

DEFENSE FINANCE AND ACCOUNTING SERVICE

OVERVIEW

The Defense Finance and Accounting Service (DFAS) supports the American warfighter by providing financial management, accounting, payroll, and commercial vendor payment services to millions of Department of Defense customers. Our worldwide capabilities support our Armed Forces in garrison, afloat, and on the front lines, as well as their families they leave at home. Fiscal Year (FY) 2000 was significant for the DFAS. We continued to reduce cost while providing improved financial management information and an enhanced level of customer support. The most significant accomplishment of FY 2000 was our attaining an Unqualified Opinion on our FY 2000 Financial Statements, despite workforce reductions and reduced spending, represents a major step toward demonstrating that we truly do provide world class accounting service to our customers and that our vision is attainable. We are in every sense of the word **Your Financial Partner @ Work**.

In order to guarantee America's fighting forces are receiving the highest 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.

Our core values of Integrity, Service and Innovation are directly linked to our vision, fuel the passion to keep us focused, shape the way we partner with our customers and stakeholders, and drive our decisions and behaviors.

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 over the past ten years have been nothing short of remarkable.

- 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 from \$10.1 to \$1.6 billion (absolute value) during the past two fiscal years.
- 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. During FY 2000, aged in-transits were reduced from a net value of \$1.1 to \$.3 billion.
- We can now distribute Leave and Earning Statements over the Internet. In addition to improving the timeliness of military and civilian personnel receiving their LES, the program will reduce the manpower and mailing costs to distribute these documents.
- DFAS' financial statements received an **UNQUALIFIED OPINION** for Fiscal Year (FY) 2000 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 2001 is to build upon this success and to maintain the unqualified opinion.
- We reorganized the agency to reflect a more business-like approach to operations. We segregated into six business lines with a total of forty-eight product lines to focus more closely and clearly on our customers. Each business line has an executive responsible for providing oversight and ensuring the most effective and

efficient use of all resources in support of our customers. We are initiating Activity Based Costing studies and implementing a Balanced Scorecard to help us plan and measure our agency goals.

- We had two A-76 initiatives during Fiscal Year 2000 and the results were just released. Retired/Annuitant Pay lost the bid for the Most Efficient Organization (MEO) and a contract has been awarded. The Civilian Pay initiative ended with no bidders. OUSD(C) requested the DFAS implement any process improvements deemed appropriate from the MEO. Further, OUSD(C) requested the DFAS initiate an expanded review that evaluates alternatives and seeks additional efficiencies in the end-to-end process for delivering civilian personnel and pay services.

These are just a few of our many accomplishments we have enjoyed over our brief history. During the past year alone, we accomplished many firsts from developing paperless processes that provide real-time finance and accounting support and the direction DFAS is headed in the future. Each year 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 - Arlington | Arlington, Virginia |
| DFAS - Cleveland | Cleveland, Ohio |
| DFAS - Columbus | Columbus, Ohio |
| DFAS - Denver | Denver, Colorado |
| DFAS - Indianapolis | Indianapolis, Indiana |
| DFAS - Kansas City | 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 17,000 in FY 2000 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.

DFAS is aggressively pursuing finance and accounting competitions consistent with Administration and congressional guidelines. Our goal is to study all finance and accounting functions during the next 5 – 7 years, and to ensure that other initiatives (e.g., the application of technology, the transition of standard systems, process reengineering, internal controls) are considered in the competitive decision process. Additionally, we are implementing successful business practices from the private sector and other government entities to make DoD financial business practices simpler, more efficient, and less prone to errors.

DFAS, since its establishment, has had efforts underway to greatly reduce the number of finance and accounting systems in the DoD. The bottom-line intent is to provide more useful, timely, and accurate financial management information to commanders. DFAS will replace 324 systems that were operational in 1991 with less than 32 systems. By FY 2003, the majority of migratory systems will be fully deployed. These systems will support the use of common standard data for the collection, storage, and retrieval of financial information.

DFAS has revamped its billing practices to reward the right customer behavior and encourage better business practices. Changes such as reduced rates for electronic transactions reflect our lower processing costs and in turn lower costs to our customers. Specifically, beginning in FY 2000, we offered our customers substantial savings for contract, vendor, and travel payments when these transactions are electronic. Our rates in vendor pay are 48% less when our customers use the purchase card for small contract payments. Another billing change begun in FY 2000 is the use of direct billable hours for accounting services vice using the number of accounting reports produced. This change allows the customer to have increased visibility over the number of hours used in providing accounting services and, ultimately, to have more influence and say in defining their requirements. We're also exploring opportunities to develop rates based on performance (level of service) and consumption (level of effort) versus composite rates. This change will better relate costs to services provided and give our customers more

voice in what they are purchasing. As a companion to incentivized billing rates, we're also providing more information in our customer bills to better explain our cost drivers (such as system usage) and promote a greater partnership with our customers to enable us to reduce costs. The bottom line: lower DFAS costs mean lower customer costs.

The quality of financial information is significantly improved when compared to what was provided when DFAS started operations. We view this as a continuous improvement process. Many of the problems we face with data quality have been around a long time and the efforts to fix them are a joint effort between DFAS and its customers. The efforts to improve data quality have been significant because of the complexity of the data, the amount of research required to identify what actually occurred, and the sheer volume of information that had to be corrected. We have made real improvements in undistributed disbursements, negative unliquidated obligations, contract reconciliation, statement of differences, and other problem areas. With new systems and continued efforts to clean up old problems, our goal of being **Your Financial Partner @ Work** will be realized.

The following table identifies costs, revenue, and workforce data for FY 2000 through FY 2002:

Dollars in Millions

| | <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> |
|----------------|-----------------------|-----------------------|-----------------------|
| Costs | \$1,609.5 | \$1,615.9 | \$1,614.4 |
| Revenue | \$1,613.9 | \$1,699.5 | \$1,533.6 |

Personnel:

| | | | |
|---------------------------------|--------|--------|--------|
| Civilian End Strength | 16,106 | 15,997 | 15,677 |
| Civilian Workyears | 16,604 | 16,041 | 15,710 |
| Military End Strength/Workyears | 1,364 | 1,260 | 1,160 |

FY 2000 Budget to FY 2000 Actual: In FY 2000, actual operating costs were below target because of our aggressive reduction of workyears and overhead costs to posture the agency for future anticipated reductions.

FY 2001 President's Budget to FY 2001 Current Estimate: When compared to last year's President's Budget, estimated FY 2001 costs increased by about 1 percent. Information processing costs grew due to increasing software maintenance costs and increased S-4 legislative workarounds in the Military Pay outputs.

FY 2001 to FY 2002:

| | \$ in Millions |
|-----------------------------------|-----------------------|
| FY 2001 President's Budget | \$ 1,599.4 |
| Price Growth | 3.6 |
| Productivity | -20.8 |
| Program Change | <u>33.7</u> |
| FY 2001 Program (Revised) | \$ 1,615.9 |

FY 2002:

| | \$ in Millions |
|-----------------------------------|-----------------------|
| FY 2001 Program (Revised) | \$ 1,615.9 |
| Price Growth | 40.2 |
| Productivity | -28.0 |
| Program Change | -7.0 |
| Other | <u>-6.7</u> |
| FY 2002 President's Budget | \$ 1,614.4 |

Costs by Output Category (Dollars in Millions):

| | <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> |
|--|-----------------------|-----------------------|-----------------------|
| Civilian Pay Accounts Maintained | \$51.2 | \$49.1 | \$48.9 |
| Active Military Pay Accounts Maintained | 141.3 | 148.3 | 149.1 |
| Military Pay Incremental | 54.5 | 54.1 | 53.3 |
| Retired Military Pay Accounts Maintained | 60.6 | 68.9 | 64.7 |
| Reserve Military Pay Accounts Maintained | 41.2 | 47.9 | 44.1 |
| Contract Payments – MOCAS | 106.0 | 102.1 | 105.0 |
| Contract Payments – SAMMS | 18.0 | 16.3 | 16.4 |
| Contract Payments – DECA | 4.7 | 6.1 | 6.1 |
| Travel Vouchers Paid | 72.8 | 64.0 | 65.4 |
| Transportation Bills Paid | 25.8 | 20.7 | 17.3 |
| Commercial Payments | 175.7 | 180.8 | 176.8 |
| Out-Of-Service Debt Cases Managed | 22.8 | 23.7 | 23.8 |
| Direct Billable Hours | 709.9 | 722.3 | 737.5 |
| Accounting and Finance Support to Commissaries | 8.2 | 8.9 | 9.4 |
| FMS Cases Managed | 36.6 | 37.1 | 33.0 |
| Support to Others | 80.0 | 65.6 | 63.6 |
| Total Costs | \$1,609.5 | \$1,615.9 | \$1,614.4 |
| Total Cost Changes (%) | | | |
| Financial Operations | | 0.4% | -0.1% |

DFAS has 16 output categories that 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 costs for our operations migrated to a workcount status.

Workload by Output Category (Units in Millions):

| | <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> |
|--|-----------------------|-----------------------|-----------------------|
| Civilian Pay Accounts Maintained | 18.5 | 17.6 | 17.2 |
| Active Military Pay Accounts Maintained | 17.8 | 17.6 | 17.5 |
| Military Pay Incremental | 5.1 | 5.0 | 5.0 |
| Retired Military Pay Accounts Maintained | 27.5 | 28.0 | 28.5 |
| Reserve Military Pay Accounts Maintained | 10.6 | 10.4 | 10.4 |
| Contract Payments – MOCAS | 1.0 | 1.0 | .9 |
| Contract Payments – SAMMS | 2.2 | 2.1 | 2.1 |
| Contract Payments – DECA | 2.0 | 2.1 | 2.1 |
| Travel Vouchers Paid | 6.6 | 6.3 | 6.3 |
| Transportation Bills Paid | 1.4 | .8 | .7 |
| Commercial Payments | 10.9 | 10.5 | 10.2 |
| Out-Of-Service Debt Cases Managed | 5.2 | 5.1 | 4.3 |
| Direct Billable Hours | 10.1 | 10.1 | 10.0 |
| Accounting and Finance Support to Commissaries | * | * | * |
| FMS Cases Managed | .2 | .2 | .2 |
| Total Units | 119.1 | 116.8 | 115.4 |

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

Overall, the 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. 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 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> |
|------------------------------|-----------------------|-----------------------|-----------------------|
| Revenue | \$ 1,613.9 | \$ 1,699.5 | \$ 1,533.6 |
| Costs | 1,609.5 | 1,615.9 | 1,614.4 |
| Net Operating Results | 4.4 | 83.6 | -80.8 |
| Capital Surcharge | 0.0 | 0.0 | 0.0 |
| Prior Year Results | -39.7 | 4.6 | 138.1 |
| Other Changes Affecting AOR | 39.9 | 49.9 | 0.0 |
| Accumulated Op Results - | 4.6 | 138.1 | 57.3 |

DFAS has aggressively reviewed their Account Payables, resulting in significant prior year AOR adjustments for FY 2000 and FY 2001. The \$138.1 million AOR surplus for FY 2001 is scheduled to be returned in FY 2002 and FY 2003 through reduced rates to their customers.

Changes in the Costs of Operation
Component Group: Defense Finance and Accounting Service
Activity Group: Financial Operations
Date: June 2001
(Dollars in Millions)

| | <u>Expenses</u> |
|---|-----------------|
| FY 2000 Actual | \$1,609.5 |
| FY 2001 Estimated in President's Budget: | 1,599.4 |
| Pricing Adjustments: | |
| Fund Price Changes | 2.8 |
| General Purchase Inflation | 0.8 |
| Productivity Initiatives and Other Efficiencies | |
| Contract Pay | -4.4 |
| Accounting | -4.2 |
| Travel | -12.2 |
| Program Changes: | |
| Rate-Base | |
| Military and Civilian Pay | |
| MEO Restoration | 7.7 |
| Workload Increase | 1.9 |
| DJMS | 1.3 |
| Field Detachment (Navy Mil Pay) | 0.8 |
| Beneficial Mailing | 0.7 |
| Vendor Pay | |
| DPPS Slippage | 16.2 |
| Workload Realignment | 1.0 |
| EC Underexecution | 2.4 |
| Support to Others (Cost Reimbursable) | |
| Overseas Military Banking Contract Transition | 8.4 |
| Southbridge Lease | -5.0 |
| Partnership for Fiscal Integrity | -1.7 |
| FY 2001 Current Estimate: | \$1,615.9 |

Exhibit Fund-2 Changes in the Costs of Operations

| | |
|---|-----------|
| FY 2001 Estimate | \$1,615.9 |
| Pricing Adjustments | |
| Annualization of Prior Year Pay Raises | 8.1 |
| FY 2001 Pay Raise | |
| Military Personnel | 23.2 |
| Civilian Personnel | 1.3 |
| Fund Price Changes | 3.7 |
| General Purchase Inflation | 3.8 |
| Productivity Initiatives and Other Efficiencies | |
| A-76 Savings | -8.0 |
| DPPS Savings | -16.2 |
| Process Improvement | -3.8 |
| Program Changes | |
| Air Force Workload Realignment | 0.5 |
| Transportation Incentives | 0.1 |
| Overseas Military Banking Contract Transition | -8.4 |
| Workload Realignment | 0.8 |
| Other Changes | |
| Depreciation | -8.8 |
| Southbridge Lease | 5.4 |
| Problem Disbursements (Contract) | -1.8 |
| Beneficiary Mailing | -0.7 |
| San Antonio Lease | -0.7 |
| FY 2002 Current Estimate | \$1,614.4 |

Exhibit Fund-2 Changes in the Costs of Operations

FY 2002 President's Budget
Source of Revenue
Component: Defense Finance and Accounting Service
Business Area: Financial Operations
June 2001
(Dollars in Millions)

| | <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> |
|---|----------------|----------------|----------------|
| 1. New Orders | | | |
| a. Orders From DoD Components: | | | |
| Armed Force Radiobiology Research Institute - RDT&E | \$ 0.1 | \$ 0.1 | \$ 0.1 |
| Ballistic Missile Defense Organization - RDT&E | 1.3 | 1.3 | 1.1 |
| Defense Advance Research Projects Agency - RDT&E | 1.1 | 1.6 | 1.4 |
| Defense Agency - O&M | 35.4 | 35.9 | 41.4 |
| Defense Agency - RDT&E | 0.2 | 0.2 | 0.2 |
| Defense Information Systems Agency - O&M | 4.8 | 5.1 | 4.9 |
| Defense Logistics Agency - O&M | 12.6 | 2.4 | 2.2 |
| Defense Technical Information Center - RDT&E | 0.4 | 0.5 | 0.5 |
| Department of the Army - O&M | 561.0 | 600.7 | 522.1 |
| Department of the Air Force - O&M | 276.3 | 303.7 | 285.4 |
| Department of the Navy - O&M | 270.3 | 300.8 | 263.9 |
| Department of the Navy - RDT&E | 3.1 | 2.6 | 2.5 |
| SDA White Sands - RDT&E | 0.1 | 0.1 | 0.1 |
| Tricare Management Activity - O&M | 45.0 | 46.8 | 42.5 |
| United States Marine Corps - O&M | 71.5 | 79.1 | 74.3 |
| b. Orders from Other Fund Business Areas: | | | |
| Air Mobility Command - WCF | 3.6 | 4.7 | 4.7 |
| Department of the Air Force - WCF | 37.6 | 37.1 | 37.5 |
| Department of the Army - WCF | 32.4 | 24.7 | 22.7 |
| Department of the Navy - WCF | 77.4 | 80.3 | 71.8 |
| DFAS Information Services - WCF | 8.1 | 8.5 | 8.6 |
| Defense Agency - WCF | 1.9 | 1.1 | 1.0 |
| Defense Automated Printing Service - WCF | 2.8 | 3.1 | 2.6 |
| Defense Commissary Agency - WCF | 24.5 | 25.0 | 21.3 |
| Defense Information Systems Agency - WCF | 5.9 | 4.5 | 4.4 |
| Defense Information Technology Contracting - WCF | 1.2 | 3.1 | 3.2 |
| Defense Logistics Agency - WCF | 83.9 | 76.8 | 66.7 |
| Military Sealift Command - WCF | 2.8 | 2.1 | 2.2 |
| Military Traffic Management Command - WCF | 6.9 | 6.9 | 6.9 |
| United States Marine Corps - WCF | 2.6 | 3.9 | 3.3 |
| c. Total DoD: | \$ 1,574.8 | \$ 1,662.7 | \$1,499.5 |
| d. Other Orders | | | |
| Non-DoD Activities - WCF | 0.0 | 1.1 | 1.1 |
| TRUST FUND-FMS | \$ 39.1 | \$ 35.7 | \$ 33.0 |
| 2. Total Gross Orders: | \$ 1,613.9 | \$ 1,699.5 | \$1,533.6 |
| 3. Change to Backlog: | | | |
| 4. Total Gross Sales: | \$ 1,613.9 | \$ 1,699.5 | \$1,533.6 |

Exhibit Fund-11 Source of Revenue
DEFENSE BUSINESS OPERATIONS FUND

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

REVENUE AND EXPENSES
(Dollars in Millions)

| | <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> |
|---|----------------|----------------|----------------|
| Revenue | | | |
| Gross Sales | | | |
| Operations | 1,432.5 | 1,511.1 | 1,359.4 |
| Capital Surcharge | | | |
| Depr excl Major Constr | 181.4 | 188.4 | 174.2 |
| Major Constr Depr | | | |
| Other Income | | | |
| Refunds/Discounts (-) | | | |
| Total Income | 1,613.9 | 1,699.5 | 1,533.6 |
| Expenses | | | |
| Cost of Material Sold from Inventory | | | |
| Salaries and Wages: | | | |
| Military Personnel Compensation & Benefits | 45.7 | 45.0 | 41.7 |
| Civilian Personnel Compensation & Benefits | 846.6 | 843.1 | 849.6 |
| Travel & Transportation of Personnel | 20.1 | 24.8 | 26.1 |
| Materials & Supplies (For internal Operations) | 16.2 | 15.8 | 15.6 |
| Equipment | 26.6 | 14.1 | 16.2 |
| Other Purchases from Revolving Funds | 241.8 | 220.4 | 235.4 |
| Transportation of Things | 1.4 | 1.7 | 1.4 |
| Depreciation – Capital | 181.4 | 188.4 | 174.2 |
| Printing and Reproduction | 16.8 | 15.0 | 13.7 |
| Advisory & Assistance Services | 8.5 | 2.7 | 2.9 |
| Rent, Communication, Utility, & Misc. Charges | 53.7 | 67.8 | 69.7 |
| Other Purchased Services | 150.7 | 177.1 | 167.9 |
| Total Expenses | 1609.5 | 1615.9 | 1614.4 |
| Operating Result | 4.4 | 83.6 | -80.8 |
| Less Capital Surcharge Reservation | | | |
| Plus Passthroughs or Other Appropriations Affecting NOR | | | |
| Other Adjustments Affecting NOR | | | |
| Net Operating Result | 4.4 | 83.6 | -80.8 |
| Other Changes Affecting AOR | 0.2 | 49.9 | 0.0 |
| Accumulated Operating Result | 4.6 | 138.1 | 57.3 |

Exhibit Fund – 14 Revenue and Expenses