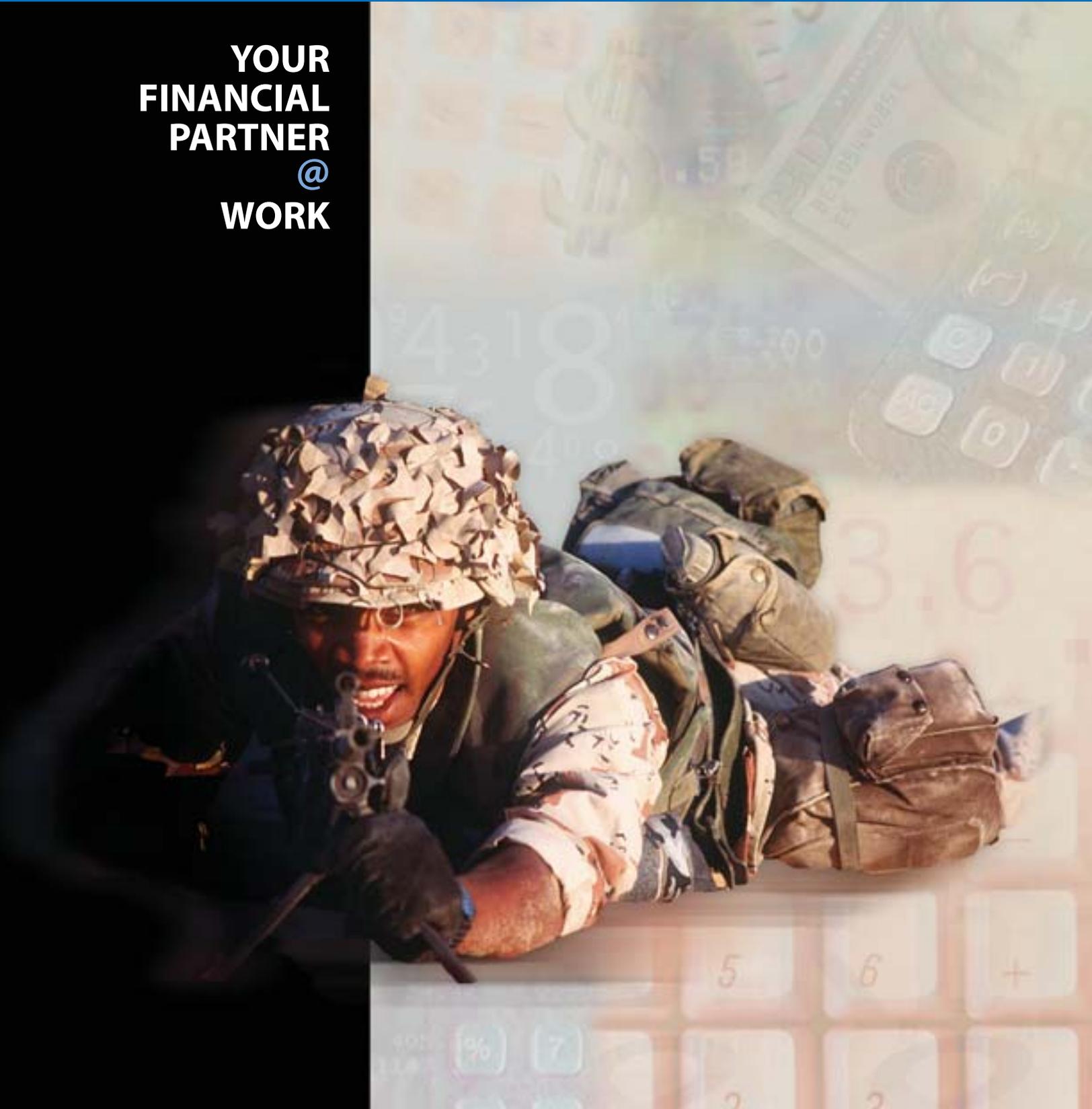
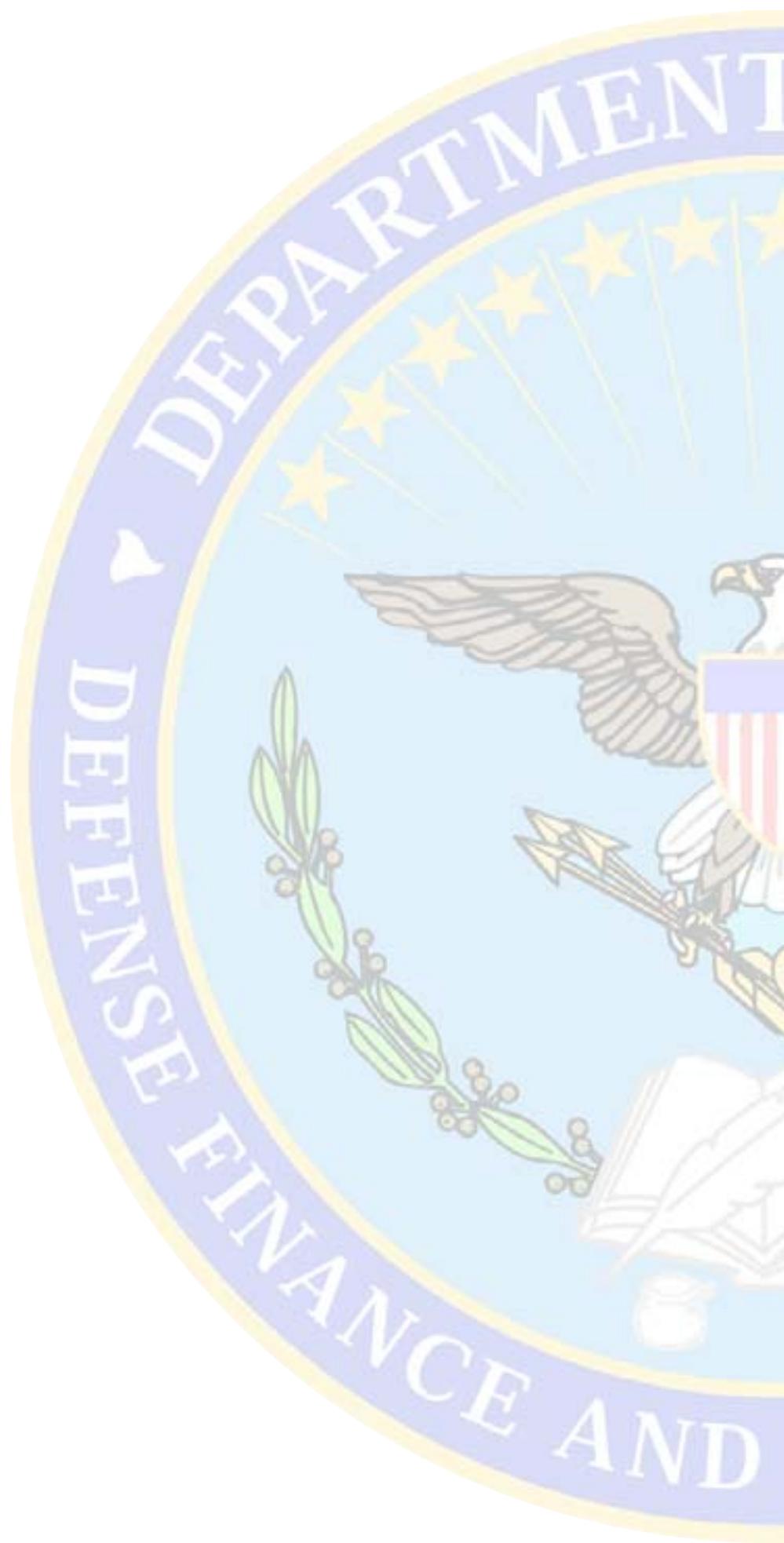


The Defense Finance and Accounting Service

Annual Report FY 2001

**YOUR
FINANCIAL
PARTNER
@
WORK**





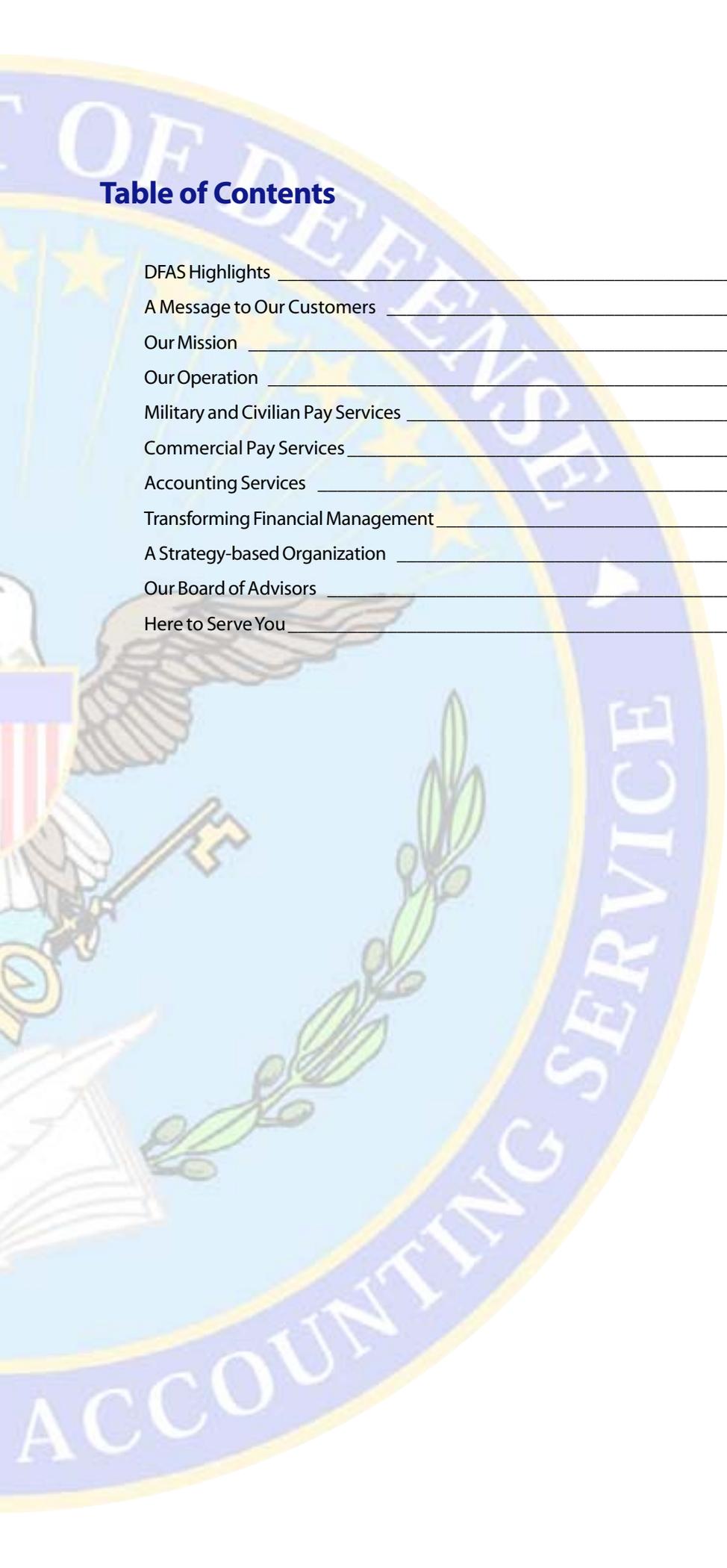
The seal of the Department of Defense Accounting Service is partially visible on the left side of the page. It features a blue circular border with the text 'DEPARTMENT OF DEFENSE' at the top and 'ACCOUNTING SERVICE' at the bottom. Inside the circle, there is an eagle with its wings spread, holding a key in its talons. A laurel wreath is also visible. The background of the seal is light blue with yellow stars.

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DFAS Highlights

The world's largest finance and accounting operation

In FY 2001 we:

Paid

5.5 million military members, civilian personnel, retirees, and annuitants

11.1 million contractor and vendor invoices

6.7 million travel payments

Disbursed

\$299 billion

Processed

100 million accounting transactions

Accounted for

231 active DoD appropriations

\$171 billion military trust funds

\$13 billion in foreign military sales

The Defense Finance and Accounting Service was created in 1991 by the Secretary of Defense to reduce the cost of Department of Defense finance and accounting operations and to strengthen DoD financial management through consolidation of finance and accounting activities. Since inception, DFAS has consolidated over 300 installation-level finance and accounting offices into 26, and trimmed the work force from more than 27,000 to just over 17,000.

While streamlining our operations, we continually seek to improve and enhance our customer service through systems standardization, process improvements, and expanding employee competence. These improvements yield results that eliminate redundant processes, increase operational efficiencies, and reduce costs.

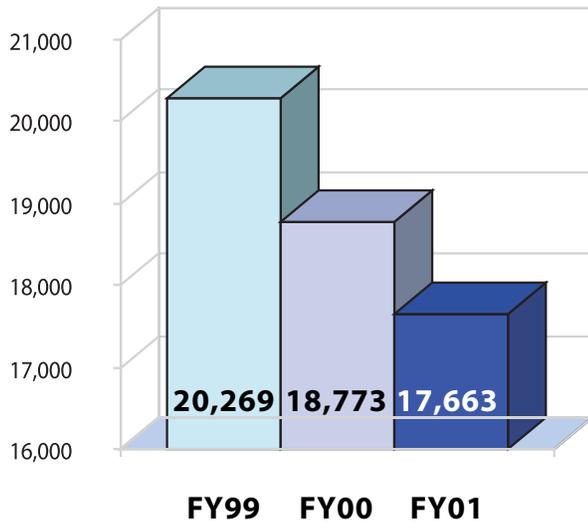
DFAS is a Working Capital Fund activity, which means we are not funded by direct appropriations. Rather, we operate on revenue received by charging customers for services provided. In effect, the military services and defense agencies have contracted out their finance and accounting work to DFAS. Our billing rates are set two years in advance and adjusted annually based on an analysis of the previous year's operations and future expectations for management initiatives, work force trends, and workload volumes. DFAS has steadily reduced its operating costs. *Correspondingly, customer bills have decreased dramatically.*

Read more about DFAS on our website at <http://www.dfas.mil>

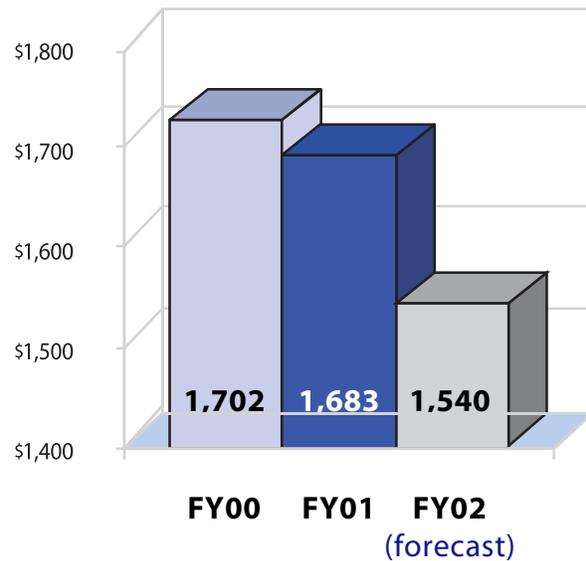
Customers benefit from lower costs and smaller work force

Cost of Operations (\$M)			
	FY01	FY00	FY99
Salaries and wages	\$869	\$892	\$844
Systems	385	408	409
Operations support	157	160	198
Rent, communications, facilities	70	68	64
Materials and services	66	82	108
Total	<u>\$1,547</u>	<u>\$1,610</u>	<u>\$1,623</u>

Work Force End Strength



Cost to Customers (\$M)



A Message to Our Customers

During FY 2001, we took major steps toward achieving our vision of providing best value to our customers by being:

- 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—coupled with reinvigorated strategic focus—has driven pivotal accomplishments, including a corporate realignment focused on our customers, a restructuring along business lines, and a significant reduction in operating costs for the second consecutive year.

Best Value to Our Customers

FY 2001 was a good performance year for DFAS and our customers. As a strategy-based, metrics-driven, customer-focused organization, we came together to deliver top quality services at reduced costs. Our operating costs were below budgeted levels for the second year in a row. This cost reduction translates into future savings to our customers through lower billings. As a result, the bill for our customers in

Cost to Customers (\$M)			
	FY01	FY02	Savings
Army	\$613	\$566	\$47
Navy	389	344	45
Air Force	334	306	28
Marine Corps	83	81	2
Other Agencies	264	243	21
Total	<u>\$1,683</u>	<u>\$1,540</u>	<u>\$143</u>

FY 2002 is forecast to be \$143 million less than it was in FY 2001. We will deliver better quality service at lower cost. Our billing rates have been reduced to return prior year savings to our customers, consistent with Working Capital Fund business practices. We want our customers to view us as their best value.

A World-Class Provider

Just as our nation has a world-class defense, DFAS strives to provide world-class finance and accounting services to those who defend America. Our customers deserve no less. We want to do nothing less.

For the second consecutive year, we surpassed DoD's goal of reducing problem disbursements by achieving a 78 percent reduction. This results in more accurate accounting and leads to better decision making. We reduced overaged invoices for both vendor and contract pay to the lowest percentage in the history of DFAS. By paying DoD commercial partners on time, we help preserve our customers' fiscal resources and facilitate better business relationships.

Our abilities are proven in other ways. We met all 45 key indicators on our FY 2001 performance contract with the Department. We use performance metrics to drive best business practices and achieve high quality results. In FY 2001, we earned a second consecutive unqualified—or “clean”—opinion from Deloitte & Touche LLP, independent auditors, on our annual consolidated financial statements. Verifying that our books are in line with accepted accounting standards strengthens our credibility as we advise our customers on obtaining their own clean opinions. For further information regarding our audit, please go to <http://www.dfas.mil>.

A Trusted, Innovative Partner

We want to build consultative relationships with our customers. We will earn customer trust and confidence through delivering business intelligence and providing more accurate, timely, and useful financial information for better decisions. We are committed to bringing together innovative ideas, technologies, and solutions as we work to improve DoD finance and accounting. Our e-commerce innovations include Employee/Member Self Service, Electronic Leave and Earnings Statements, an electronic Thrift Savings Plan program, Electronic Data Access, and Electronic Document Management. These solutions reduce process cycle times, improve accuracy, and increase our customers' spending power by lowering the cost of our products and services. They also ensure that our customers' financial records provide confidence on accurate availability of resources.

We partnered with the Army to implement the Single Stock Fund, a business process reengineering initiative to improve secondary item logistics and financial processes in their Working Capital Fund. The Army

has called this “one of the most sweeping changes to logistics and business processes in the past 25 years.”

We teamed with the U.S. Special Operations Command to leverage the DFAS Corporate Information Infrastructure to provide world-class support. This truly “purple” DoD financial management system replaced a multistep, multilayered process that produced data four to six weeks old. Today, the headquarters USSOCOM financial management team can query accounting information as current as two business days via a Web browser.

One Organization, One Identity

We implemented a new organizational structure making individual senior executives personally accountable for each major customer and for each major business line. Known as the DFAS Business Evolution, it shifted our focus away from geographic silos to customer-focused delivery of business services: military and civilian payrolls, commercial bill paying, and accounting. This realigned, customer-centric structure allows us to progressively improve our internal operations, implement best practices across all business lines, and reduce cost to our customers. Coming together as a strategy-based organization and establishing linkages through our Balanced Scorecard, we ensure that everyone is working towards the same vision and can connect what they’re doing to make the vision a reality. Most importantly, we continue to improve our performance, quality, and value, demonstrating that DFAS is truly Your Financial Partner @ Work.

An Employer of Choice

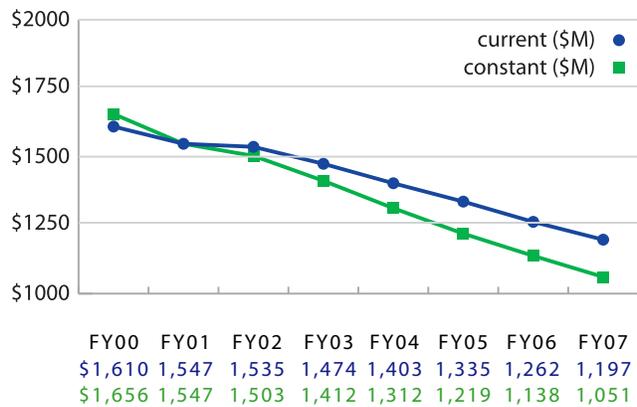
Since our people are key to making our vision a reality, it is important that we are viewed as an employer of choice, providing a progressive and professional work environment. We are on course. Enhancing employee competence, increasing professional credentials, and building the next generation of DFAS leadership are among our top priorities.

We enable continuous learning and development of critical high quality skills through a training budget that is among the most robust in government. We continually encourage professional development and certification in our staff and look for similar credentials as we attract new talent. DFAS values its employees and is committed to ensuring that professional opportunities exist to acquire, nurture, and sustain a work force with the highest quality skill sets.

The Way Ahead

The state of DFAS is good and getting better each day. We are confident we have built the right foundation to continue to drive down costs. We will remain on track to achieve our quality and productivity goals. Our investment strategy will give us modern, labor-saving information systems at increasingly lower costs. Our customers will reap the benefits through increased quality, better service, and lower bills as we steadily reduce our cost of operations over the next several years.

DFAS: Decreasing Costs



As we look ahead and as our footprint gets smaller, our business model will evolve. By achieving the optimum mix of civil service, military, and contractor resources and solidifying the strongest customer partnership, together we will transform financial management for the Department.

We know our customers, we know how our products and services support their mission, and we know our support role in their success. Our customers can trust that we will remain focused on our commitment to deliver world-class support for the men and women serving on the front lines of freedom.

Thomas R. Bloom
Director

Mark A. Young
RADM, SC, USN
Deputy Director



DFAS: Our Mission

Provide responsive, professional finance and accounting services for the people who defend America

Nothing matters more to our professionals than serving the men and women of America's Armed Forces. This commitment to serve is what drives our passion to be a world-class finance and accounting organization and to become, as our motto states, Your Financial Partner @ Work.

We pay the people who defend America. It is our mission to ensure warfighters have the peace of mind that their financial entitlements are paid accurately and on time, whether at home or abroad, and that they will have access to the information needed to conduct their financial affairs.

We pay the contractors who provide the products and services that support the warfighters who defend America. It is our mission to ensure the commercial partners of our warfighters are paid accurately and on time.

We process the accounting transactions and maintain the records to deliver business intelligence for decision makers to plan and conduct mission operations with fiscal integrity. It is our mission to provide timely, accurate, and useful financial information.



We pay the people who defend America



We pay the contractors who support the warfighters



We provide financial information to DoD decision makers



DFAS: Our Operation

Serving our customers with dedicated professionals

Internally, our organizational structure created by the DFAS Business Evolution established a corps of leaders, called Client Executives, who provide single points of contact for DFAS services. They are devoted to anticipating and fulfilling the needs of our customers.

Working in concert with the Client Executives are our three Business Line Executives:

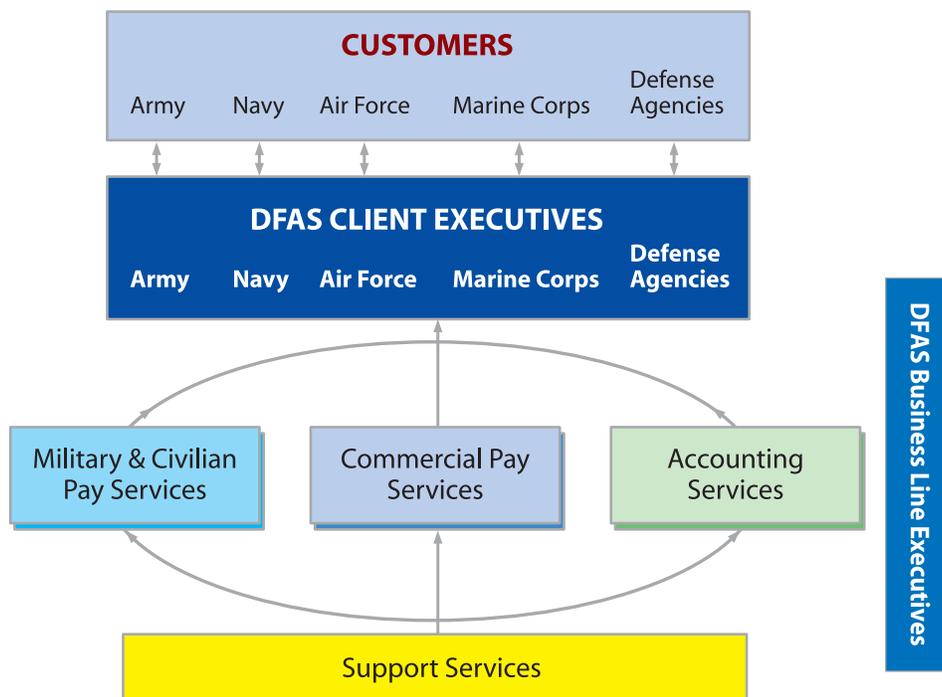
- The Military and Civilian Pay Services Business Line Executive manages all aspects of payments to individuals - paychecks, travel reimbursements, and garnishments.
- The Commercial Pay Services Business Line Executive provides payment services to contractors both large and small.
- The Accounting Services Business Line Executive provides departmental and field level accounting, disbursing, and financial accounting services.

A variety of internal service organizations ensure that the business lines have the support they need to fulfill their roles. Internal financial operations and agency-wide support services are managed by the Corporate Resources Executive.

Organizationally, DFAS reports to the Under Secretary of Defense (Comptroller) and Chief Financial Officer. Headquartered in Arlington, Va., DFAS operates from 25 additional locations.

While we are located worldwide, DFAS has invested in a secure information technology infrastructure linking our employees with each other and with our customers via their desktop computers. This robust infrastructure augmented with e-government solutions enables us to provide service delivery on a 24-7 basis.

Our core values—Integrity, Service, and Innovation—guide the 17,000 members of DFAS as we improve and transform DoD financial management.





DFAS Military and Civilian Pay Services

Improving accuracy and timeliness while reducing costs

**5.5 Million
military and civilians
paid \$114 billion
in 135 million payroll
payments annually**

The Military and Civilian Pay Services Business Line provides all forms of payments to individuals. Almost all pay is delivered via electronic funds transfer.

- we pay...Members of the Army, Navy, Air Force, Marine Corps
- we pay...Civilians in the DoD work force and the Executive Office of the President
- we pay...Military retirees and annuitants

Auxiliary support includes manning call centers and help desks to answer individual inquiries; defining and testing changes to automated pay systems; processing garnishment, debt, and waiver applications; and working with federal, state, and local taxing authorities.

Our FY 2002 priorities are to improve pay accuracy and timeliness, expand Web-based capabilities for pay and benefit information, support the integration of personnel and financial data, and reduce cycle times for fielding new capabilities.



We pay the people who defend America



DFAS Commercial Pay Services

Streamlining processes to reduce operating costs

**11.1 Million
invoices paid annually,
timeliness increased
to
94.8% from 91.7%**

The Commercial Pay Services Business Line is responsible for all payments to contractors. Our contractors range from the small business vendors to the large-scale weapons system developers.

Commercial Pay Services disburses approximately \$150 billion annually through two product lines—Contract Pay and Vendor Pay.

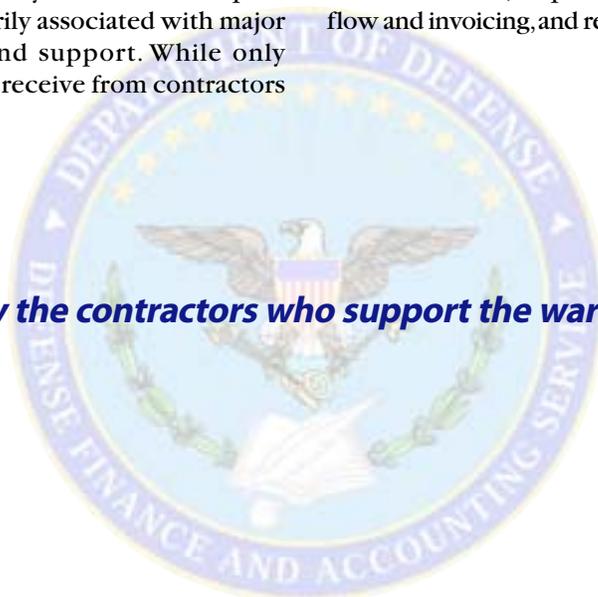
In Contract Pay, approximately \$72 billion is paid annually to contractors primarily associated with major weapons system delivery and support. While only 48 percent of the invoices we receive from contractors

are electronic, we make 96 percent of our payments to contractors via electronic funds transfer.

Vendor pay involves payment for day-to-day goods and services, such as supplies, utilities, and transportation support. The total annual payments for these vendor products are approximately \$78 billion.

Our FY 2002 priorities are to improve payment accuracy and timeliness, expand end-to-end electronic work flow and invoicing, and reduce interest penalty payments.

We pay the contractors who support the warfighters





DFAS Accounting Services

Increasing accounting services value for our customers

\$517 Billion
accounted for
annually in
231 active
appropriations

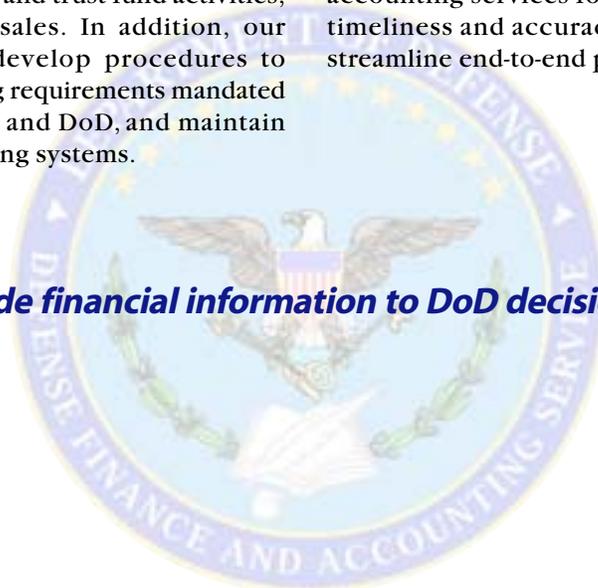
The Accounting Services Business Line represents almost 45 percent of our internal business base. This business line is responsible for providing our clients with timely, meaningful financial information to meet their management needs and delivering modern business solutions for accounting requirements.

This business line performs accounting operations at the field and departmental levels for appropriated funds, working capital funds, and trust fund activities, including foreign military sales. In addition, our accounting professionals develop procedures to implement federal accounting requirements mandated by Congress, OMB, Treasury, and DoD, and maintain current operational accounting systems.

A business solutions focus initiated this past year delivers business intelligence that adds true value for our customers. Early successes include teaming with the U.S. Transportation Command to develop a systems architecture framework as well as collaborating with the Army, Navy, and Defense Logistics Agency to evaluate and implement Enterprise Resource Planning systems.

Our FY 2002 priorities are to increase the value of accounting services for our customers, improve the timeliness and accuracy of accounting reports, and streamline end-to-end processes with our customers.

We provide financial information to DoD decision makers





**PEOPLE EMPOWERED
TECHNOLOGY**



Defense Finance and Accounting Service

**Vendor Pay Inquiry System
VPIS**



E/MSS

**EMPLOYEE MEMBER
SELF SERVICE**

Standard Contract Reconciliation Tool
The Defense Finance and Accounting Service



SCRT

Test Integration Data Report

Defense Finance and Accounting Service
presents award winning
"Winning" Web Invoicing

Billing DFAS through
• Speed, quality & ease of use
• Single entry input
• Eliminates tool and slow
• Batch FTP capable
• Eliminates key entry errors
• Batch unallowable interest

Award

Center of Excellence for Information Technology (CEIT)
2000
© North Platte Board

CEIT 2000 Center Technical Excellence Award

2000 Delta Engineering Achievement Award

DFAS: Transforming Financial Management

Innovative solutions provide our customers the best value

The people of DFAS process payments to the Department's military and civilian personnel, retirees, annuitants, and contractors. DFAS accountants record, accumulate, and report financial activity. We have steadfastly introduced new ways of doing business that yield positive results. Use of electronic technologies and the transformation to e-government have modernized operations for our customers.

The integrity of our customers' data is ensured through the secure electronic exchange of financial information. We take pride in operating a modern information infrastructure and introducing new technologies.

Employee/Member Self Service - available at <http://www.dfas.mil/emss/> - has enabled both military members and DoD civilians to make payroll changes online and view their leave and earnings statements from their own desktops—improving customer service while cutting costs.

Use of Electronic Funds Transfer significantly reduces costs by eliminating the printing, processing, and mailing of checks. Today, over 98 percent of DoD personnel paid by DFAS enjoy the greater convenience and security of having their pay directly deposited into their accounts.

DFAS uses Electronic Document Management and World Wide Web applications to facilitate access to information and improve operations. Documents are stored securely and shared among activities. Converting documents to an electronic format for online processing not only eliminates the printing of reports but also enables smoother communication flow. We

use Electronic Data Management to process over 160 thousand garnishment orders and the majority of our 11 million vendor and contract vouchers annually.

We are connected to our customers' commercial partners through use of Electronic Data Interchange, which sends remittance information directly to vendors and electronically passes data from contracts and modifications to finance and accounting systems. A Web-based invoicing system enables contractors to electronically submit invoices to DFAS.

We use a single Web-based database of basic business information from contractors who want to do business with DoD to preclude the need for submitting recurring, redundant data. This Central Contractor Registration provides all DoD procurement and payment offices with a single source of valid and reliable contractor data. It also facilitates electronic exchange of financial information.

We seek to deliver the best products and services through optimizing the mix of our military, civilian, and contractor work force. We promote competition with private sector companies to improve service delivery and reduce costs. In 2001, a contract was signed with a commercial firm to provide pay services to the 2.5 million military retirees and annuitants. This business relationship recognizes the strategic partnership of our private sector providers in DoD finance and accounting operations.

We will continue to employ the best products and systems available so that our customers will benefit from innovative finance and accounting solutions.



We deliver business intelligence to enable better decision making



From Balanced Scorecard Collaborative, Inc.

DFAS STRATEGY

MISSION: *Provide responsive, professional finance and accounting services for the people who defend America*

VISION: Best value to our customers

- World-class provider of finance and accounting services

- Trusted, innovative financial partner

- One organization, one identity

- Employer of choice, providing a progressive and professional work environment

GOALS:

- Fully satisfy customer requirements and aggressively resolve problems to deliver best value services

- Use performance metrics to drive best business practices and achieve high-quality results

- Optimize the mix of our military, civilian, and contractor work force

- Establish consultative relationships with leaders

- Deliver business intelligence to enable better decisions

- Ensure everyone is working toward the same vision and can connect what they're doing to make the vision a reality

- Embrace continuous learning for our work force to ensure critical, high quality skill sets

- Develop the next generation of DFAS leadership

DFAS: A Strategy-based Organization

A metrics-driven, customer-focused support agency

Strategy is everyone's job at DFAS. We are a strategy-based organization that requires all levels working together to make our vision a reality. The DFAS Leadership Council, chaired by the DFAS Director, meets monthly to refine strategy, share information, assess progress, discuss issues, and make decisions to move us forward.

DFAS Strategy

In support of the DFAS mission and vision, we have developed goals to guide our overall strategic direction and shape our decision making. Key components are customer satisfaction, best value services, measured accountability, and work force proficiency.

Balanced Scorecard

We use the Balanced Scorecard methodology, developed by leading industry experts, to align the DFAS organization with our mission and vision and to measure progress. With the Balanced Scorecard, we are better able to articulate our strategy, communicate that strategy, and synchronize individual, organizational, and cross-functional initiatives to achieve common goals.

We have an overall corporate Balanced Scorecard with cascading scorecards for the three business lines and eight support services. Built around four perspectives—Customer, Financial, Internal, and Growth & Learning—and using up and down linkages, the scorecards keep us focused and enable employees at every level to understand their individual roles.

The Balanced Scorecard is not an end in itself but an important tool for measuring our progress and service delivery success against our strategy.

Objectives and Measures

While we have always measured our DFAS processes and outputs, those historic measures have applied primarily to the outcomes now categorized under the Customer and Financial perspectives. Through the use of the Balanced Scorecard, we have extended our reach to the Internal and Growth & Learning perspectives, yielding a more comprehensive view of total operations and enabling us to execute our strategy. The Internal perspective focuses on quality, innovation, and system solutions. The Growth & Learning perspective targets employee competence and satisfaction, succession planning, and fostering a climate of action.

A Contract for Performance

Another way we measure our performance is through a contract with the Defense Resources Board. Our performance contract is a result of the 1997 Defense Reform Initiative, which specifies that directors of Defense Agencies will have a contract with an overall theme of improving efficiencies and decreasing costs. The Defense Resources Board and our director established an annual performance contract to make DoD financial management more affordable and efficient by measuring performance against a set of clearly defined objectives. Our performance indicators measure performance against accuracy, quality, responsiveness, and timeliness objectives. These performance metrics have been carefully selected to holistically ensure that actions are underway to achieve the DFAS mission.



DFAS: Our Board of Advisors

The Secretary of Defense established a DFAS Board of Advisors as a forum to build consensus to improve DoD finance and accounting operations.

The Board includes senior military and civilian DoD officials and private sector representatives. They

provide advice and recommendations to the Under Secretary of Defense (Comptroller) and Chief Financial Officer and the DFAS Director. The Board conducted its inaugural meeting in 2001 and will meet three times a year.

Board Members

The Honorable Dov S. Zakheim

Under Secretary of Defense (Comptroller)
and Chief Financial Officer

General Robert H. Foglesong

Vice Chief of Staff
Department of the Air Force

General Peter Pace

Vice Chairman
Joint Chiefs of Staff

General Michael J. Williams

Assistant Commandant
U.S. Marine Corps

The Honorable Les Brownlee

Under Secretary of the Army

Thomas R. Bloom

Director
DFAS

The Honorable Susan M. Livingstone

Under Secretary of the Navy

Richard Friedland

Consultant

The Honorable Peter B. Teets

Under Secretary of the Air Force

Richard D. Hearney

President and Chief Executive Officer
Business Executives for National Security

General John M. Keane

Vice Chief of Staff
Department of the Army

Gregory J. Parseghian

Senior Vice President and Chief Investment Officer
Freddie Mac

Admiral William J. Fallon

Vice Chief of Naval Operations
Department of the Navy

Josue Robles, Jr.

Senior Vice President and Chief Financial Officer
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DFAS: Here to Serve You

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**YOUR
FINANCIAL
PARTNER
@
WORK**

The Defense Finance and Accounting Service

<http://www.dfas.mil>