

**Defense Logistics Agency
Defense Wide Working Capital Fund (DWWCF)
Document Automation and Production Service
Fiscal Year (FY) 2003 Budget Estimates**

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 (20.2 percent), Navy (27.2 percent), Marine Corps (3 percent), Air Force (18.1 percent), Defense Agencies (22.8 percent) and non-DoD customers (8.7 percent).

BUDGET HIGHLIGHTS

SPECIAL INTEREST ITEMS:

DAPS continues to make every effort to streamline its operations and make process improvements to reduce costs. Since becoming the Department's manager for printing and duplication in 1992, DAPS closed or consolidated approximately 200 printing facilities

A recent process improvement, involves the use of the DAPS "merchant status". This allows DAPS 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 2001, over \$129 million in products and services were purchased using IMPAC cards.

In addition to streamlining operations, DAPS has increased its customer base. 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 was projected to have annual operating savings in FY 2001 of \$70 thousand and \$120 thousand in both FY 2002 and FY 2003.

In FY 2001 DAPS established a memorandum of agreement (MOA) with the department of the Navy, to act as the issuing agent for the Smart /Common Access Card Program. DAPS will provide this service for afloat and ashore units to include Active Duty, Selected Service Reservists, and Civilians. DAPS received initial funding of \$0.6 million from the Department of the Navy.

DAPS signed an MOA with the National Institute of Health (NIH) to provide digital print document conversion services for NIH grant applications. Implementation is in two phases, phase 1 began in March 2001, and the second phase will begin in March of 2002. When fully implemented, DAPS will receive additional annual revenue in excess of \$2.5 million. DAPS received revenue of \$0.6 million in FY 2001. DAPS anticipates receiving \$1.9 million in FY 2002 and after full implementation, \$2.5 million in FY 2003.

DAPS will provide an Enterprise Document Management System to the Defense Distribution Center (DDC). The project will support 21 DDC centers. The system assists customers in records requirements, including conversion to digital format, data storage, and data access. The system will improve document retrieval, automate indexing for shipping and receiving and provides a single digital format, and central database. Implementation will begin in FY 2002.

PERFORMANCE INDICATORS: DAPS has four 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. Although the actual production of 61.3 million pages fell short by 9 percent of the goal of 68.0 million pages converted, it still represented an increase of 32.7 percent from FY 2000.

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 2001 reflected DAPS exceeded their goal of 93 percent customer satisfaction. The actual customer satisfaction was 94 percent.

3) 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 2001, DAPS bettered their goal of 0.42 percent. The actual was 0.36 percent.

4) Discrepancy Reports: This metric is the percentage of GPO orders that receive a Notice of Quality Defects Noncompliance Change Report or an unsatisfactory GPO customer survey result. 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). The FY 2001 Goal was 2 percent revenue loss due to rework requirement. GPO bettered their goal and achieved an actual of 1.7 percent.

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>FY01 Goal</u>	<u>FY01 Actual</u>
Unit Cost per In-house Production Unit	.0518	.0567

WORKLOAD: DAPS did not achieve its unit cost goal due to the reduction in workload. “Hard copy” pages fell 13 percent from FY 2000 through FY 2001. The hard copy pages are one of the largest unit cost drivers for DAPS. There was an increase in document electronic conversion however this type of workload is more costly than hard copy. While electronic conversion may be more costly for DAPS in the short term, there will be long term cost savings for DoD. 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 2001 increased by 32.7 percent or 20 million pages from FY 2000 to a total of 61.3 million. 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 2001, and projected NOR / AOR for FY 2002 and FY 2003:

(\$ Millions)	FY 01 (Actual)	FY 02	FY 03
NOR	.3	5.6	10.1
Other Appropriations Affecting NOR	.2	-	6.1
Adjusted NOR	.5	-	16.2
Prior Year AOR	(29.6)	(21.8)	(16.2)
Prior Year Adjustment	7.3	-	-
AOR	(21.8)	(16.2)	0.0

DAPS finished FY 2001 with a positive NOR of \$0.3 million against a goal of \$23.1 million. This shortfall is due to lower than planned workload and ultimately lower revenue. Other appropriations affecting NOR, \$0.2 million, was due to the Department receiving congressional funding for increased utility costs. A series of accounting adjustments to reverse outstanding and invalid accounts payable resulted in a prior year AOR adjustment of \$7.3 million. The NOR for FY 2002 is \$5.6 million and for FY 2003, it is \$10.1 million. Other Appropriations affecting NOR, \$6.1 million, is the result of full funding of retiree costs.

Full Funding of Retiree Costs:

To improve the accounting for and make the cost of government programs more visible to the American people, the Administration is proposing to align the full annual budgetary costs of resources used by programs with the budget accounts that fund the programs. To that end, the budget includes a request for a direct appropriation of \$6.1 million for DAPS to fund the full accruing cost of the Civil Service Retirement System and retiree health benefits for civilian employees in the Federal Employee Health Benefit Program. Beginning with the FY 2004 budget, these costs will be built into the rates charged to Working Capital Fund customers. This proposal does not increase the total costs to the Federal government, since these costs were previously funded from a central account.

PERSONNEL: DAPS continues to right size its workforce to reflect changes in workload and facility consolidations. This submission reflects full-time equivalent reductions of 9 percent in FY 2001, 6 percent in FY 2002, and 6 percent in FY 2003. These full-time equivalent reductions will continue in an effort to align the workforce with workload.

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 has been prudent in making capital investments. Only those investments that are absolutely required for the short term and investments where payback/savings are optimal are being executed.

The FY 2001 capital execution was \$4.7 million. FY 2002 capital budget has an overall increase above the FY 2001 capital budget of \$4.5 million. This is primarily due to an increase in Automated Data Processing (ADP) replacement requirements and a Software Development (SWD) project reprogrammed from the Defense Distribution Center. The FY 2003 capital budget has an overall increase above the FY 2002 capital budget of \$2.2 million. The primary reason for the increase is to replace worn out and obsolete production/printing equipment in the Non-ADP category. The ADP category increase is for an Enterprise Document Management System to assist DAPS' customers in records requirements, including conversion to digital format, data storage, and data access. Also in the ADP category, the digital conversion project in support of the Defense Center is ongoing during FY 2003. IAW DoD DIR. 5330.3, DAPS is the preferred provider of document conversion and/or automation services in the Department of Defense.

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 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Cost of Goods Sold	389.9	394.4	406.3
Pass through/Other Appropriations	.2		6.1
Prior Year Adjustment Affecting AOR	7.3		
Net Operating Results	.5	5.6	10.1
Accumulated Operating Results	(21.8)	(16.2)	0.0
Workload			
In-House Production (Units)	3215.3	3095.2	2971.4
Unit Cost			
In-House Production	0.0567	0.0576	0.0612
Customer Rate	0.0606	0.0596	0.0669
Customer Rate Change	11.5%	(1.9%)	6.2%
Document Conversion	56.9	58.0	59.2
Customer Satisfaction	94.0%	93.0%	93.0%
Rework Requests	0.36%	0.38%	0.36%
Discrepancy reports	1.7%	1.8%	1.6%
Civilian End Strength	1438	1300	1229
Civilian Full-Time Equivalents	1469	1374	1289
Capital Budget Program			
Equipment (Non-ADP)	1.3	1.3	3.8
Equipment (ADP/T)	2.3	5.5	7.2
Software Development	0.2	2.4	0.3
Minor Construction	0.9	0.0	0.0
TOTAL	4.7	9.2	11.3

DEFENSE LOGISTICS AGENCY
 Defense-Wide Working Capital Fund
 Document Automation and Production Service
 Fiscal Year (FY) 2003 Budget Estimates
 Changes in the Cost of Operation
 (\$ in Millions)

	<u>Expenses</u>
FY 01 Actual:	389.9
FY 02 Estimate in President's Budget	398.8
Pricing Adjustments:	
Annualization of FY 01 Pay Raise	(0.1)
FY 01 Pay Raise	0.3
General Purpose Inflation	(0.2)
Program Changes:	
Civilian Personnel	(5.2)
Travel of Persons	(0.2)
Material & Supplies	2.9
Comm'l Equip Purchases	(0.8)
Other Purchases from Revolving Funds	(0.4)
Printing and Reproduction	1.7
Rent, Communications, Utilities, and Misc	(1.7)
Other Purchased Services	0.9
Depreciation	(1.6)
FY 02 Current Estimate	394.4
Pricing Adjustments	
Annualization of Prior Year Pay Raises	0.7
FY 02 Pay Raise	1.3
General Purpose Inflation	4.5
CSRS/FEHB Contributions	6.1
Program Changes:	
Civilian Personnel	(3.5)
Travel of Persons	0.2
Material & Supplies	(1.1)
Comm'l Equip Purchases	0.1
Printing and Reproduction	0.0
Rent, Communications, Utilities, and Misc	0.2
Other Purchased Services	2.3
Transportation of things	0.5
Depreciation	0.6
FY 03 Current Estimate	406.3

DEFENSE LOGISTICS AGENCY
 Defense-Wide Working Capital Fund
 Document Automation and Production Service
 Fiscal Year (FY) 2003 Budget Estimates
 Source of New Orders and revenue
 (\$ in Millions)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
1. New Orders			
a. Orders from DoD Components	255.2	262.7	273.7
Department of the Navy	78.6	80.9	84.2
Operations and Maintenance, Navy	44.8	46.1	48.0
Operations and Maintenance, Marine Corps	9.9	10.2	10.7
O&M, Navy Reserve	0.5	0.5	0.5
O&M, Marine Corps Reserve	0.1	0.1	0.1
Aircraft Procurement, Navy	0.0	0.0	0.0
Shipbuilding & Conversion, Navy	2.7	2.8	2.9
Research, Development, Test & Eval, Navy	0.4	0.4	0.4
Military Construction, Navy	0.0	0.0	0.0
Other Navy Appropriations	0.1	0.1	0.1
Credit Card Purchases, Navy	20.0	20.6	21.5
Department of the Army	72.8	75.0	78.1
Army Operation and Maintenance	18.8	19.4	20.2
O&M, Army Reserve	1.4	1.4	1.5
Army National Guard	1.7	1.7	1.8
Army Res, Dev, Test & Eval Accounts	1.2	1.2	1.3
Army Procurement Accounts	0.3	0.3	0.3
Army Other	0.9	0.9	1.0
Credit Card Purchases, Army	48.6	50.0	52.1
Department of the Air Force	66.3	68.2	71.1
Air Force Operation & Maintenance	27.5	28.3	29.5
O&M, Air Force Reserve	1.1	1.1	1.1
Air Force National Guard	1.1	1.1	1.2
Air Force Res, Dev, Test & Eval Accounts	1.6	1.6	1.7
Air Force Procurement Accounts	1.8	1.9	1.9
Air Force Other	0.1	0.1	0.1
Credit Card Purchases, Air Force	33.2	34.2	35.6
DoD Appropriated Accounts	37.5	38.6	40.2
Operation & Maintenance Accounts	8.7	9.0	9.3
Res, Dev, Test & Eval Accounts	1.5	1.6	1.6
Procurement Accounts	0.9	0.9	0.9
Military Construction, Defense	0.0	0.0	0.0
Defense Health Program	10.0	10.2	10.7
DoD Other	0.7	0.7	0.8
Credit Card Purchases, Defense	15.7	16.2	16.9
b. Orders from other Fund Activity Groups	101.8	104.8	109.2
c. Total DoD	357.0	367.4	382.8
d. Other Orders	32.3	33.3	34.7
Other Federal Agencies	25.7	26.4	27.5
Credit Card Purchases	4.3	4.5	4.7
Non-Federal Agencies and Other	2.3	2.4	2.5
Total New Orders	389.3	400.7	417.5
2. Carry-In Orders	27.0	26.0	26.7
3. Total Gross Orders	416.3	426.7	444.2
4. Funded Carry-Over	26.0	26.7	27.8
5. Total Gross Sales	390.2	400.0	416.4

DEFENSE LOGISTICS AGENCY
 Defense-Wide Working Capital Fund
 Document Automation and Production Service
 Fiscal Year (FY) 2003 Budget Estimates
 Revenue and Expenses
 (\$ in Millions)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Revenue			
Gross Sales	390.2	400.0	416.4
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:	390.2	400.0	416.4
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	71.8	71.8	76.4
Travel & Transportation of Personnel	2.0	1.9	2.1
Materials & Supplies (For Internal Operations)	30.8	28.1	27.5
Equipment	1.5	2.0	2.1
Other Purchases from Revolving Funds	2.7	2.7	2.6
Transportation of Things	1.0	1.1	1.6
Depreciation - Capital	4.2	3.5	4.1
Printing and Reproduction	189.8	206.0	209.1
Advisory and Assistance Services	0.7	0.0	0.0
Rent, Communications, Utilities, & Misc. Charges	20.7	19.9	20.3
Other Purchased Services	64.8	57.5	60.6
Total Expenses:	389.9	394.4	406.3
Operating Result	0.3	5.6	10.1
Less Capital Surcharge Reservation			
Plus Passthroughs/Other Appropriations Affecting NOR	0.2		6.1
Net Operating Result	0.5	5.6	16.2
Prior Year Adjustments	7.3		
Prior Year AOR	(29.6)	(21.8)	(16.2)
Accumulated Operating Result	(21.8)	(16.2)	0.0
Non-Recoverable Adjustment Impacting AOR:			
Surcharge Prohibition	0.0		
Accumulated Operating Results for Budget Purposes	(21.8)	(16.2)	0.0

Exhibit Fund-14 Revenue and Expenses