

# DEFENSE FINANCE AND ACCOUNTING SERVICE

## OVERVIEW

The people of the Defense Finance and Accounting Service (DFAS) take pride in serving the men and women who defend America. We take our contribution to national defense seriously. We work hard to fulfill the important fiscal responsibilities entrusted to us by the American taxpayers. We ensure the resources they provide are accounted for properly.

DFAS is financed by its customers rather than through direct appropriations. This service-provider relationship with its customers pushes DFAS to seek continuous innovation and improvement in the quality of service it provides. DFAS has steadily reduced its operating costs and has returned these savings to customers in the form of reduced bills.

We are pleased to share our record of accomplishments and our plan of action to achieve the DFAS vision of becoming best value to our customers as:

- A world-class provider of finance and accounting services
- A trusted, innovative financial partner
- One organization, 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.

Last December, the Office of Management and Budget (OMB) designated the Office of Personnel Management (OPM) the managing partner for the e-Payroll initiative. OPM's tasking in this initiative is to consolidate the number of Federal agencies providing payroll service to Federal civilian employees. To accomplish this and insure that the Federal work force receives the best payroll service

available, OPM conducted a competition and gave all interested agencies an opportunity to submit proposals. After a rigorous review process, the DFAS was selected to provide e-Payroll for the Department of Energy, the Veterans Administration, and the Health and Human Services.

The DFAS enterprise is organized to align with customer needs. To ensure each major customer receives dedicated attention, DFAS assigns a client executive to each Military Service and the Defense Agencies to serve as the primary point of contact. Each client executive's main focus is to understand the specific needs of the customer and then to ensure each of our three business lines fulfills that customer's needs.

The DFAS business line executives deliver specific products and services:

- The Military and Civilian Pay Services Business Line Executive manages all aspects of pay to individuals - paychecks, travel reimbursements and garnishments. In Fiscal Year (FY) 2002, DFAS upgraded myPay, a Web-based system that allows customers to manage their pay account information securely and easily from around the world, night or day. DFAS provides in-theater support to our deployed men and women. Support to mobilized service members includes payroll disbursements, check cashing, currency conversion and contracting.
- The Commercial Pay Services Business Line Executive provides payment services to all contractors doing business with the Department of Defense. In FY 2002, DFAS made significant progress in improving management of systems and processes to identify and resolve the reasons for late payments on invoices. DFAS recorded its lowest average percentage of overaged invoices on hand - dropping from 8.67 percent during the last six months of FY 2001 to 3.61 percent for the same period in FY 2002. These efforts reduced the amount of interest paid per million dollars spent on contractor and vendor support from about \$343 in FY 2001 to \$237 in FY 2002, a decrease of more than 30 percent.
- The Accounting Services Business Line Executive provides departmental and field-level accounting and

disbursing services. In FY 2002, the Accounting Services Business Line realized significant results from its efforts to become a more strategy-based organization. The team achieved a 99.96 percent timely delivery rate for departmental accounting reports while reducing the number of days to produce the report, reduced problem disbursements by 90 percent from the FY 1998 baseline, and improved the quality of products and services throughout the business line.

The DFAS enterprise also includes a number of specialized corporate services that support internal personnel and operations to ensure sufficient resources and tools are available to meet organizational needs.

Located in 26 locations worldwide, DFAS has invested in a secure information technology infrastructure linking employees with each other and with DFAS customers. This robust infrastructure, augmented by e-government solutions, enables DFAS to provide services globally on a 24/7 basis that enhance support and value to DFAS customers.

DFAS is committed to accomplishing its vision while using fewer resources. Civilian and military workyears are programmed to drop 9 percent from about 16,500 to 15,000 workyears. We will ensure sufficient staff remains available to meet the customer demands as we continue our transition to new more efficient ways of doing business.

To move out with a smart unified approach, DFAS has developed a transformation strategy to guide this important course of action. This process will take time and begins in FY 2003 with a business case analysis for each product line. Each analysis will generate a set of recommendations on the best way to transform DFAS to best serve our customers.

While DFAS transforms to support tomorrow's defense needs, we continue progress toward becoming a world-class finance and accounting organization. The strategic direction forged in FY 2001, focused and continued use of the Balanced Scorecard and an ongoing commitment toward managing DFAS operations through meaningful metrics make DFAS progress visible to Defense Department leaders and our customers worldwide.

Delivering the best value to our customers requires continuous vigilance, compassionate service, uncompromising excellence and unquestioned integrity. It also demands DFAS people look to the future while building on the successes of the past. Built on the DFAS core values of integrity, innovation and service, the DFAS team is committed to moving forward. By working together to meet tomorrow's needs, the DFAS team continues to be your Financial Partner @ Work.

## **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	Indianapolis, Indiana
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
Technology Support Organization	Indianapolis, Indiana

### **Information Services Business Area:**

<b><u>Activity</u></b>	<b><u>Location</u></b>
Technology Support Organization	Indianapolis, Indiana

## **OPERATIONS BUDGET BY ACTIVITY GROUP**

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

The Financial Operations business area is composed of the three major business lines highlighted above - 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 the delivery of payments and receipt of collections, providing prompt payment, accurate and timely disbursing service, and reporting Disbursing Officer accountability to the Department of Treasury.

The following table identifies costs, revenue, and workforce data for FY 2002 through 2005:

**Dollars in Millions**

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
<b>Costs</b>	<b>\$1,569.2</b>	<b>\$1,666.4</b>	<b>\$1553.4</b>	<b>\$1,562.9</b>
<b>Revenue</b>	<b>\$1,539.0</b>	<b>\$1,431.3</b>	<b>\$1,676.7</b>	<b>\$1,606.9</b>
<b>Personnel:</b>				
Civ E/S	14,078	13,583	13,068	12,247
Civ Workyears	14,293	13,605	13,130	12,826
Mil E/S & Wys	1,007	1.117	936	936

\* Data does not match the Comptroller Information System (CIS). Research is being accomplished to determine the reason for the variance.

**FY 2002 Budget to FY 2002 Actual:** In FY 2002, actual operating costs exceeded the budgeted amount by \$3.2 million. Increased costs of \$10 million for Enduring Freedom were the main driver in the increase. Reductions in workyears and overhead allow the amount to be reduced.

**FY 2003 President's Budget to Current Estimate:** DFAS continues to reduce workyears and overhead costs. The increase of \$104.6 million is a combination of factors that were unknown when the FY 2003 President's Budget was submitted. We received the following adjustments to the FY 2003 President's Budget for the reasons indicated:

\$99.7 million increase - Development of the Defense Procurement Payment System was terminated. This represents an increase of \$112.0 million for full depreciation of development and a reduction of \$12.3 million in information technology requirements due to system termination.

\$55.0 million decrease - There was a reversal of policy as to who would be responsible for the payment of Civil Service Retirement System/Federal Employee Health Benefit (CSRS/FEHB). Subsequent to the FY 2003 President's Budget it was determined the payment would be retained by the Office of Personnel Management, therefore the reduction to DFAS.

\$30.0 million increase - The Federal Accounting Standards Advisory Board (FASAB) issued Statement # 10 which changes the way we charge internal software requirements from Capital to Operating. This increase reflects the impact.

\$10.6 million increase - Our non-rate-based work we do for other customers increased. These are amounts provided by the customers in addition to amounts that may be in the rate-based amounts.

\$23.0 million increase - Our depreciation requirements were understated in the President's Budget.

\$11.7 million increase - The cost of our Information Processing services provided by Defense Information Systems Agency (DISA) increased due to a combination of rate increases and platform changes.

\$15.4 million decrease - This decrease is due to efficiencies realized since the President's Budget submission.

**FY 2003 Current Estimate to FY 2004 Current Estimate:**

Overall costs reflect a decline of approximately 7 percent. The reversal of the policy of who is responsible for the payment of CSRS/FEHB accounted for 3.4 percent of the reduction. The remaining reduction will be accomplished through the continued implementation of best business practices and targeted reductions in support areas while absorbing costs for the civilian pay raise.

**FY 2003 President's Budget FY 2003 (Revised):**

	<b>\$ in Millions</b>
<b>FY 2003 President's Budget</b>	<b>\$ 1,561.8</b>
Price Adjustments	\$ 45.3
Program Changes	\$ -55.0
Other Changes	\$ 114.3
<b>FY 2003 Program Revised</b>	<b>\$ 1,666.4</b>

**FY 2003 (Revised) to FY 2004:**

	<b>\$ in Millions</b>
<b>FY 2003 Revised President's Budget</b>	<b>\$ 1,666.4</b>
Price Adjustments	\$ -54.3
Productivity	\$ -43.0
Program Change/Other Changes	\$ -15.7
<b>FY 2004 Program Revised</b>	<b>\$ 1,553.4</b>

**Costs by Output Category**  
**(\$ in Millions)**

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>
Civilian Pay Accounts Maintained	49.3	54.5	51.2	51.7
Active Military Pay Accounts Maintained	136.9	136.5	143.4	146.3
Military Pay Incremental	47.2	49.4	52.8	54.4
Retired Pay Accounts Maintained	64.2	63.0	59.0	56.6
Reserve Military Pay Accounts Maintained	37.8	35.7	39.9	42.0
Contract Payments - MOCAS	97.4	106.5	113.1	115.6
Contract Payments - SAMMS	17.7	16.0	16.4	16.8
Contract Payments - DECA	5.1	5.8	5.7	5.4
Travel Vouchers Paid	60.9	62.9	62.1	60.3
Transportation Bills Paid	19.5	-	19.8	19.5
Commercial Payments	164.3	302.9	175.1	178.1
Out of Service Debt Cases Managed	23.0	23.9	24.2	24.6
Direct Billable Hours	756.0	721.1	717.7	717.9
Accounting and Finance Support to Commissaries	8.5	10.5	10.6	10.7
FMS Cases Managed	31.4	31.1	32.0	33.1
Support to Others	50.2	46.6	30.3	29.9
Total Costs	1,569.2	1,666.4	1,553.4	1,562.9

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.

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

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>
Civilian Pay Accounts				
Maintained	17.5	17.1	16.8	17.1
Active Military Pay Accounts				
Maintained	18.3	18.2	18.2	18.2
Military Pay Incremental	5.2	5.1	5.1	5.1
Retired Pay Accounts				
Maintained	28.1	28.6	29.0	29.4
Reserve Military Pay Accounts				
Maintained	12.4	12.4	12.4	12.4
Contract Payments - MOCAS	1.0	1.7	2.2	2.1
Contract Payments - SAMMS	2.8	2.8	2.6	2.6
Contract Payments - DECA	2.0	2.1	2.0	2.0
Travel Vouchers Paid	7.3	7.0	6.9	6.8
Transportation Bills Paid	0.8	-	0.8	0.8
Commercial Payments	10.5	11.0	11.5	11.4
Out of Service Debt Cases				
Managed	4.6	3.7	3.8	3.7
Direct Billable Hours	9.7	9.3	8.6	8.5
Accounting and Finance				
Support to Commissaries /1	0.0	0.0	0.0	0.0
FMS Cases Managed	0.2	0.2	0.2	0.2
Support to Others	50.2	46.7	30.3	29.9

/1 Workload is too small to represent in millions. The actual workload is:

	3,526	3,591	3,591	3,582
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In general, the DFAS workload continues to decline in consonance with projected customer dollar and personnel resources. The exception is Retired Pay that shows a slight growth annually as more military personnel retire.



MOCAS increases in FY 2003 as we begin the use of lines of accounting as the workcount versus vouchers paid. The MOCAS increase in FY 2004 reflects Direct Billable Hours we will begin charging for pre-validation of payments.

The DFAS aggressively reduced costs in FY 2002. This resulted in an increase in the actual net operating result predicted in the FY 2003 President's Budget. Continued cost control in FY 2003 is masked by increases for full depreciation of the Defense Procurement Payment System (system terminated), Federal Accounting Standards Advisory Board (FASAB) - 10 changes (moved the source of some automated information system development costs from investment to operations), and increased charges for Information Processing (increased reliance on mid-tiers and DISA rate increases). FY 2004 and FY 2005 reflect our commitment to continued cost containment and best value to our customer.

**Operating Results:**

	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>	<b><u>FY 2004</u></b>	<b><u>FY 2005</u></b>
Revenue	1,539.0	1,431.3	1,676.7	1,606.9
Costs	1,569.2	1,666.4	1,553.4	1,562.9
<b>NOR</b>	<b>(30.2)</b>	<b>(235.1)</b>	<b>123.3</b>	<b>44.0</b>
P/Y Results	198.2	171.1	(167.3)	(44.0)
Oth Changes	3.1	(103.3)		
AOR	171.1	(167.3)	(44.0)	(0.0)

Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates  
Changes in the Costs of Operation  
Component: Defense Finance and Accounting Service  
Business Area: Financial Operations  
Date: February 2003  
(Dollars in Millions)

	Expenses
FY 2002 Actual:	\$1,569.2
FY 2003 Estimated in President's Budget:	\$1,561.8
Program Changes:	
Workyear Repricing	(\$19.0)
CSRS/FEHB	(\$55.0)
FMMP Adjustments	(\$12.3)
Increased Workload	\$10.1
FASAB 10 Criteria Change Increase	\$30.0
DISA Services Increase	\$11.7
Pay Raise	\$1.6
E-Portal	\$2.4
Other:	
Depreciation	\$135.1
FY 2003 Revised Estimate	\$1,666.4
Pricing Adjustments:	
Annualization of Prior Year Pay Raises	\$18.7
FY 2003 Pay Raise	
Civilian Personnel	\$18.4
Military Personnel	\$1.4
General Purchase Inflation	\$6.4
Productivity Initiatives and Other Efficiencies:	
Process Improvements	(\$29.4)
Program Changes:	
CSRS/FEHB	\$0.7
FMMP Adjustments	(\$3.4)
Desktop Management	(\$14.0)
Other Changes:	
Depreciation	(\$112.0)
FY 2004 Estimate:	\$1,553.2
Pricing Adjustments:	
Annualization of Prior Year Pay Raises	\$12.8
FY 2004 Pay Raise	
Civilian Personnel	\$12.3
Military Personnel	\$1.1
General Purchase Inflation	\$12.2
Productivity Initiatives and Other Efficiencies:	
Process Improvements	(\$18.6)
Program Changes:	
CSRS/FEHB	\$2.7
FMMP Adjustments	\$4.0
Desktop Management	(\$3.0)
Other Changes:	
Depreciation	(\$13.8)
FY 2005 Estimate:	\$1,562.9

Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates  
Source of Revenue  
Component: Defense Finance and Accounting Service  
Business Area: Financial Operations  
Date: February 2003  
(Dollars in Millions)

New Orders	FY 2002	FY 2003	FY 2004	FY 2005
a. Orders from DoD Components:				
Armed Forces Information Service	\$0.6	\$0.6	\$0.7	\$0.7
Ballistic Missile Defense Organization	\$1.3	\$1.2	\$2.1	\$2.1
Core of Engineers	\$2.8	\$2.3	\$2.9	\$2.8
Defense Advance Research Projects Agency	\$2.0	\$2.1	\$2.5	\$2.4
Defense Acquisition University	\$0.2	\$0.1	\$0.2	\$0.2
Defense Contract Audit Agency	\$2.2	\$2.2	\$3.0	\$2.9
Defense Contract Management Agency	\$4.7	\$4.7	\$6.5	\$6.2
Defense Health Program	\$38.0	\$36.5	\$35.5	\$34.2
Defense Human Resources Activity	\$0.6	\$0.6	\$0.8	\$0.7
Defense Information Systems Agency-Denver	\$2.7	\$2.4	\$3.1	\$3.1
Defense Information Systems Agency-HQ	\$4.2	\$3.6	\$4.6	\$4.4
Defense Information Technology Contracting Org	\$0.3	\$0.7	\$5.6	\$5.2
Defense Intelligence Agency	\$0.7	\$0.8	\$0.7	\$0.6
Defense Logistics Agency - O&M	\$1.8	\$1.8	\$5.9	\$5.6
Defense Technical Information Center	\$0.4	\$0.4	\$0.7	\$0.7
Defense Threat Reduction Agency - O&M	\$1.6	\$1.6	\$1.8	\$2.2
Department of the Air Force - O&M	\$279.4	\$253.0	\$294.9	\$285.5
Department of the Army - O&M	\$516.5	\$467.3	\$567.9	\$545.5
Department of the Navy - O&M	\$294.3	\$250.5	\$310.0	\$302.4
Department of Transportation-Coast Guard	\$0.1	\$0.1	\$0.1	\$0.1
DoD Education Activity	\$4.1	\$3.9	\$5.0	\$4.7
DoD Inspector General	\$0.6	\$0.8	\$0.7	\$0.7
DoD POW/MIA	\$0.1	\$0.1	\$0.1	\$0.1
Office of Economic Adjustment	\$0.1	\$0.1	\$0.1	\$0.1
Executive Office of the President	\$0.1	\$0.1	\$0.1	\$0.1
National Imagery and Mapping Agency	\$1.3	\$1.2	\$1.4	\$1.3
National Security Agency	\$0.3	\$0.3	\$0.5	\$0.5
Office of the Joint Chief Staffs	\$0.6	\$0.6	\$0.7	\$0.7
SDA Whit Sands	\$0.2	\$0.1	\$0.2	\$0.2
United States Marine Corps	\$77.0	\$74.1	\$87.4	\$86.4
United States Soldier's and Airman's Home	\$0.1	\$0.1	\$0.1	\$0.1
Washington Headquarters Service	\$1.6	\$1.7	\$2.2	\$2.1
White House Communications Agency	\$0.1	\$0.1	\$0.1	\$0.1
b. Orders from Other Fund Activity groups				
Army Depot Maintenance - WCF	\$11.8	\$11.0	\$11.9	\$11.3
Army Information Services - WCF	\$2.0	\$1.9	\$2.0	\$1.8
Army Supply Mgmt - WCF	\$13.4	\$13.1	\$15.0	\$12.4
Defense Commissary Agency - WCF	\$22.7	\$22.0	\$24.2	\$22.9
Department of the Air Force - WCF	\$29.4	\$27.7	\$30.7	\$29.4
Department of Navy Depot Maintenance - WCF	\$8.7	\$10.8	\$9.0	\$8.9
Dept of Navy Base Support - WCF	\$11.3	\$13.8	\$9.6	\$9.5
Dept of Navy Information Services - WCF	\$0.4	\$0.5	\$0.4	\$0.4
Dept of Navy Research & Development Activities - WCF	\$24.6	\$30.8	\$30.5	\$28.8
Dept of Navy Transportation - WCF	\$2.9	\$3.7	\$2.9	\$2.8
DFAS TSO - WCF	\$0.7	\$0.7	\$1.3	\$1.3
DLA Distribution Depots - WCF	\$4.8	\$4.8	\$7.2	\$6.7
DLA Printing & Publication Service/DAPS - WCF	\$3.4	\$3.4	\$6.2	\$5.8
DLA Reutilization & Marketing Service - WCF	\$6.0	\$6.0	\$5.7	\$5.4
DLA Supply Management - WCF	\$57.0	\$61.8	\$62.5	\$60.6
Defense Security Service - WCF	\$0.6	\$0.5	\$0.6	\$0.6
TRANSCOM Transportation - WCF	\$14.2	\$13.1	\$17.9	\$17.6
c. Total DoD:	\$1,454.5	\$1,341.3	\$1,585.7	\$1,530.8
d. Other Orders				
Foreign Military Sales - Trust Fund	\$30.1	\$30.4	\$34.7	\$31.2
Other Federal Agencies	\$0.0	\$0.0	\$0.1	\$0.1
e. Support to Others	\$54.4	\$59.6	\$56.2	\$44.8
Total New Orders	\$1,539.0	\$1,431.3	\$1,676.7	\$1,606.9
Carry-In Orders	\$-	\$-	\$-	\$-
Total Gross Orders	\$1,539.0	\$1,431.3	\$1,676.7	\$1,606.9

Fiscal Year (FY) 2004/FY 2005 Biennical Budget Estimates  
Revenue and Expenses  
Component: Defense Finance and Accounting Service  
Business Area: Financial Operations  
Date: February 2003  
(Dollars in Millions)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
<b>Revenue</b>				
<b>Gross Sales</b>				
Operations	\$1,396.2	\$1,182.6	\$1,537.4	\$1,481.4
Capital Surcharge				
Depreciation exc Maj Const	142.8	248.7	139.3	125.5
Major Construction Dep				
<b>Other Income</b>				
<b>Refunds/Discounts (-)</b>				
<b>Total Income:</b>	<b>\$1,539.0</b>	<b>\$1,431.3</b>	<b>\$1,676.7</b>	<b>\$1,606.9</b>
<b>Expenses</b>				
<b>Cost of Material Sold from Inventory (DeCA)</b>				
<b>Salaries and Wages:</b>				
Military Personnel Comp & Bene	\$41.6	\$40.0	\$36.3	\$37.1
Civilian Personnel Comp & Bene	837.9	791.0	817.0	817.0
<b>Travel &amp; Transportation of Personnel</b>	18.8	21.9	21.9	22.3
<b>Materials &amp; Supplies (Internal Operations)</b>	13.6	13.2	14.4	14.7
<b>Equipment</b>	3.6	3.4	4.5	3.9
<b>Other Purchases from Revolving Funds</b>	268.6	283.0	272.8	295.7
<b>Transportation of Things</b>	2.0	1.5	1.4	1.4
<b>Depreciation - Capital</b>	142.8	248.7	139.3	125.5
<b>Printing and Reproduction</b>	0.3	0.3	0.4	0.4
<b>Advisory and Assistance Services</b>	5.3	3.1	0.9	0.9
<b>Rent, Comm, Utilities, &amp; Misc Charges</b>	48.4	44.5	39.2	39.6
<b>Other Purchased Services</b>	186.4	215.8	205.3	204.4
<b>Total Expenses</b>	<b>\$1,569.2</b>	<b>\$1,666.4</b>	<b>\$1,553.4</b>	<b>\$1,562.9</b>
<b>Operating Result</b>	<b>-30.2</b>	<b>-235.1</b>	<b>123.3</b>	<b>44.0</b>
<b>Less Capital Surcharge Reservation</b>				
<b>Plus Appropriations Affecting NOR/AOR</b>				
<b>Other Changes Affecting NOR/AOR</b>	3.1			
<b>Net Operating Result</b>	<b>-27.1</b>	<b>-235.1</b>	<b>123.3</b>	<b>-44.0</b>
<b>PY AOR</b>	<b>198.2</b>	<b>171.1</b>	<b>-167.3</b>	<b>44.0</b>
<b>Other Changes Affecting AOR - FASAB</b>	<b>0.0</b>	<b>-103.3</b>	<b>0.0</b>	<b>0.0</b>
<b>Accumulated Operating Results</b>	<b>\$171.1</b>	<b>-\$167.3</b>	<b>-\$44.0</b>	<b>0.0</b>