

# 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 worldwide Department of Defense (DoD) customers. Our worldwide capabilities support our Armed Forces in garrison, afloat, and in the field, as well as their families at home.

In support of our mission “To provide responsive, professional finance and accounting services to those who defend America”, the leadership and employees of the DFAS community have adopted a vision to provide the best value and become the following:

World-class provider of finance and accounting services

A trusted, innovative financial partner

One organization with one identity

An employer of choice, providing a progressive and professional work environment

This vision emphasizes our commitment to the men and women of the Armed Forces who depend on us for financial services. Our roadmap for financial reform, improved service, and reduced costs is producing results. A customer-focused vision ensures continuous improvement and a partnership approach to long-lasting reform within DoD.

In Fiscal Year (FY) 2001, DFAS took major strides toward achieving true financial management reform. We once again received an “unqualified opinion” on its financial statements. Costs were reduced \$68 million below the FY 2001 President’s Budget program reflecting our commitment to best value and high quality service. We are a strategy-based organization and use balanced scorecards to measure our progress in meeting our strategy and to ensure everyone is working to make our vision a reality. DFAS completed its realignment to business and product lines to enhance customer communication and support and made its Senior Executives directly responsible for working with customers on cost control and revenue collection. This change has enabled DFAS to progressively improve internal operations, implement best business practices across business lines, and reduce costs to our customers.

DFAS made significant accomplishments in the following areas:

- Developed a financial management guide to standardize Agency financial management practices and increased the role of our Internal Review organization in evaluating financial management.

- Provided the means to make on-line changes to 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.
- Provided the accounting support to the Military Retirement Funds that received their 8<sup>th</sup> consecutive unqualified audit opinion.
- Provided the accounting support to the Defense Contract Audit Agency (DCAA) and the Defense Commissary Agency (DeCa) directly contributing to their achieving favorable audit opinions on their FY 2001 financial statements.
- Provided technical guidance and support to the Department of Defense Internal Use Software Working Group to facilitate DoD-wide implementation of the new Federal Accounting Standards Board criteria.
- Dedicated \$17 million for centralized training and professional development of our employees to ensure they are all well-trained professionals in this increasing high technology environment.

DFAS is committed to accomplishing its vision while using less resources. Customer bills for Financial Operations will drop 7 percent after price growth. DFAS civilian and military workyears are programmed to drop 10 percent from about 17,800 to 16,000 workyears. We will ensure that sufficient staff remains available to meet the customer demands as we transition to new ways of doing business. To accomplish this, we will continue to monitor and control new hires and extend separation incentives to minimize the impact of our re-engineering efforts.

We will accomplish increased efficiencies through aggressively streamlining current practices, eliminating unnecessary overhead, adopting private sector business models, and monitoring performance through defined metrics. Our strategy will focus on three major areas: pursuit of competitive sourcing, adoption of best business practices, and modernization of automated financial systems.

DFAS has identified 83% of all positions as subject to study for competition. To date, six competitions have been completed covering about 2,000 positions with identified annual savings of over \$28 million. Our budget supports an aggressive study program that will generate significant dollar and workyear savings. We have established procedures to streamline the process, reduce the competition time, and increase oversight and involvement by our business partners.

Increased efficiency will also be achieved by overhauling our business practices. Our analyses of end-to-end processes will enable us to reduce costly transaction rework. We will continue to promote the paperless exchange of financial information by leveraging technologies such as electric commerce and electronic document management (EDM). EDM currently processes 148,000 garnishment orders each year while the DFAS garnishment system allows on-line transmittal of the state and local garnishment orders.

We have successfully implemented the use of the worldwide web-based Employee/Member Self-Service that allows individuals to view their pay statements and make changes on-line. With the establishment of an incentive billing rate in FY 2003, we expect increased use of the system DoD-wide.

We will continue to implement our modernization strategy to replace existing automated systems with a standard suite of integrated, efficient systems. System development and deployment will take place within and mesh with the requirements of the DoD financial management modernization effort. Multiple disbursing, military pay, vendor pay systems are being replaced by single systems which support DoD-wide customers in each business line. Deployment of systems such as the Defense Procurement Payment System and the pay module of the Defense Integrated Military Human Resources System will reduce both system operating costs and personnel while streamlining and modernizing the business management practices. Accounting systems are being standardized and reduced to a core number necessary to support DoD-wide applications. This standard infrastructure creates a shared, integrated operating environment that is compliant with the DoD Joint Technical Architecture.

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.

## **DFAS MAJOR ACTIVITIES AND LOCATIONS**

## **Financial Operations Business Area:**

<b><u>Business Line</u></b>	<b><u>Location</u></b>
Corporate Elements/Support	Arlington, Virginia
Military & Civilian Pay Services	Kansas City, Missouri
Commercial Pay Services	Columbus, Ohio
Accounting – Air Force	Denver, Colorado
Accounting - Army	Indianapolis, Indiana
Accounting – Navy	Cleveland, Ohio
Accounting – Marine Corps	Kansas City, Missouri
Accounting – Defense Agencies	Columbus, Ohio

## **Information Services Business Area:**

<b><u>Activity</u></b>	<b><u>Location</u></b>
Technical Services Organization	Indianapolis, Indiana

## **OPERATIONS BUDGET BY ACTIVITY GROUP**

### **Financial Operations Budget Activity Group:**

The Financial Operations business area is composed of three major business lines: Military and Civilian Pay Services, Commercial Pay Services, and Accounting Services. In addition to these components, DFAS is also responsible for safeguarding U. S funds through delivery of payments and receipt of collections, providing prompt, accurate and timely disbursing service, and reporting Disbursing Officer accountability to the Department of the Treasury.

- **Military and Civilian Pay Services Business Line** is charged with providing timely and accurate pay services to active-duty military members, reservists, National Guard members, civilian personnel, retirees, and annuitants. It is responsible for debt and claims management, garnishments, and certain bankruptcies (e.g., Chapter 13), and responsive, quality travel services. Its focus is strengthening client/customer partnerships, meeting the challenges of outside competitors, integrating customer input into operations, and offering value enhanced services to customers.
- **Commercial Pay Services Business Line** provides payments for most commercial invoices and payments to DoD contractors that provide businesses and services to DoD components (Services and Agencies). The Commercial Pay Services Business Line is split into three different payment operations: Contract Pay, Vendor Pay, and Transportation Pay.

- **Accounting Services Business Line** provides budgetary and proprietary accounting support for all DoD Military Department and Defense Agencies with a goal of providing accurate and timely financial statements with the requisite information to assist senior managers in making resource related decisions.

The following table identifies costs, revenue, and workforce data for FY 2001 through FY 2003:

**Dollars in Millions**

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
<b>Costs</b>	<b>\$1,547.8</b>	<b>\$1,566.0</b>	<b>\$1,561.8</b>
<b>Revenue</b>	<b>\$1,683.3</b>	<b>\$1,513.8</b>	<b>\$1,467.2</b>

**Personnel:**

Civilian End Strength	15,261	14,084	13,292
Civilian Workyears	15,406	14,560	13,585
Military End Strength/Workyears	1,101	1,160	1,113

**FY 2001 Budget to FY 2001 Actual:** In FY 2001, 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 2002 President's Budget to FY 2002 Current Estimate:** DFAS has driven down costs by \$48.4 million or 3 per cent from the FY 2002 President's Budget estimate of \$1,614.4 million to the current estimate of \$1,566.0 million. This decrease is driven primarily by a reduction in projected workyears. Workyears are programmed to decline an additional 740 workyears (net of those moving from in-house to contractor status due to competitive sourcing actions) over those projected in the President's Budget.

This decrease will be accomplished by three measures: competitive sourcing, implementation of best business practices, and targeted reductions in support areas. DFAS has undergone competitive sourcing in several areas, such as security assistance accounting and retired and annuitant pay. While just beginning, these efforts will generate some workyear savings in FY 2002. In FY 2001, DFAS realigned itself into business line functions to increase customer support. Shifting from a geographic to a business group focus has increased opportunities to implement the best corporate business practices. Using best practices will eliminate duplications and streamline processes while generating workyear savings. Similarly, the centralization of support services as a business line will allow the targeting of these functions for resizing and workyear reduction.

Reduced workyears will translate into further reductions in associated supplies and equipment costs. Costs for support service activities such as equipment maintenance and base operations have been similarly resized and reduced. Finally, depreciation costs decline reflecting the following: the mandated change from a five-year to a ten-year useful asset life, reduced capital investment accounts payable resulting from an in-house intensive review, and an increase in the number of older assets reaching a fully depreciated status.

These decreases are offset by the increase in civilian and military pay raise rates. Additionally, DFAS will incur transition costs, such as separation incentives, associated with moving the retired and annuitant pay function from a government staffed to contractor-run operation. Information management costs increase primarily for data processing on mid-tier computer platforms to support transition to standard system deployment and customer management information applications. They also increase for desktop computer upgrades to posture DFAS for electronic signature capability.

**FY 2002 Current Estimate to FY 2003 Current Estimate:** Overall, costs remain relatively stable during the period of FY 2002 to FY 2003, decreasing slightly from \$1,566.0 million in FY 2002 to \$1,561.8 million in FY 2003. However, the FY 2003 estimate contains \$112.0 million in price growth costs and criteria changes that mask the actual reductions. When price growth is excluded, DFAS has programmed almost 7.5 per cent in cost reductions for FY 2003. The largest portion of this price growth (\$55.0 million) is associated with DFAS' absorption of the full Government share of accrued retirement costs of current Civil Service Retirement System employees and the accrued health care costs of all future civilian retirees. The remaining portion is primarily approved pay raise and non-labor price growth costs. It also includes a cost increase due to the adoption of Federal Accounting Standards Board changes that recategorized some system development requirements as operating costs.

The FY 2003 program also has considerable reductions including \$70 million in productivity enhancements. As was the case in FY 2002, these reductions result from workyear reductions due to three initiatives: competitive sourcing, implementation of best corporate business practices and targeted reductions in support service functions. Competitive outsourcing savings will come from existing competitive outsourcing efforts. Similarly, the savings from best business practices and targeted support services reductions will continue to flow from the realignment of DFAS into a business line structure with centralized support services. These organizational changes will ensure increased operational synergies that will eliminate duplications, streamline functions and generate savings.

Costs will also decline due to several other factors. Information management costs decline as DFAS absorbs rate increases for software maintenance. This approach is consistent with DFAS' efforts to minimize costs for aging, legacy systems as they are replaced by standard systems. The completion of the transition of the retired and annuitant pay function to a contractor operation will eliminate the need for separation incentives and other transition costs. Base operations costs decline for printing and postage as DFAS continues to move into a paperless environment. Finally, depreciation

costs continue to decline because of the mandated change from a five-year to a ten-year useful asset life and an increase in the number of older assets reaching a fully depreciated status.

**FY 2002 President's Budget FY 2002 (Revised):**

	<b>\$ in Millions</b>
<b>FY 2002 President's Budget</b>	<b>\$ 1,614.4</b>
Price Adjustments	8.7
Program Change	-29.1
Other Changes	-28.0
<b>FY 2002 Program (Revised)</b>	<b>\$ 1,566.0</b>

**FY 2002 (Revised) to FY 2003:**

	<b>\$ in Millions</b>
<b>FY 2002 Revised President's Budget</b>	<b>\$ 1,566.0</b>
Price Adjustments	41.1
CSRS/FEHB/Fuel Subsidy	55.0
Productivity	-70.0
Program Change/Other Changes	-30.3
<b>FY 2003 Program (Revised)</b>	<b>\$ 1,561.8</b>

**Costs by Output Category (Dollars in Millions):**

	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>
Civilian Pay Accounts Maintained	\$ 49.1	\$ 47.9	\$ 45.3
Active Military Pay Accounts Maintained	138.2	130.7	135.2
Military Pay Incremental	48.9	44.7	43.0
Retired Military Pay Accounts Maintained	68.5	69.9	64.1
Reserve Military Pay Accounts Maintained	49.9	41.1	40.8
Contract Payments – MOCAS	98.6	91.7	88.9
Contract Payments – SAMMS	19.8	18.4	17.1
Contract Payments – DECA	6.1	7.7	7.6
Travel Vouchers Paid	66.6	62.1	58.2
Transportation Bills Paid	19.5	14.4	-0-
Commercial Payments	166.7	175.1	178.0
Out-Of-Service Debt Cases Managed	24.2	24.9	24.2
Direct Billable Hours	701.3	752.8	713.5
Accounting and Finance Support to Commissaries	8.9	8.6	8.5
FMS Cases Managed	35.0	32.7	31.9
Support to Others	46.5	43.3	50.5
CSRS Retirement/FEHB			55.0
<b>Total Costs</b>	<b>\$1,547.8</b>	<b>\$1,566.0</b>	<b>\$1,561.8</b>

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 2003, the CSRS and FEHB increases will be treated as cost reimbursables.

**Workload by Output Category (Units in Millions):**

	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>
Civilian Pay Accounts Maintained	17.6	17.3	17.1
Active Military Pay Accounts Maintained	17.9	17.7	17.7
Military Pay Incremental	5.1	5.1	5.1
Retired Military Pay Accounts Maintained	27.9	28.3	28.3
Reserve Military Pay Accounts Maintained	10.8	10.7	10.7
Contract Payments – MOCAS	.9	.9	1.5
Contract Payments – SAMMS	2.5	2.5	2.7
Contract Payments – DECA	2.1	2.0	2.0
Travel Vouchers Paid	6.9	6.8	6.8
Transportation Bills Paid	.8	.8	0
Commercial Payments	10.6	10.0	10.7
Out-Of-Service Debt Cases Managed	5.2	4.1	3.3
Direct Billable Hours	10.0	9.8	9.5
Accounting and Finance Support to Commissaries	*	*	*
FMS Cases Managed	.2	.2	.2

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

In general, the DFAS workload continues to decline in consonance with projected customer dollar and personnel resources. The exception is Retired Pay in FY 2002 that shows a slight growth annually as more military personnel retire. MOCAS workload increases in FY 2003 when we begin using lines of accounting as the workcount versus vouchers paid. Commercial Payments increases in FY 2003 due to the shift in workload from Transportation Bills Paid to Commercial Payments.

**Operating Results:**

	<b>Dollars in Millions</b>		
	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>
Revenue	\$ 1,683.3	\$ 1,513.8	\$ 1,467.2
Costs	1,547.8	1,566.0	1,561.8
<b>Net Operating Results</b>	<b>135.5</b>	<b>-52.2</b>	<b>-94.6</b>
Capital Surcharge	0.0	0.0	0.0
Prior Year Results	4.6	235.1	182.9
Other Changes Affecting AOR	95.0	0	-70.0
Accumulated Op Results	235.1	182.9	18.3



DFAS aggressively reduced costs in FY 2001. This resulted in a significant increase in the actual net operating results over those projected in the FY 2002 President's Budget. An aggressive review of accounts payable resulted in significant adjustments of outstanding payables. The combination of these two factors significantly increased the FY 2001 net operating results over projections. Continued cost control in FY 2002 will result in costs \$48.8 million below the FY 2002 President's Budget projection and an operating loss 35 percent less than projected in the FY 2002 President's Budget. Costs in FY 2003 remain constant with the FY 2002 level due to the price increase associated with the full government share of Civil Service Retirement costs and the accrued health care costs of future health retirees. A prior year adjustment is required in FY 2003 to bring costs in line with the change in capital criteria mandated by the Federal Accounting Standards Board. The changes moved the source of some automated information system development costs from investment to operations.

FY 2003 Budget Estimates  
 Source of Revenue  
 Component: Defense Finance and Accounting Service  
 Business Area: Financial Operations  
 Date: February 2002  
 (Dollars in Millions)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
1. New Orders *			
a. Orders from DoD Components:			
Armed Forces Information Service - O&M	\$ 1.2	\$ 0.9	\$ 0.8
Ballistic Missile Defense Organization - RDT&E	1.7	1.2	1.1
Defense Advance Research Projects Agency - RDT&E	3.1	2.5	2.3
Defense Contract Audit Agency - O&M	3.2	3.5	3.2
Defense Contract Management Activity - O&M	5.8	4.9	4.3
Defense Education Activity - O&M	5.8	6.1	4.8
Defense Health Program - O&M	50.4	43.2	39.8
Defense Information Systems Agency - O&M	3.8	4.7	4.6
Defense Automated Printing Service - O&M	3.9	3.1	2.4
Defense Intelligence Agency - O&M	0.6	0.5	0.5
Defense Logistics Agency - O&M	2.8	2.8	2.7
Defense Threat Reduction Agency - O&M	2.0	1.4	1.3
Defense Threat Reduction Agency - RDT&E	0.2	0.1	0.1
Department of the Air Force - O&M	295.0	270.9	240.9
Department of the Army - O&M	586.1	522.0	477.8
Department of the Army - RDT&E	1.0	0.8	0.7
Department of the Navy - O&M	295.0	263.0	248.1
Department of the Navy - RDT&E	6.5	3.3	2.9
National Imagery and Mapping Agency - O&M	1.8	1.5	1.4
National Security Agency - O&M	0.4	0.6	0.3
Office of the Joint Chief Staffs	1.1	0.8	0.7
Office of Inspector General - O&M	2.8	0.7	0.7
Office of the Secretary of Defense - O&M	-	4.4	4.1
Office of the Secretary of Defense - RDT&E	-	0.6	0.5
United States Marine Corps - O&M	83.3	75.5	74.5
Washington Headquarters Service - O&M	2.4	1.9	18.5
b. Orders from Other Fund Activity groups			
Army Depot Maint - Other - WCF	\$ 13.2	\$ 12.9	\$ 11.7
Army Depot Maintenance Ordnance - WCF	3.1	3.1	2.6
Army Information Services - WCF	1.5	1.5	1.3
Army Supply Mgmt - WCF	9.6	8.1	7.8
DeCA Commissary Operation - WCF	26.3	24.5	23.5
Department of the Air Force - WCF	39.0	35.9	33.0
Department of Navy Depot Maintenance - Aviation - WCF	6.6	6.2	5.3
Department of Navy Depot Maintenance - Shipyards - WCF	6.0	7.4	6.4
Department of Navy Supply Mgmt - WCF	6.0	6.3	5.4
Dept of Navy Base Support - WCF	7.7	3.1	2.8
Dept of Navy Depot Maintenance - Ordnance - WCF	0.2	0.1	0.1
Dept of Navy Depot Maintenance - Other (MC) - WCF	3.5	-	-
Dept of Navy Information Services - WCF	2.5	2.7	2.4
Dept of Navy Research & Development Activities - WCF	40.0	36.9	32.4
Dept of Navy Transportation - WCF	15.0	15.2	13.2
DFAS Financial Operations - WCF	4.9	5.0	4.6
DFAS Information Services - WCF	6.5	5.9	4.2
Defense Logistics Agency - WCF	4.5	3.8	7.2
DLA Distribution Depots - WCF	5.5	6.5	5.3
DLA Printing & Publication Service - WCF	2.8	2.7	2.4
DLA Reutilization & Marketing Service - WCF	7.3	6.7	6.4
DLA Supply Management - Energy - WCF	9.3	9.4	9.4
DLA Supply Management - Non Energy - WCF	51.5	38.2	37.0
DSS Defense Security Service - Reimb - WCF	1.0	0.9	0.8
TRANSCOM Transportation - WCF	11.4	13.9	13.8
c. Total DoD:	\$ 1,644.8	\$ 1,477.8	\$ 1,378.0
d. Other Orders			
Foreign Military Sales - Trust Fund	37.7	34.4	33.4
Other Federal Agencies	0.8	1.2	0.8
e. Direct Appropriation-CSRS/FEHB			
Fuel Subsidy		0.4	55.0
Total New Orders	\$ 1,683.3	\$ 1,513.8	\$ 1,467.2
2. Carry-In Orders	\$ -	\$ -	\$ -
3. Total Gross Orders	\$ 1,683.3	\$ 1,513.8	\$ 1,467.2
4. Revenue	\$ 1,683.3	\$ 1,513.8	\$ 1,467.2

\*Includes FASAB-10

Changes in the Costs of Operation  
Component Group: Defense Finance and Accounting Service  
Activity Group: Financial Operations  
Date: February 2002  
(Dollars in Millions)

	<u>Expenses</u>
FY 2001 Actual	\$1,547.8
FY 2002 Estimated in President's Budget:	1,614.4
Pricing Adjustments:	
FY 2002 Pay Raise	
Civilian	8.5
Military	0.2
Fuel Price Adjustment	0.4
Program Changes:	
Workyear Phasedown	-27.8
Support Services	-19.8
Information Management	9.3
Retired & Annuitant Pay Contract Transition	9.2
Other Changes:	
Depreciation	-28.4
FY 2002 Revised Estimate:	\$1,566.0
Pricing Adjustments	
Annualization of Prior Year Pay Raises	9.6
FY 2002 Pay Raise	
Military Personnel	1.3
Civilian Personnel	15.6
Fund Price Changes	10.3
General Purchase Inflation	4.3
Health Benefits/Retirement	55.0
Productivity Initiatives and Other Efficiencies	
A-76 Savings	-6.6
Overhead Reduction	-14.9
Process Improvement	-48.5
Program Changes	
Information Management	-16.2
Retired & Annuitant Pay Contract Transition	-9.2
Base Operations	-3.5
Other Changes	
Depreciation	-17.3
Change in Capital Criteria	15.9
FY 2003 Estimate	\$1,561.8

Fiscal Year (FY) 2003 Budget Estimates  
Revenue and Expenses  
Component: Defense Finance and Accounting Service  
Business Area: Financial Operations  
February 2002  
(Dollars in Millions)

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Revenue			
Gross Sales			
Operations	1,526.7	1,368.0	1,283.7
Capital Surcharge			
Depr excl Major Constr	156.6	145.8	128.5
Major Constr Depr			
Other Income			55.0
Refunds/Discounts (-)			
Total Income	1,683.3	1,513.8	1,467.2
Expenses			
Cost of Material Sold from Inventory			
Salaries and Wages:			
Military Personnel Compensation & Benefits	45.0	41.9	40.1
Civilian Personnel Compensation & Benefits	820.0	806.5	821.8
Travel & Transportation of Personnel	21.4	20.6	20.4
Materials & Supplies (For internal Operations)	13.8	13.4	12.8
Equipment	12.1	8.4	6.4
Other Purchases from Revolving Funds	249.2	260.0	255.5
Transportation of Things	2.0	1.6	1.3
Depreciation – Capital	156.6	145.8	128.5
Printing and Reproduction	.7	.7	.7
Advisory & Assistance Services	2.3	1.7	1.6
Rent, Communication, Utility, & Misc. Charges	49.0	48.5	45.6
Other Purchased Services	175.7	216.9	227.1
Total Expenses	1,547.8	1,566.0	1,561.8
Operating Result	135.5	-52.2	-94.6
Less Capital Surcharge Reservation			
Plus Passthroughs or Other Appropriations Affecting NOR			
Other Adjustments Affecting NOR			
Net Operating Result	135.5	-52.2	-94.6
PY AOR	4.6	235.1	182.9
Other Changes Affecting AOR	95.0	0.0	-70.0
Accumulated Operating Result	235.1	182.9	18.3

### **Information Services Budget Activity Group:**

The Information Services Budget Activity provides for the operation of DFAS's Technology Services Organization (TSO) responsible for software development and maintenance services. This fee-for-service Central Design Activity's primary customer is the DFAS Financial Operation's budget activity, which buys software development and maintenance services from the TSO using a stabilized Direct Billable Hour (DBH) rate. Additionally, the CDA also provides other Information Technology (IT) technical support charged on a cost reimbursable basis.

DFAS's Information Services Budget Activity operates at seven geographical sites located in Denver, Colorado; Kansas City, Kansas; Indianapolis, Indiana; Columbus, Ohio; Cleveland, Ohio; Pensacola, Florida; and 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:

<b><u>Personnel</u></b>	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>
Civilian End Strength	1,256	1,264	1,256
Civilian Workyears	1,225	1,260	1,260
Military End Strength	51	77	69
<b>Total Cost \$M</b>	<b>\$225.2</b>	<b>\$204.0</b>	<b>\$190.0</b>

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% of the Activity's work effort is provided by contract support.

### **FY 2002 President's Budget to FY 2002 Current Estimate:**

The workload change identified in the submission reflects the guidance of the Financial Modernization Management Program (FMMP) and the DFAS migration strategy. This decrease in contract cost from the President's Budget is partially offset by overhead savings.

## **FY 2002 Current Estimate to FY 2003 Estimate:**

Customer demand for Direct Billable Hour support will decrease in FY 2003. Reductions in our contractor augmentation and a relatively minor decrease in our in-house workforce offset this workload change. These factors combine to reduce the total cost program of the Budget Activity.

### **Costs by Output Category:**

	<b>(\$ in Millions)</b>		
	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>
Direct Billable Hours	\$167.4	\$163.9	\$150.5
Support To Others	57.8	40.1	39.5
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<b>Total Costs</b>	<b>\$225.2</b>	<b>\$204.0</b>	<b>\$190.0</b>

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 TSO 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:**

	<b>(\$ in Millions)</b>		
	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>
Direct Billable Hours	2.8	2.6	2.3

The Activity works closely with its customers, primarily the DFAS Financial Operations budget activity, to estimate TSO 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 as well as support for high priority work for legacy systems.

### **Operating Results:**

**(\$ in Millions)**

	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>
Revenue	\$217.0	\$199.6	\$202.1
Costs	225.2	204.0	190.0
Net Operating Results (NOR)	(8.2)	(4.4)	12.1
PY AOR Adjustment	.5	(7.7)	(12.1)
Current AOR	(7.7)	(12.1)	0.0

**Economies and Efficiencies:**

The Information Services budget activity has several on-going initiatives to standardize, modernize, and reduce costs in the software development process. The Activity's Software Process Improvement 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 DFAS Corporate Repository is a part of the DFAS Corporate Information Infrastructure (DCII) and will enhance long term efficiency by allowing the sharing of the standard system suite of systems. As they migrate to the DCII environment, the cost of development and maintenance will decline as our inventory of reusable code increases.

**Fiscal Year (FY 2003) Budget Estimates  
Changes in the Costs of Operation  
Defense Finance and Accounting Service  
Information Services  
February 2002  
(Dollars in Millions)**

	<b>Expenses</b>
<b>FY 2001 Actual</b>	<b>\$225.2</b>
<b>FY 2002 Estimated in President's Budget:</b>	<b>\$205.7</b>
<b>Estimated Impact in FY 2002 of Actual FY 2001 Experience:</b>	<b>\$3.5</b>
<b>Pricing Adjustments:</b>	
<b>Annualization of Prior Year Pay Raises</b>	<b>\$0.1</b>
<b>FY 2002 Pay Raise</b>	
<b>Military Personnel</b>	<b>\$2.6</b>
<b>Civilian Personnel</b>	<b>\$0.8</b>
<b>Other Price Changes</b>	<b>\$0.6</b>
<b>Program Changes:</b>	
<b>Decrease in Customer Orders</b>	<b>\$- 9.3</b>
<b>FY 2002 Current Estimate:</b>	<b>\$204.0</b>
<b>Pricing Adjustments:</b>	
<b>Annualization of Prior Year Pay Raises</b>	
<b>FY 2001 Pay Raise</b>	
<b>Military Personnel</b>	<b>\$0.1</b>
<b>Civilian Personnel</b>	<b>\$2.8</b>
<b>Other Price Changes</b>	<b>\$1.5</b>
<b>CSRS/FEHB</b>	<b>\$7.7</b>
<b>Non-Labor Adjustment</b>	<b>(\$0.4)</b>
<b>Productivity Initiatives and Other Efficiencies:</b>	
<b>Software Repository &amp; Developer Tools &amp; CMM Level III</b>	<b>(\$0.8)</b>
<b>Program Changes:</b>	
<b>Decrease in Customer Orders</b>	<b>(\$24.9)</b>
<b>FY 2003 Estimate:</b>	<b>\$190.0</b>



# Fiscal Year (FY) 2003 Budget Estimates

## Source of Revenue

### Defense Finance and Accounting Service

#### Information Services

February 2002

(Dollars in Millions)

	FY 2001	FY 2002	FY 2003
<b>New Orders</b>			
<b>Orders From DoD Components:</b>			
Air Force, O&M	\$1.5	\$1.6	\$1.2
Navy, O&M	\$0.9	\$0.0	\$0.0
Marine Corps, O&M	\$9.4	\$8.9	\$9.0
<b>Orders From Other Fund Business Areas:</b>			
DFAS Financial Operations	\$184.1	\$159.2	\$152.9
Defense Logistics Agency	\$17.5	\$17.9	\$17.7
Air Force, DWCF	\$0.3	\$4.4	\$5.0
Navy, DWCF	\$3.3	\$7.6	\$ 8.6
<b>Total DoD:</b>	<b>\$217.0</b>	<b>\$199.6</b>	<b>\$194.4</b>
<b>Other Orders:</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>CSRS/FEHB (CASH)</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$7.7</b>
<b>Total New Orders</b>	<b>\$217.0</b>	<b>\$199.6</b>	<b>\$202.1</b>
<b>Carry-In Orders:</b>	<b>\$64.5</b>	<b>\$43.2</b>	<b>\$64.5</b>
<b>Total Gross Orders:</b>	<b>\$281.5</b>	<b>\$242.8</b>	<b>\$266.6</b>
<b>Funded Carry-Over</b>	<b>\$43.2</b>	<b>\$64.5</b>	<b>\$64.5</b>
<b>Months of Carry-Over</b>	<b>2</b>	<b>3</b>	<b>3</b>

## Fiscal Year (FY) 2003 Budget Estimates

Revenue and Expenses  
 Defense Finance and Accounting Service  
 Information Services  
 February 2002  
 (Dollars in Millions)

<u>Revenue</u>	FY 2001	FY 2002	FY 2003
Gross Sales			
Operations	212.8	197.0	192.7
Capital Surcharge			
Depreciation Exc Maj Const	4.2	2.6	1.7
Other Income			7.7
Refunds/Discounts(-)			
Total Income:	217.0	199.6	202.1
<u>Expenses</u>			
Cost of Material Sold from Inventory			
Salaries and Wages:			
Military Personnel Comp & Bene	2.4	2.5	2.5
Civilian Personnel Comp & Bene	95.6	104.4	113.1
Travel & Transportation of Personnel	2.3	2.6	2.6
Materials & Supplies (Internal Operations)	1.3	1.3	1.1
Equipment	.6	1.2	1.1
Other Purchases from Revolving Funds	9.5	8.0	7.2
Transportation of Things	0.1	0.1	0.1
Depreciation – Capital	4.2	2.6	1.7
Printing and Reproduction	0.3	0.5	0.4
Advisory and Assistance Service			
Rent, Comm, Utilities, & Misc Charges	2.7	2.9	2.8
Other Purchased Services	106.2	78.4	56.7
Total Expenses	225.2	204.0	190.0
Operating Result	-8.2	-4.4	12.1
Less Capital Surcharge Reservation			
Plus Appropriations Affecting NOR/AOR			
Other Changes Affecting NOR/AOR	2.8		
Net Operating Result	-5.4	-4.4	12.1
Other Changes Affecting AOR			
Prior Year	-2.3	-7.7	-12.1
Accumulated Operating Results	-7.7	-12.1	0.0