From DoD Components:			
Air Force, O&M	\$0.1	\$0.1	\$0.1
Navy, O&M	\$2.3	\$3.0	\$1.0
Marine Corps, O&M	\$10.2	\$6.7	\$7.2
Orders From Other Fund Business Areas:			
Defense Agencies	\$205.1	\$198.9	\$186.9
Air Force, DWCF	\$3.1	\$4.5	\$4.5
Navy, DWCF	\$7.2	\$6.7	\$7.4
Total DoD:	\$228.0	\$219.9	\$207.1
Other Orders:	\$0.0	\$0.0	\$0.0
Total New Orders	\$228.0	\$219.9	\$207.1
Total Gross Orders:	\$228.0	\$219.9	\$207.1
Funded Carry-Over	\$0.0	\$0.0	\$0.0
Total Gross Sales	\$228.0	\$219.9	\$207.1

**FY 2001 President's Budget
 Changes in the Costs of Operation
 Defense Finance and Accounting Service
 Information Services
 February 2000
 (Dollars in Millions)**

	Expenses
FY 1999 Actual	\$221.9
FY 2000 Estimated in President's Budget:	\$203.6
Estimated Impact in FY 2000 of Actual FY 1999 Experience:	\$0.0
Program Changes:	
Increase in Software Dev/Mod Customer Orders	\$14.6
Increase in C Goal Orders	\$1.5
Increase in Contractor Support Cost	\$6.0
PBD 604 Adjustment Inflation	(\$0.1)
PBD 606 Adjustment Pay	\$0.3
FY 2000 Current Estimate:	\$225.9
Pricing Adjustments:	
FY 2001 Pay Raise	
Military Personnel	\$0.1
Civilian Personnel	\$2.4
Other Price Changes	\$1.5
Productivity Initiatives and Other Efficiencies:	
Software Repository & Developer Tools	(\$1.4)
Program Changes:	
Decrease in Software Dev/Mod Customer Orders	(\$9.0)
Decrease in C Goal Work	(\$12.3)
PBD 604 Adjustment Inflation	(\$0.2)
PBD 606 Adjustment Pay	\$0.3
FY 2001 Estimate:	\$207.3