

# 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:**

<b><u>Activity</u></b>	<b><u>Location</u></b>
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:**

<b><u>Activity</u></b>	<b><u>Location</u></b>
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:

	<b>Dollars in Millions</b>		
	<u><b>FY 1999</b></u>	<u><b>FY 2000</b></u>	<u><b>FY 2001</b></u>
<b>Costs</b>	<b>\$ 1,621.7</b>	<b>\$1,662.3</b>	<b>\$1,599.4</b>
<b>Revenue</b>	<b>1,568.3</b>	<b>1,670.5</b>	<b>1,630.9</b>

**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:**

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





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:**

	<b>Dollars in Millions</b>		
	<b><u>FY 1999</u></b>	<b><u>FY 2000</u></b>	<b><u>FY 2001</u></b>
Revenue	\$1,568.3	\$1,670.5	\$1,630.9
Costs	1,621.7	1,662.3	1,599.4
<b>Net Operating Results</b>	<b>-53.4</b>	<b>8.2</b>	<b>31.5</b>
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>
<b>Revenue</b>			
<b>Gross Sales</b>			
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			
<b>Other Income</b>			
Refunds/Discounts (-)			
<b>Total Income</b>	1,568.3	1,670.5	1,630.9
<b>Expenses</b>			
Cost of Material Sold from Inventory			
<b>Salaries and Wages:</b>			
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
<b>Total Expenses</b>	1,621.7	1,662.3	1,599.4
<b>Operating Result</b>	-53.4	8.2	31.5
Less Capital Surcharge Reservation			
Plus Passthroughs or Other Appropriations Affecting NOR			
Other Adjustments Affecting NOR			
<b>Net Operating Result</b>	-53.4	8.2	31.5
<b>Other Changes Affecting AOR</b>	13.7	-39.7	-31.5
<b>Accumulated Operating Result</b>	-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>
<b>1. Orders From DoD Components</b>			
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
<b>2. Orders from Other Fund Business Areas:</b>			
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			
<b>3. Total DoD</b>	<b>\$1,530.0</b>	<b>\$1,633.2</b>	<b>1,593.6</b>
<b>4. Other Orders</b>			
TRUST FUND-FMS	38.3	37.3	37.3
<b>5. Total Gross Orders</b>	<b>\$1,568.3</b>	<b>\$1,670.5</b>	<b>1,630.9</b>
<b>6. Change to Backlog</b>			
<b>7. Total Gross Sales</b>	<b>\$1,568.3</b>	<b>\$1,670.5</b>	<b>1,630.9</b>

**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.