



**STRATEGY  
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**DFAS: AN OPERATIONALLY EFFICIENT  
AND COST EFFECTIVE AGENCY  
FOR 2000 AND BEYOND**

**BY**

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USAWC STRATEGY RESEARCH PROJECT

**DFAS an Operationally Efficient and Cost Effective Agency For 2000 and beyond**

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## ABSTRACT

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The Office of Management and Budget (OMB) estimates the federal government spent over \$7 billion in fiscal year 1997 performing, maintaining, and improving finance and accounting operations. Auditors, however, have consistently reported that these operations continue to be plagued by deficiencies that undermine the government's effectiveness and drain resources that could be used elsewhere. This paper will review GAO report findings, Congressional legislation, and DoD directives that are requiring the Defense Finance and Accounting Service (DFAS) to review and consolidate its operations to be more cost effective and operationally efficient. This paper will also review the options DFAS has chosen to be competitive and remain competitive with A-076 studies.



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## DEFENCE FINANCE AND ACCOUNTING SERVICE (DFAS) AN OPERATIONALLY EFFICIENT AND COST EFFECTIVE AGENCY FOR THE YEAR 2000 AND BEYOND

In 1992 the Defense Finance and Accounting Service (DFAS) became the defense agency responsible for providing finance and accounting to all services.<sup>1</sup> The current DFAS organization consists of a headquarters and five DFAS centers located in Cleveland, OH.; Columbus, OH.; Denver, CO.; Indianapolis, Ind.; Kansas City, MO.; and 20 operating locations (OPLOCs).<sup>2</sup> DFAS processes 9.8 million payments to DoD personnel; 1.2 million commercial invoices; 450,000 travel vouchers/settlements; 500,000 savings bonds issuances; and 122,000 transportation bills of lading on average each month.<sup>3</sup> The agency' disbursed on a monthly basis approximately \$24 billion.<sup>4</sup> (A map depicting the DFAS HQ, DFAS Centers, and Defense Accounting Offices is located at Figure 1.) See Figure 2 for review of each DFAS center. The customer base and operating locations give an idea of the magnitude and scope of the DFAS operation as well as the customers supported by DFAS or assigned operating location. DFAS, a DoD agency, does not receive an annual appropriation. DFAS's source of income comes from revenues received from services provided to its customers. The vision of the Director of DFAS, Mr. Tom Bloom, is for the financial management services provided by DFAS in support of the War Fighting Commander to be operationally efficient and cost effective.<sup>5</sup>

The Department of Defense because of strategic initiatives to modernize the force and to cover funding requirements of increased military operations is currently searching from within DoD to find a source for some of those funds. DoD is looking for cost savings within DFAS from either outsourcing or privatization. DFAS feels that with all things being equal, it can produce the Financial Management requirements for DoD at a lower per unit cost than private industry. DFAS has taken a proactive position to being outsourced by consolidating functions and analyzing processes for efficiencies and reductions in cost.

This paper will review the findings of the GAO report, legislative directives and policies that have designated DFAS as a potential candidate for outsourcing or privatization. This paper will also review the strategy undertaken by DFAS to consolidate its operations, be cost effective and operationally efficient to compete for DoD financial management and accounting business. This paper will also review the options chosen by DFAS to satisfy legislative and DoD directives to achieve the desired results of being and remaining competitive for DoD finance and accounting business.

### **BACKGROUND**

Prior to 1991, all Services operated their own Finance and Accounting Office (F&AO).<sup>6</sup> Financial management is a part of the support provided by F&AOs to Commanders for daily operations in garrison and on the battlefield to accomplish the mission. Senior DoD officials felt that improvements in the areas of consolidation, standardization, integration of finance and accounting operations, procedures and

systems was needed to improve the overall quality of financial management of DoD.<sup>7</sup> Prior to the consolidation of 1992, the number of finance and accounting offices that belonged to military services and Defense agencies totaled 338.<sup>8</sup> Currently the 338 finance and accounting offices have been consolidated into 20 regional OPLOCs. In addition to the consolidation of the finance and accounting offices, personnel have been reduced by 66 percent from 31,000 in 1992 to the current level of less than 20,000.<sup>9</sup> To appreciate the amount of dollars potentially available for competition or possible outsourcing of the finance and accounting mission, the Office of Management and Budget (OMB) estimates, the federal government spent over \$7 billion in fiscal year 1997 performing, maintaining, and improving finance and

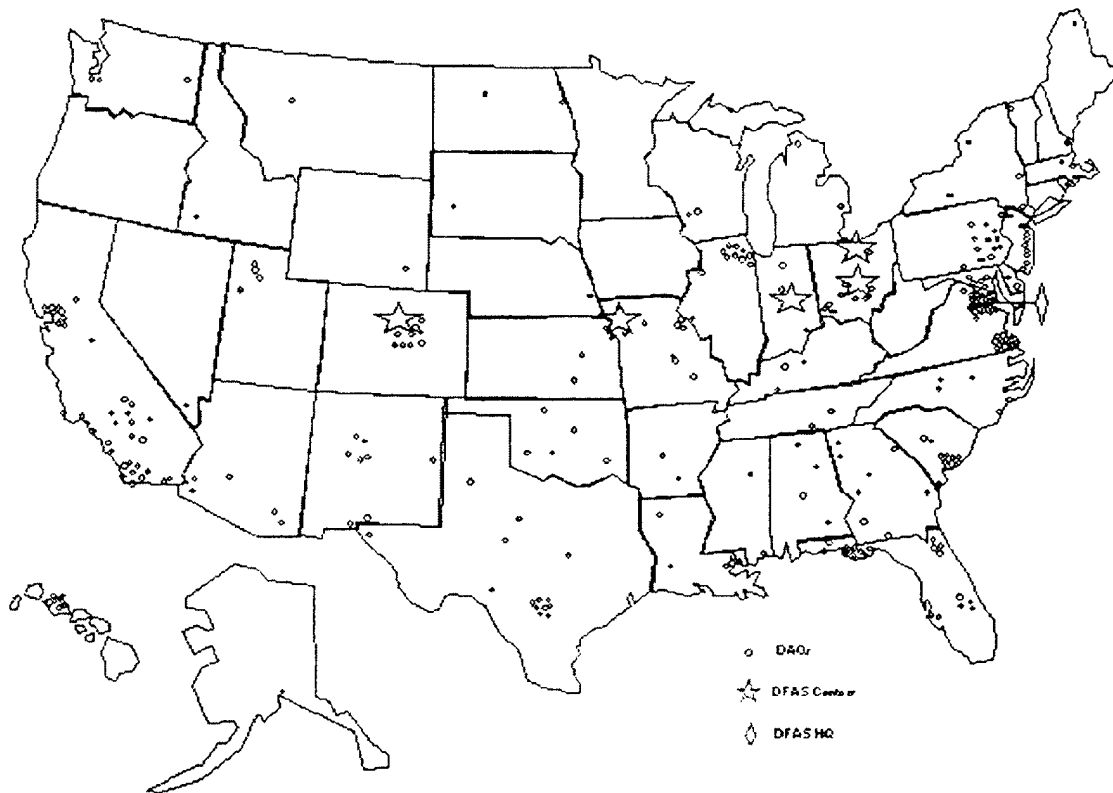


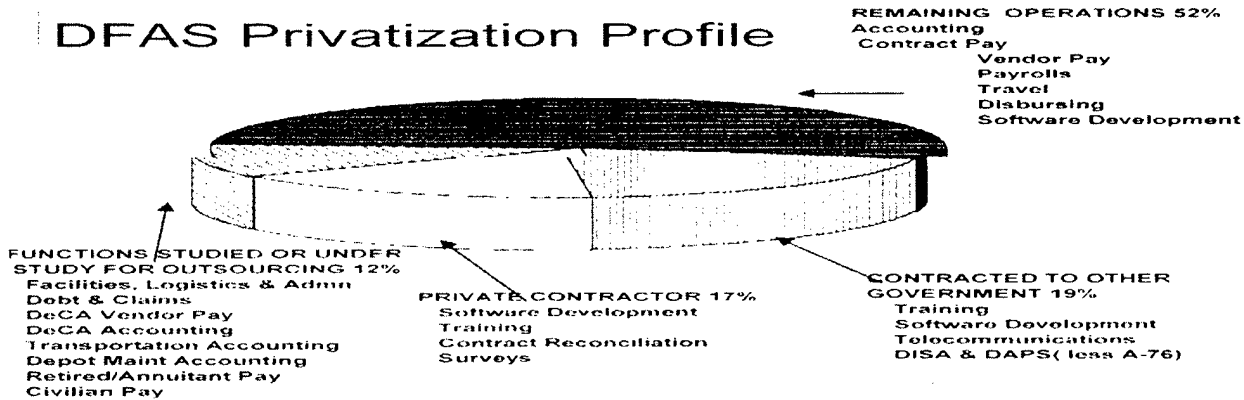
FIGURE 1 - DFAS LOCATIONS

accounting operations.<sup>10</sup> Unfortunately the General Accounting Office (GAO), has characterized DFAS operations as having redundancies and deficiencies that have caused customers to request DFAS be outsourced or privatized for improvements to service and decreases in cost.<sup>11</sup>

The current DFAS budget is about \$1.6 billion dollars spent on internal operational support of the DoD finance and accounting mission.<sup>12</sup> Figure 3 shows the various percentages of expenditures allocated for external operations and support costs.

DFAS CENTER	OPERATING LOCATIONS	CUSTOMER BASE
DFAS CLEVELAND CENTER	CHARLESTON NORFOLK OAKLAND PACIFIC JAPAN PENSACOLA SAN DIEGO	402,327 ACTIVE DUTY ACCOUNTS 124,824 RESERVISTS ACCOUNTS 1,900 MEDICAL STUDENTS 5,140 ROTC STUDENTS 1,938,641 MILITARY RETIRES
DFAS COLUMBUS CENTER	NO OPERATING LOCATIONS	DEFENSE LOGISTICS AGENCY DEFENSE FINANCE AND ACCOUNTING SERVICE DEFENSE COMMISSARY AGENCY DEFENSE CONTRACT AUDIT AGENCY DOD INSPECTOR GENERAL DOD INSPECTOR GENERAL NAVAL SUPPLY SYSTEMS COMMAND DOD EDUCATION ACTIVITY DEFENSE ACQUISITION UNIVERSITY DEFENSE CIVILIAN PERSONNEL MANAGEMENT SERVICES UNITED STATES ARMY NAVY COMMANDS FINANCIAL MANAGEMENT OFFICES
DFAS DENVER CENTER	DAYTON, OHIO LIMESTONE MAIN OMAHA NEBRASKA SAN ANTONIO TEXAS SAN BERNADINO CALIF	PAYING MORE THAN 250,000 MILITARY ANNUITANTS PAYS OVER 2.2 MILLION MILITARY MEMBERS PAYING OVER 295,000 DOD CIVILIANS CENTRALLY MANAGES THE COLLECTION OF INDIVIDUAL OUT-OF-SERVICE DEBT AND CONTRACTOR DEBT PROVIDES FINANCIAL SERVICES TO DOD SECURITY ASSISTANCE PROGRAM FINANCIAL ACCOUNTING FOR AIR FORCE
DFAS INDIANAPOLIS CENTER	EUROPE LAWTON OKLAHOMA LEXINGTON KENTUCKY ORLANDO, FLORIDA ROCK ISLAND ILLINOIS ROME N.Y. SEASIDE CALIFORNIA ST. LOUIS MO	PAYMENT OF BILLS FROM TRANSPORTATION CARRIERS AND VENDORS ISSUANCE OF U.S. SAVINGS BONDS TO MILITARY PERS FINANCIAL MANAGEMENT ANALYSIS PROGRAMS ACCOUNTING SYSTEM COMPLIANCE PROGRAM SYSTEMS DEVELOPMENT, MAINTENANCE, AND TESTING DATA ADMINISTRATION AND MANAGEMENT PROGRAM DOD CASH AND DEBT MANAGEMENT PROGRAM
DFAS KANSAS CITY CENTER	NO OPERATING LOCATIONS	U.S. MARINE CORPS DEPARTMENT OF TREASURY DEPARTMENT OF LABOR GENERAL SERVICES ADMINISTRATION OFFICE OF PERSONNEL MANAGEMENT

FIGURE 2 - DFAS CENTER COMPARISONS



FY 1998 DFAS Operating Budget: \$1.6 Billion

FIGURE 3 - DFAS PRIVATIZATION PROFILE

The DFAS operational budget revealed that in 1998 fifty-two percent of the budget is spent on internal operational support costs and personnel.<sup>13</sup> Nineteen percent of the budget was spent on purchasing goods and services from other government agencies such as the Defense Information Systems Agency (DISA) and the Defense Automated Printing Service (DAPS).<sup>14</sup> The procurement of private sector vendor goods and services in support of finance and accounting functions makes up seventeen percent of the budget, with the remaining twelve percent being allocated to fund all goods and services of functions designated for A-76.<sup>15</sup>

There have been recommendations by supported agencies to privatize functions that are currently performed by DFAS. The basis for the recommendation is the comparatively large amounts of expenditures or cost for finance and accounting support DoD customers pay versus the amount allegedly charged by private industry. Also the close comparison of DFAS with private industry capabilities and functions makes DFAS look attractive for outsourcing or privatization. Primarily it is the financial management support or non-core mission activities performed for DoD customers that are being targeted for cost savings to cover modernization, as well as the cost of increased deployments. Currently there are no individual companies that have the capability to handle the complexity or the diversity of the DFAS mission.

DFAS is the organization chartered to provide Financial Management for DoD agencies. Because of the requirement for DoD to reduce cost DFAS has taken on the challenge of reducing operational cost and leveraging technology to produce the same level if not better support to customers. Under the old configuration when there were finance and accounting offices located on the local installation, customer service was considered better due to the proximity of the customer to the finance office. This was arguably perception, but where the customer is concerned, perception is a realistic problem that must be addressed. To overcome the problem with the new configuration DFAS must provide a stronger communications link with its customers. To accomplish this, DFAS must allocate more

time for analysts to visit installations. This would increase the communications between the current OPLOCs and the installations they now support.

#### DIRECTIVES REQUIRING EXAMINATION OF DFAS AS CANDIDATE FOR OUTSOURCING

There have been various reports and congressional mandates applying pressure on DFAS for the privatization of non-core DoD functions that are inherently governmental. The list of directives that have had the most sweeping effect are: The Office of Management Budget (OMB) A-76 Study, The Commission on Roles and Missions of the Army, The Quadrennial Defense Review, The Defense Reform Initiative, The 1994 Authorization Act and The Defense Science Board.

The OMB study set the guidelines for agencies to establish benchmark criteria, internal cost data, and quantifiable performance information before trying to procure goods and services from the private sector. The circular also documents policy and procedures that federal agencies must adhere to in evaluating whether private sector sources can be used to perform or supply the services or goods. It is the current policy of DoD as a result of the push to decrease the cost of DoD, to outsource as many of the finance and accounting functions as possible to other government agencies or to the private sector.<sup>16</sup>

The Commission on Roles and Missions of The Armed Forces (CORM) was created in 1994.<sup>17</sup> Its charter was to take into consideration the changes in the national security environment, evaluate the changes from the old missions of the Armed Forces to the new missions of the Armed Forces against the current Defense budget dollar.<sup>18</sup> As a result of the evaluation, the 1994 CORM made the finding, activities that mirror commercial vendor activities such as education, training, family housing, finance and accounting, data center operations, and medical care should be outsourced.<sup>19</sup>

The August 1996 Defense Science Board (DSB) issued a report that encouraged functions such as payroll, travel reimbursement, invoicing, data center operations, and other support functions to be considered candidates for either outsourcing or privatization.<sup>20</sup> To increase the number of agencies that may be considered candidates for outsourcing, the task force recommended that DoD, if necessary, exempt itself from OMB Circular A-76.<sup>21</sup> The task force also recognized that some DoD agencies maybe required to comply with the A-76 study for either political or legal reasons.

The Quadrennial Defense Review (QDR) was mandated by the National Defense Authorization Act of 1996.<sup>22</sup> The QDR looked at the mission of the DoD and how it has changed since the collapse of the Soviet Union.<sup>23</sup> The QDR evaluated what is needed as a force structure to meet the United States defense requirements based on the strategic threat.<sup>24</sup> A second order effect of evaluating the United States military was the evaluation of the support requirements of the military structure. The QDR issued a challenge for DoD as part of the second order effect. The challenge was to look at innovative ways to address changes found or requirements of the military mission of the future and take the initiative to synchronize the military forces with the supporting structure of the military.<sup>25</sup>

The Secretary of Defense initiated the Defense Reform Initiative (DRI) on November 10, 1997.<sup>26</sup> The basis of the policy was to improve the Department of Defense by identifying savings and transferring

those savings to areas within DoD that need modernizing.<sup>27</sup> Implementation of the reform initiatives would require top down emphasis with the adoption of the best business practices from the private sector.<sup>28</sup> The best results would require streamlining of operations, eliminating of functions, eliminating of structures and unnecessary jobs.

In 1994, The Government Management Reform Act (GMRA) was established as a franchise fund pilot program.<sup>29</sup> Administrative support services such as personnel, payroll, or finance and accounting services would be provided by self supporting organizations.<sup>30</sup>

The directives previously outlined have as their core requirement for DoD to evaluate the non-core mission of the military, targeting specifically the support structure and to take the initiative of looking at the possible use of outsourcing to reduce cost, help improve support or finance and accounting activities. However DoD must evaluate other issues of outsourcing before outsourcing should be recommended as a viable option. Number one, the agency should perform a strategic analysis to find out what is the core product or service produced by the organization.<sup>31</sup> Number two, the agency must ensure that an outsourcing policy exists that articulates what processes and criteria should be used that will accomplish the organization's goal.<sup>32</sup> Number three, the agency should draw a comparison of how an organization operates against the operation of a similar organization evaluating costs, proficiencies, and deficiencies.<sup>33</sup> Number four, the agency should look out in the business community and query if there are other businesses that can perform the same core mission or services.<sup>34</sup> Last but by no means least the agency should carefully consider what the second and third order of effects would be based on the potential job loss or adverse personnel impacts to customer service and contract cost that would occur as a result of out sourcing.<sup>35</sup>

The GAO report on outsourcing of finance and accounting functions reported mixed results. The report cited examples where companies that elected to privatize or outsource only achieved partial benefits. The GAO report also cited the 1996 American Management Association member survey, which reported that less than 25 percent of the members participating in the survey that either outsourced or privatized fully achieved their goal.<sup>36</sup> Outsourcing was generally limited to repetitive and labor-intensive tasks or functions. These firms in addition to outsourcing and privatizing also incorporated cost reduction, time reduction, as well as quality improvements as part of their cost reduction strategy. The results of the AMA survey varied from one firm showing results of achieving all of its goals to include reduction in staff processing accounts payable transactions by one third and a decrease in the amount of time to process accounts payable transactions to the other end of the spectrum where a company outsourced pension plan payments and believed in the final analysis its costs actually increased.<sup>37</sup> The survey in its final analysis made the finding that if cost reduction is looked at as the ultimate goal, a decrease in the number of employees does not in itself translate into reducing the organization's overall cost.<sup>38</sup> This is due in part to the fact that employee costs may be off set by increased outsourced vender cost plus increased management cost.

Analyzing the GAO report, I think the report gives only part of the picture. While the report gives numbers that support what business opportunities are available as a result of privatization, it does not give what the cost would be of DoD to convert to private companies providing financial management for DoD. Costs that are left out of the model are over head management costs to maintain the contract, dual operations and time tables for transition costs and the costs of risk associated with private companies providing an in-house service.

There are certain assumptions made with each of the directives previously cited. The assumption is that private industry can provide the same service currently produced by non-core mission agencies. The second assumption is that non-core mission agencies are not operating at peak cost efficiency. The third assumption is that current non-core mission producing agencies are not providing what the DoD customer wants.

Referenced in the GAO report were over 15 companies that were interviewed as to whether they had outsourced any of their financial operations. Of the 15 companies reviewed only two had out sourced any part of their financial operations. Of the two companies that had outsourced, only repetitive labor - intensive functions such as check writing was outsourced. There wasn't any data accumulation, manipulation or compilation outsourced by any company,

The second assumption, that some DoD agencies are not operating in a cost effective manner is communicated by legislative directives targeting segments of DoD operations, namely the non-core mission producing agencies. Customers have been comfortable with the cost of support provided by local installation finance and accounting offices partly because of the tangible benefits of being co-located with the finance office. The tangible benefits of executing 99.9 percent of the installation's budget is usually attainable do to finance offices being on the installation facilitating requisitions being able to be dropped at the last minute.

Under the old configuration each installation had its own finance and accounting office. Customers of the finance office were usually on first name basis with the account holder as well as the financial analyst. If reports were perceived as incorrect or if customer service was an issue, the problem would be mediated by a common boss, the installation commander. Now the configuration has changed. Mediation of problems occurs telephonically or via fax machine. Although the correction of the issue is usually quick, the change in culture carries a perception of lack of customer service.

#### LEGISLATION REQUIRING CHANGES TO DFAS OPERATIONS

During the consolidation of DFAS operations, Congress passed a number of laws that mandated changes to DoD financial management operations. The legislative changes that were significant were the National Defense Authorization Act of November 1990, the Chief Financial Officers (CFO) Act of November 1990, Government Management Reform Act of 1994 (GMRA), and finally the DoD Appropriations Act of 1995.

The National Defense Authorization Act mandated that after a period of five years, a fixed appropriation account would be closed and the un-obligated balance of the appropriation would be

cancelled.<sup>39</sup> The merged account provisions of the law became effective Sept 30, 1993 and eliminated the "M" account or the merged year appropriations account.<sup>40</sup> The implementation of the elimination of the merged account appropriation highlighted an existing problem of negative un-liquidated obligations and un-liquidated obligations.<sup>41</sup> Prior to this legislation, appropriations that did not get fully executed were transferred to an umbrella appropriation called the merged appropriation.<sup>42</sup> The lack of visibility caused many accounts within the appropriation to become neglected and over expended.

**Dod agencies were required by the Chief Financial Officers Act** to use accounting systems and financial management systems to address management's needs for efficient and cost effective operations.<sup>43</sup> The systems would as a minimum include financial reporting, internal controls, compliance with applicable federal accounting principles and standards for revolving funds, trust funds and commercial activities

The Government Management Reform Act mandated that all agencies, starting in 1996, provide audited financial statements.<sup>44</sup> It was the belief of Congress that requiring financial statements agency wide would assist in measuring cost effective improvements of an organization.<sup>45</sup>

The 1995 DOD Appropriations Act mandated that DoD ensure that an obligation be posted or exist before the disbursement of any expenditures greater than \$5million.<sup>46</sup> In an attempt to decrease further the amount of un-obligated transactions, the 1997 Appropriation Bill lowered the amount to \$3 million that had to be pre-validated.<sup>47</sup> This changed disbursement operations in that traditionally requests for payments were matched with a valid contract and receiving report. Program managers neglected to validate that obligation existed and caused billions of dollars in disbursements to exist with no obligations.<sup>48</sup>

The legislative changes previously mentioned brought visibility to problems that persisted because of a lack of policy and legislative mandates.<sup>49</sup> The legislative changes not only provided DoD with the inertia to improve operational accuracy, but they also encouraged internal controls and accountability of agencies. DoD has sought to implement business-like financial management approaches to managing support missions. With better and valid information available, better decisions can be made. The CFO Act envisioned the use of modern management techniques and integrated financial management systems by managers to evaluate and manage the performance and cost effectiveness of government programs.<sup>50</sup>

The CFO Act provided incentive for DFAS to move toward an environment where data is shared without manual intervention and reconciliation is unnecessary.<sup>51</sup> Initiatives such as system modernization, life cycle management, in-process reviews and strategic business plans will be managed as investments for process improvements.<sup>52</sup> Those investment decisions will be made based on feasibility and risk; standard functional and technical evaluation criteria; potential savings and/or anticipated benefits.<sup>53</sup> In process reviews will be used to review program objectives. In process reviews will also be used to make programmatic decisions based on significant deviations in cost or schedule of

performance.<sup>54</sup> The management tool of strategic business plans will be used to identify and track tasks, schedule and cost each initiative. These tools will be used to maximize return on investment in terms of benefit to the Department and minimize risk of these management processes. The management tools will be used to identify and correct deviations as early as possible in the management cycle.

Initiatives such as the 1994 National Defense Authorization Act, the 1995 DoD Appropriations Act and other acts were fixes to individual problems that merited a change to specific part of a larger process. However, because these change initiatives did not require the entire process to be reviewed, managers of the process only looked to fix the problem at hand. There was really no incentive to review the entire process for cost efficiencies or operational benefits.

In some directorates of DFAS, configuration control boards have been established to evaluate individual problems in the bigger context of the process for possible changes that will net significant processing efficiencies as well as fixing the problem. DFAS has never had problems incorporating changes to business processes, usually with a quick implementation schedule. If these functions are outsourced, changes such as these will be very difficult to achieve.

#### DFAS STRATEGIC PLAN

There have been a number of laws passed by congress encouraging privatization and outsourcing as well as a number of policies issued by Department of Defense to improve financial management operations and costs. DFAS management recognizes it must be competitive operationally and cost wise with private industry. To ensure that DFAS stays competitive, the agency has developed an Accounting Systems Strategic Plan to streamline and improve DoD finance and accounting operations and systems. DFAS management realizes that the environment supported is very complex and requires a strategic plan that must be customer service focused, flexible enough to accommodate increasing demands of finance and accounting systems, while maintaining a steady progressive path toward a single accounting computer system architecture. The areas DFAS management has chosen to place emphasis on are streamlining and consolidation of finance and accounting operations, legislative changes, change in DoD environment, standardization of finance and accounting systems, and cost of finance and accounting,<sup>55</sup>

The current Accounting System Strategic Plan began in 1991 with the reorganization of DoD finance and accounting operations.<sup>56</sup> DFAS as part of its on going initiative of customer service and listening to its customer feels it can be competitive in the areas of outsourcing or privatization. As such, DFAS has opened its functions for competitive competition. The DFAS Inherently Government Coding Chart represents the DFAS population and how it has designated functions and positions for potential A-76 competition.

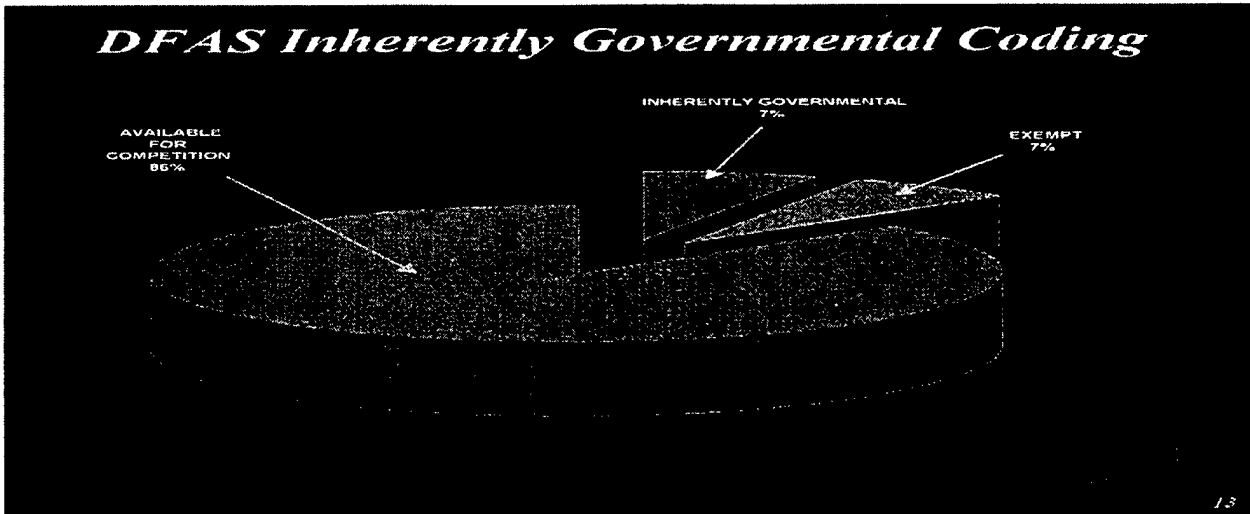
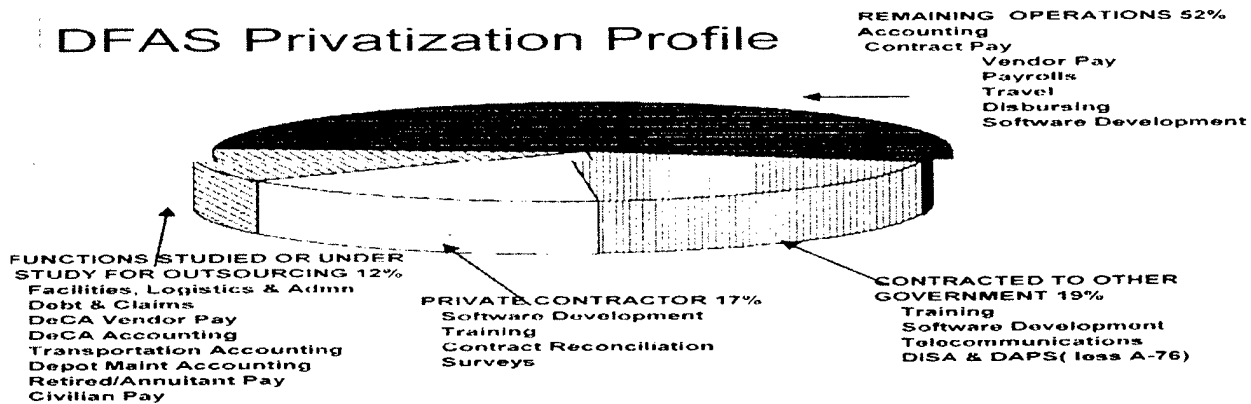


FIGURE 4 - DFAS INHERENTLY GOVERNMENTAL CODING

The DFAS Inherently Governmental Coding chart, Figure 4, shows that eighty-six percent of DFAS positions have been identified as potential A-76 Competition between DFAS and the private sector.<sup>57</sup> The chart also shows seven percent of the population coded inherently governmental and seven percent exempt from competition<sup>58</sup>.

The current DFAS budget is about \$1.6 billion dollars that is spent on external goods and services provided to support the DoD finance and accounting mission.<sup>59</sup> Figure 5 shows the various percentages of expenditures allocated for external operations and support costs.



FY 1998 DFAS Operating Budget: \$1.6 Billion

FIGURE 5 - DFAS PRIVATIZATION PROFILE

The DFAS operational budget revealed that in 1998 fifty-two percent of the budget is spent on internal operational support costs and personnel.<sup>60</sup> Nineteen percent of the budget was spent on purchasing goods and services from other government agencies for communications and printing services.<sup>61</sup> Goods

and services from the private sector take up approximately seventeen percent. The remaining twelve percent is allocated to procure goods and services for functions that are identified for A-76 study or have been previously studied.<sup>62</sup> The plan called for a phased implementation schedule. Phase one of the consolidation required the transfer of control of the five finance centers and the Defense Logistics Agency Center to DFAS.<sup>63</sup> Phase one of the plan was the most difficult of the reorganization.

The transfer of responsibility of decentralized installation-level accounting and finance operations to DFAS signaled the second phase.<sup>64</sup> Following the transfer of decentralized installation level accounting was the transfer of accounting operations to operating locations (OPLOCs).<sup>65</sup> Each Finance Center consisted of six functions military pay, civilian pay, venter pay, travel pay, transportation pay and debt management.<sup>66</sup> As part of consolidation in phase 2, DFAS initiated the collapsing of duplicate and unique systems architectures to a single system for each functional area.<sup>67</sup>

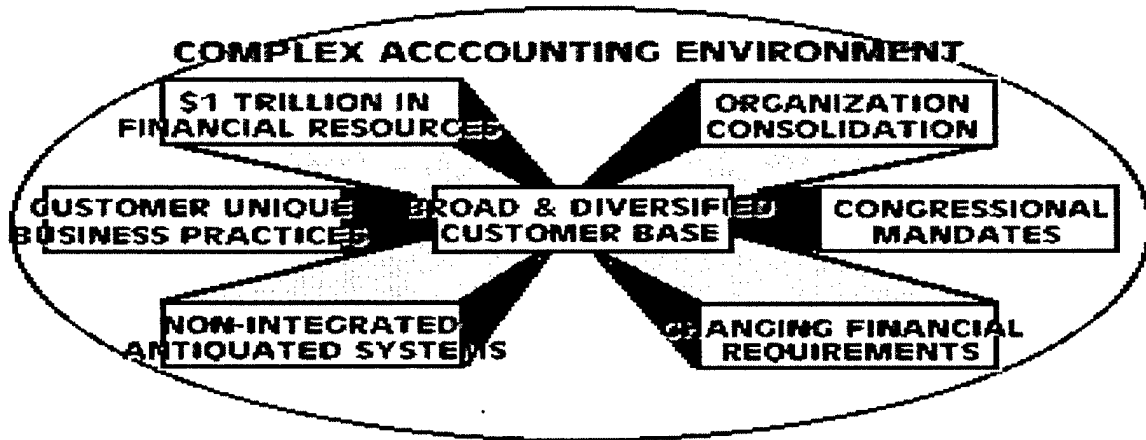


FIGURE 6 - COMPLEX ACCOUNTING ENVIRONMENT

The accounting function being the largest and most complex of the finance and accounting functions performed at local installations, represented about 100 million transactions per month; provided the accounting for over 800 active appropriations valued at over \$1.3 trillion; provided reports to customers on a monthly basis; processed investments into a \$130 plus billion trust fund; provided accounting for and bills foreign military sales that total over \$240 billion.<sup>68</sup> Figure 6 is a graphic depiction of the complexity of the accounting functions performed by DFAS.

In 1994 the Deputy Secretary of Defense approved the establishment of 20 DFAS regional locations. Phase three of the consolidation required the transfer of 300 plus installation level accounting and finance offices to DFAS regional operating locations (OPLOC)s.<sup>69</sup> As of December 1999, all 20

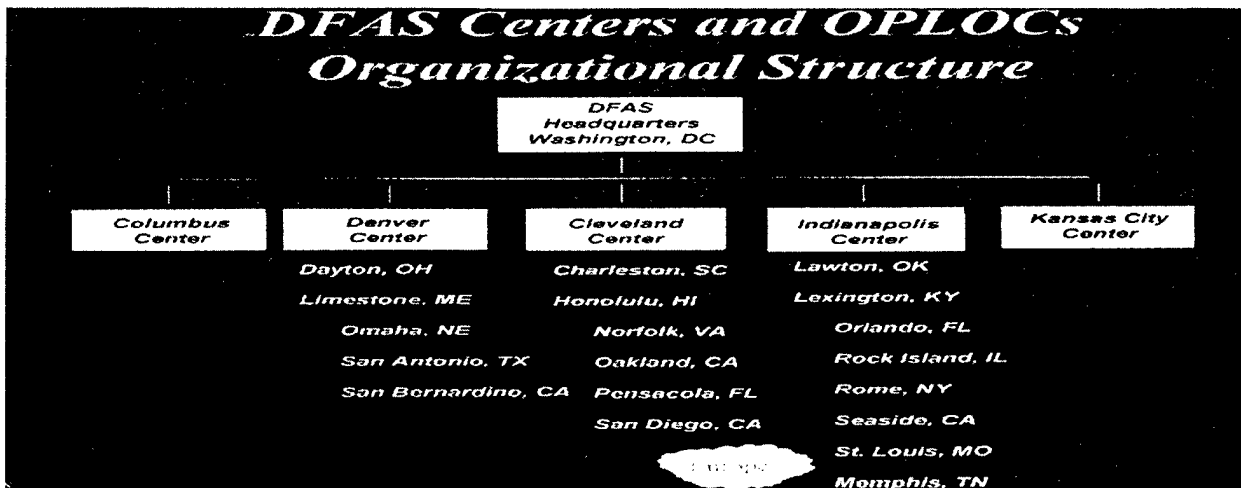


FIGURE 7 - DFAS ORGANIZATIONAL STRUCTURE

regional locations have opened and all installation-level accounting and finance offices have been closed with the accounting functions transferred to the assigned operating location.<sup>70</sup>

The transfer of the installation accounting functions to the respective OPLOCs means the creation of a personnel structure to continue and sustain operations at the OPLOCs. The smooth transition of users to a standard suite of systems and consolidation of systems was crucial to the success of the eliminating costs of installation-level accounting and finance offices and lowering cost of providing accounting and finance support to installations.<sup>71</sup> Based on economical studies, DFAS has determined it was not feasible or economical to continue to support the legacy systems of the installations.<sup>72</sup> Savings in personnel dollars were also garnered by eliminating dedicated staffs that were once needed by customer-unique systems.<sup>73</sup> Figure 7 depicts the regional locations for accounting and finance operations.

The goal desired by DFAS to standardize finance and accounting systems is the composite of the functional, the technical and the system architecture requirements. The standardization also includes accounting applications utilizing standard processes, software applications using standard data elements, DFAS defining a logical database, pre-validation of disbursements, related obligations, cash accountability and a global edit capability.<sup>74</sup> DFAS's goal in its strategic plan was to consolidate to 23 accounting applications maintained. Exceptions would be granted based on business-case analyses.<sup>75</sup> The DFAS Accounting Systems Strategic Plan also established the following capabilities of the target architecture of a standardized Finance and Accounting system:<sup>76</sup>

- Uniquely identify transactions and map transactions to more detailed source data
- Accomplish pre-validation of disbursements and cash accountability
- Eliminate in-transit transactions, including cross disbursements
- Compile summary-level data to support departmental and financial reporting

- Support DoD review and analysis requirements
- Maintain a minimum number of functional applications to support core accounting functions
- Integrate customer business requirements into the broader DoD functional and technical architecture
- Use standard processes that standardize general ledger maintenance updates
- Capture accounting data at the source and at the level of detail to support budgetary and financial requirements
- Meet all open system environment requirements and Joint Technical Architecture requirements
- Use the Defense Information Infrastructure/Common Operating Environment (DII/COE).
- Integrate with the DoD environment to share standardized data between unique functional areas
- Ensure data integrity, strengthen internal controls and eliminate redundant data and processing
- Use standard data elements, as defined in the Defense Data Dictionary System to facilitate the sharing and summarization of data and standardization of interfaces.
- Employ a global edit table to ensure data integrity
- Maintain standard interfaces to collect obligations, property, inventory and cost distributions

The consolidation plan of using system standardization, improving processes, deploying new technology such as electronic data interchange, and imaging technology, had the potential to decrease the operating budget by some \$283 million annually.<sup>77</sup> As expertise in the use of this technology and tools became greater, management projected that the cost savings would increase to \$493 million by fiscal year 1999.<sup>78</sup> As these savings would be realized, DFAS would reflect those savings in the prices it charges for its accounting services, which is ultimately realized in the operating budgets of DFAS customers.<sup>79</sup>

On top of the tangible benefits, the intangible benefits derived by customers from these initiatives will be immeasurable. The intangible benefits such as improved processes, better financial management information to the Department will erode the deficiencies noted by the GAO study as well as customers of DFAS.

The Chief Financial Officer's Act (CFO) and other legislation have been a driving force for modernization of financial management systems to provide accurate, timely, and meaningful financial management information to decision makers. Managers must be given the ability to ensure assets are accurately recorded and safeguarded against waste, loss, unauthorized use or misappropriation. The information provided will make tools available to program managers for the purpose of managing program execution, formulating budget requirements, identifying and correcting program deviations. The information provided will also make it possible for financial managers to ensure the obligation of government resources is compliant with applicable laws.

Consolidation of resources, cost savings, and activity base management initiatives of DFAS have made the total cost of providing finance and accounting support visible in the Departments budget submission. This also communicates to customers what they can be expected to pay for those services. While the Department needs to invest in the financial management infrastructure of DFAS, there needs to be a continuing effort to reduce cost at all levels. Financial management reforms will be required of DoD

systems at all levels of management from installation to Congressional. There must be emphasis placed on standardizing interfaces and output systems and the review of the user community's business practices while making sure that the users needs are met.<sup>80</sup>

## LEVERAGING TECHNOLOGY

DFAS, using the leverage of technology has been able to transfer the responsibility and operation of all installation Finance and Accounting Offices to DFAS. DFAS has also used the same technology to consolidate finance and accounting offices regionally in phase two of the DFAS Accounting System Strategic Plan to Operating Locations (OPLOCs) to include Japan and Germany. While this has been a bold move, units continue to operate using data query, electronic data interchange, and policy procedure changes to compensate for personnel lost as a result of the consolidation. As the paradigms have changed, so has procedures and the use of automated tools to perform those previously done manually.

OPLOCs have represented a redundant layer in the DFAS organization hierarchy. The next logical step is to remove OPLOCs from the process and transferring appropriate resources directly to the appropriate Finance Center. Modification of the information structures, redirecting of data flows, creation of a corporate data base, and hyper access for customers will need to be engineered to handle the increased requirements for data, reports, and analysis. This has the possibility of decreasing the DFAS structure at the OPLOCs while only increasing the structure at the DFAS centers. The increase in the structure of DFAS centers would correspond to the economies of scale needed to address increased requirements of DFAS centers. This would not be a one for one decrease of the OPLOC increase of the DFAS center. However, as alluded to earlier, the process reengineering, technology, facilities cost, and personnel changes must be subjected to scrutiny, balancing cost cutting measures versus customer service.

## PROCESS AND PROCEDURE REVIEW

It was reported in the October 1997 GAO study that systems used by DFAS are old and require a lot of people due to the work that is required because of manual workarounds. To further reduce cost, an initiative was directed by DFAS management to conduct process and procedure reviews. To accomplish the process and procedure review a methodology called Activity Based Management is currently being used by DFAS. The MEVATEC Corporation, an out side contractor, is conducting the review, using two basic fundamentals to evaluate organizations, procedures and processes. Number one, in order to control and manage resources (cost) we must manage activities that consume resources. Number two, a service should only be charged for the cost of the activity required to produce the service. The intent of the review is to define activities and outputs of activities; Track the resources consumed by those activities; Trace activities to services to determine the cost to support those services; Identify cost drivers of non-value added activities; Make recommendations to eliminate non-value added activities or tasks;

Finally measure the performance of activities. The basic philosophy of Activity Based Management is the key to maintaining a competitive edge by the control of activities to meet customer needs. To maintain that competitive edge activities and processes must be continually analyzed, changed, and improved. Controlling activities is the only effective way to manage cost. In order to effectively manage the process, organizational objectives, strategies, activities, and measurements must be aligned. Figure 11 illustrates this triad. The personnel who are in the best position to improve quality and cost of an activity are the people who actually perform the function. People must be given the latitude to change to way they work in order to promote improvement of activities and processes.

DFAS has adopted and used the methodology of Activity Based Costing and Activity Base Management to review the processes and procedures looking for redundancies and procedural processing anomalies. The reviews have been instrumental in documenting and providing feedback to the organization in terms of the responsibilities of employees and managers. The reviews have also been key in providing feedback to managers on production performance. Figure 8 is a depiction of Mevatec Corporation's aligning strategies, actions & measurements. After potential redundancies have been documented the next logical step is to ensure that every process is accounted for and that every employee can be traced to a process. The streamlining of personnel based on alignment of people to processes and the standardization of processes can translate to decreased cost of the services or product produced.

DFAS management has taken the position it can be competitive in the A-76 competition for

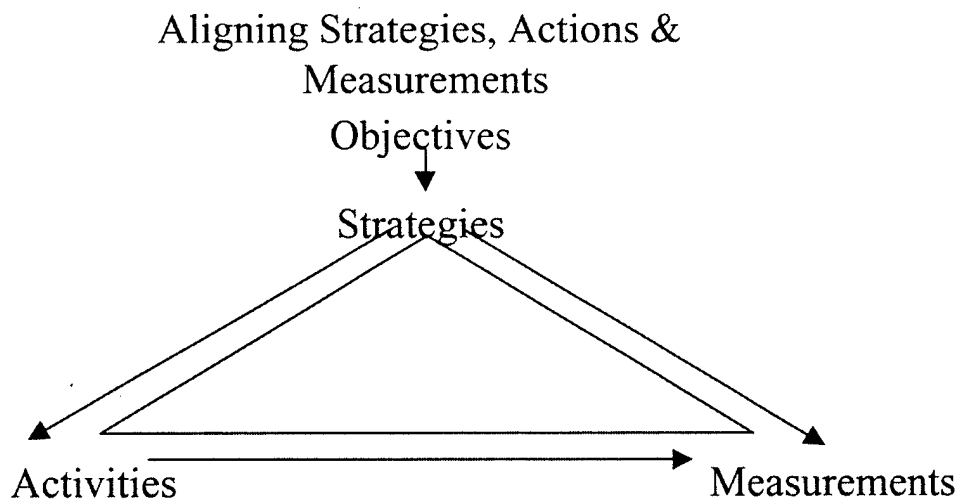


FIGURE 8 - STRATEGIES AND MEASUREMENTS

financial management for DoD customers. Management has taken the legislative directives to evaluate the non-core mission activities performed by DoD activities and establish them as re-engineering objectives. DFAS has developed a strategy that includes consolidation of people, the leveraging of

technology and the re-engineering of its processes to increase efficiency and lower the cost of providing its services.

There is a tendency for DoD agencies once they have been given a legislative death sentence to move to the graveyard before there is actually a funeral. In the case of DFAS, the legislative death sentence has been issued, but DFAS' management has implemented a plan to re-engineer and reposition itself to compete for its very life's blood, the DoD financial management business.

Accountability and cost cutting should be areas of strong emphasis at meeting strategic objectives of reduced cost. DFAS must not lose sight of customer service. In an environment where technology tends to move the customer farther and farther from the actual analyst or technician performing the work, DFAS must be creative in finding technical solutions to evaluate the product or services the organization produces. But more importantly DFAS must evaluate the products and services produced for the customer, from the customer's perspective.

## CONCLUSION

DFAS is the agency that performs the finance and accounting mission for DoD. Legislation and policies issued by DoD has provided incentives for DFAS to be an operationally efficient and cost effective organization. DFAS have used the traditional methods of consolidating operations, decreasing personnel, process review, and leveraging technology as objectives to change the organization. DFAS continues to be competitive by improving its customer service and lowering its billing cost to DoD agencies.

On the surface, there would seem to be little doubt that private firms have the capability to perform virtually any defense finance and accounting function. After all, payroll is payroll and vendor payments are vendor payments. Conceptually there should be no argument, but in practice the issue is not so simple. The reality is that DFAS is the largest finance and accounting operation in the world. DFAS financial operations are larger than the combined annual sales of over half of the Fortune 500 companies. In order to compete for DFAS operations, a vendor would have to establish a huge infrastructure necessary to meet contract requirements.

In an interview with Mr. Tom Bloom, the Director of DFAS, he stated that he is aware of the pressures by Congress and DoD to be operationally efficient and cost effective. He understands that for every dollar spent on finance and accounting support is a dollar not spent on the core mission. He is also aware that private industry wants the business as well. Mr. Bloom has taken the position that DFAS as an organization is competitive and will continue to work toward staying competitive by reviewing the progress already made by the Accounting Systems Strategic Plan began in 1991 and other tools such as Activity Base Management and Business Process Reengineering.

DFAS improvement efforts will not occur in an isolated controlled environment. Financial management reform requires the modernization of DoD systems to provide reliable, timely and meaningful information to all levels of management, from the installation level to Congressional reporting. The right balance must be maintained between the standardization of systems, changing of user business practices and ensuring that the user's financial management needs are met.

Word Count = 5974



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<sup>4</sup> Ibid., 1.

<sup>5</sup> Mr. Tom Bloom, "DFAS Mission, Vision and Goals Statement for 2000", interview by LTC Kenneth Crowder, 17 December 1999, Washington D.C.

<sup>6</sup> Catherine Ferguson, "Defense Finance and Accounting Service", 22 December 1999; available from <<http://www.dfas.mil/agency/>>. Internet. Accessed 1 July 1999.

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<sup>8</sup> Ibid., 1.

<sup>9</sup> General Accounting Office, Financial Management – Outsourcing of Finance and Accounting Functions: Report to Congressional Requesters. (Washington, D. C.: U.S. General Accounting Office, October 1997), 1.

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<sup>12</sup> Ibid., 1.

<sup>13</sup> Ibid., 1.

<sup>14</sup> Ibid., 1.

<sup>15</sup> Ibid., 1.

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<sup>24</sup>Ibid.,2.

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<sup>26</sup>“DoD Reform Programs, “Overview of Defense Reform Programs.” 26 August 1999. available from <http://www.defenselink.mil/dodreform/programs.htm>s; Internet; accessed 7 November 1999.

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<sup>28</sup>Ibid.,1.

<sup>29</sup>General Account Office, Report to Congressional Requesters, FINANCIAL MANAGEMENT Outsourcing of Finance and Accounting Functions (Washington, D.C.: U.S. General Accounting Office, October 1997), 5.

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<sup>31</sup>Ibid.,2.

<sup>32</sup>Ibid.,2.

<sup>33</sup>Ibid.,2.

<sup>34</sup>Ibid.,2.

<sup>35</sup>Ibid.,2.

<sup>36</sup>Ibid.,9.

<sup>37</sup>Ibid.,10.

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<sup>39</sup>Catherine Ferguson, “Defense Finance and Accounting Service Accounting Systems Strategic Plan For the Department of Defense”, 28 September 1999; available from <<http://www.dfas.mil/library/dassp/plan3.htm>>; Internet; accessed 7 November 1999

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<sup>42</sup> Ibid., 1.

<sup>43</sup> Ibid., 1.

<sup>44</sup> Ibid., 1.

<sup>45</sup> Ibid., 1.

<sup>46</sup> Ibid., 1.

<sup>47</sup> Ibid., 1.

<sup>48</sup> Ibid., 2.

<sup>49</sup> Ibid., 2.

<sup>50</sup> Ibid., 1.

<sup>51</sup> Ibid., 1.

<sup>52</sup> Catherine Ferguson, "Defense Finance and Accounting Service Accounting Systems Strategic Plan For the Department of Defense", 28 September 1999; available from <<http://www.dfas.mil/library/dassp/dfaspmo.htm>>; Internet; accessed 7 November 1999, 1

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<sup>62</sup> Ibid., 1.

<sup>63</sup> Catherine Ferguson, "Defense Finance and Accounting Service Accounting Systems Strategic Plan For the Department of Defense", 28 September 1999; available from <<http://www.dfas.mil/library/dassp/plan2.htm>>; Internet; accessed 7 November 1999

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<sup>65</sup> Ibid.,2.

<sup>66</sup> Ibid.,2.

<sup>67</sup> Ibid.,2.

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<sup>77</sup> Catherine Ferguson, "Defense Finance and Accounting Service Accounting Systems Strategic Plan For the Department of Defense", 28 September 1999; available from <<http://www.dfas.mil/library/dassp/plan4.htm>>; Internet; accessed 7 November 1999.

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