



DEFENSE FINANCE AND ACCOUNTING SERVICE

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MEMORANDUM FOR CORPORATE DIRECTORS
BUSINESS LINE EXECUTIVES
CLIENT EXECUTIVES
CORPORATE RESOURCES DIRECTORS
SITE DIRECTORS

SUBJECT: DFAS Transformation Strategy

Transformation is a principal theme of the Quadrennial Defense Review (QDR) Report and is at the heart of the new strategic approach embraced by DoD. The QDR notes that: "DoD's financial systems are decades old and not well interconnected, and accounting and auditing processes would struggle to meet the standards of generally accepted accounting principles." The FY 2003-2007 Defense Planning Guidance (DPG) tasked the Defense Agencies to prepare Transformation Roadmaps for review by the Secretary of Defense. DFAS outlined a transformation strategy that was approved by the Under Secretary of Defense (Comptroller) on June 30, 2002.

The DFAS Transformation Strategy presents a foundation upon which to build a financial services operation to meet the demands of our military customers. This strategy addresses existing financial management deficiencies by enhancing and streamlining government processes, consolidating operations, and leveraging to the greatest extent possible private sector expertise and innovation.

The attached DFAS Transformation Strategy details our approach and employs a Business Case Analysis (BCA) process as the key to determining the best transformation options for each Business and Product Line. It is critical that all levels of management fully embrace the BCA process to ensure that we make the correct transformation decisions and avoid costly mistakes. As a key element of our management philosophy, the strategy should be routinely communicated to our employees to ensure a common understanding of our approach.

Mr. Jim Chittick, Director, Competitive Sourcing Division is my POC for this effort. If you have any additional questions, please contact him at 703-607-5176.

Thomas R. Bloom
Director

Attachment:
As stated



DFAS TRANSFORMATION STRATEGY

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1. Introduction

Transformation is a principle theme of the September 30, 2001, Quadrennial Defense Review (QDR) Report and is at the heart of the new strategic approach embraced by the Department of Defense. The QDR notes that among the areas needing transformation: “DoD’s financial systems are decades old and not well interconnected, and accounting and auditing processes would struggle to meet the standards of generally accepted accounting principles.” As a follow-up to the QDR, the FY 2003-2007 Defense Planning Guidance (DPG) continues developing the theme of transformation. In particular, the DPG tasked the Defense Agencies to prepare Transformation Roadmaps by June 2002 for review by the Secretary of Defense. In response, DFAS established a Transformation Working Group to develop an initial strategy for DFAS transformation. The strategy provides a foundation upon which to build a financial services operation that addresses existing financial management deficiencies by enhancing and streamlining government processes, consolidating operations, and leveraging to the greatest extent possible private sector expertise and innovation. The roadmap was a first step in defining the challenges and the general approach DFAS will pursue in the transformation process, it was not meant to describe the DFAS vision for transformation in full or to detail an implementation approach and transformation schedule. Before proceeding to the next phase of transformation planning and broader involvement by DFAS personnel in transformation activities, an understanding of our strategic approach to transformation is essential. This Transformation Strategy (or roadmap) describes our approach.

2. Transformation Plan Methodologies

The DFAS Transformation Strategy is based on the *DFAS Segments* option – defined as transformation on a Product Line basis – and would result in the best value to DoD. Pursuing the DFAS Product Line approach, DFAS’ initial analysis identified four Transformation methodologies as most likely to yield the best value to DoD for the various DFAS Product Lines. These include:

- Competitive Procurement (FAR Part 15). DFAS’ analysis assumes that competition drives innovation and, in turn, best value. The Competitive Procurement process of the Federal Acquisition Regulation (FAR Part 15) could be used as a means to engage in public-private competitions in order to determine the best provider of a function or service. This approach mirrors the recommendation recently outlined in the Commercial Activities Panel Report, “*Improving the Sourcing Decisions of the Government*.” OMB is in the process of revising Circular No. A-76 to incorporate FAR Part 15 guidance and create a single step cost comparison process. If this method is used DFAS will stress the concept of a “soft landing” for its employees.
- Public-Private Venture (PPV). In general, a PPV is a contractual arrangement formed between public and private sector partners, and can include a variety of activities involving the private sector in the development, financing, ownership, and operation of a public facility or service. Typically, each partner shares in income resulting from the partnership in direct proportion to the partner’s investment. The underlying logic for

establishing partnerships is that both public and private sector partners have unique characteristics that provide them with advantages in specific aspects of service or product delivery.

- Most Efficient Organization (MEO) Plus. “MEO Plus” refers to a streamlined Government organization developed via appropriate tools/models. MEO Plus will reorganize the function to be the most efficient and effective in providing the required services without entering into a competition with a private sector entity.
- Circular No. A-76 Cost Comparison. This long-standing approved method of conducting public-private competitions (last updated by OMB in 1996) is an extremely difficult, although effective, process that has resulted in substantial savings to DoD. Currently OMB is revising this process based on the recommendations of the Commercial Activities Panel report in an attempt to streamline it, incorporate FAR Part 15 guidance, and make the process more fair to both the government and industry.

3. Transformation Goals

DFAS is a Working Capital Fund activity. It is not funded by direct appropriations; rather it operates 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 and DoD intends to continue along this path. DFAS has been in a state of transformation since it was established in 1991. In keeping with our goal of being a “best value” service provider, DFAS has continuously worked to reduce operating costs and increase efficiencies and to seek better ways to do business. We are responsible for providing “best value” for the hard earned taxpayer dollars committed to this work.

In carrying out this responsibility, any DFAS transformation activity must be in sync with the Strategic Mission of DFAS to “*Provide responsive, professional finance and accounting services for the people who defend America*” and its Strategic Vision to provide “*Best Value to its Customers*” by becoming:

- A world-class provider of finance and accounting services,
- A trusted, innovative financial partner,
- One organization, one identity, and
- An employer of choice, providing a progressive and professional work environment

The DFAS Transformation Strategy is intended to document and institutionalize this “best value” commitment and the strategic approach for continuous evolution to achieve “best value”. This strategy will provide the foundation on which DFAS will assist DoD in taking financial operations to the next level.

Our approach to transformation is active not passive, but our activism must be tempered by the reality established by the legislative and policy environment by which we are governed. We

must continue to identify the means to achieve improved efficiencies and reduced costs of operation. Where legislation and/or policy preclude pursuing improvements, we must inform appropriate authorities and work for relief. While progress has been made, a significant amount of work needs to be completed before DFAS Transformation becomes reality. For instance, in pursuing some of the methodologies discussed in the Transformation Plan, enabling legislation is required. In moving forward with the transformation framework outlined in this plan, DFAS will work with the DoD leadership and the DoD Office of General Counsel to develop a legislative proposal to obtain the required relief. While the challenges to rapidly implement an organizational transformation of this scope and complexity are significant, continuing to transform DFAS is in the best interests of the Department, the warfighter, and the American taxpayer.

4. Assumptions

The DFAS Transformation Strategy is based on a number of key assumptions as follows:

- The critical evaluation criterion in DFAS' analysis was the potential for "best value" to DoD,
- While the current A-76 process is an inefficient method for achieving organization wide transformation, it is the primary methodology currently available,
- DFAS delivers services to DoD that can be provided by the private sector,
- While the private sector can provide the services currently delivered by DFAS, because of the purely commercial nature of these functions, the conversion process will require significant process customization (e.g., unmodified Commercial off the Shelf [COTS] software probably will not initially work for DFAS),
- Establishing commercial analogues is critical to efficiently outsourcing government functions, and
- DoD financial management systems and processes are not standardized. The transformation strategy must be flexible enough to mitigate these barriers and adapt to the framework being developed in the "To-Be" DoD Enterprise Financial Management Architecture.

5. Transformation Strategy Overview

The DFAS Transformation Strategy is effectively a four-part process: Part One identifies a candidate function for transformation. Part Two performs a Business Case Analysis (BCA) of the identified function and provides a recommended transformation option. This BCA is key to a successful transformation initiative and is a management decision process. Part Three presents the completed BCA to the DFAS Leadership Council (DLC) for a decision on the recommended transformation option. Part Four implements the DLC decision whether it is one of the options identified in the transformation plan some other yet to be defined direction. In the end, each DFAS Product Line will be analyzed to determine the best transformation approach. The BCA is not designed to restrict the potential solution sets, but rather should examine all possible options. While early analysis by the DFAS Transformation Working Group eliminated some options as

unworkable, many additional approaches and organizational forms/processes were not discussed that should be examined for possible implementation.

Figure 1 below provides an overview of this Transformation Strategy.

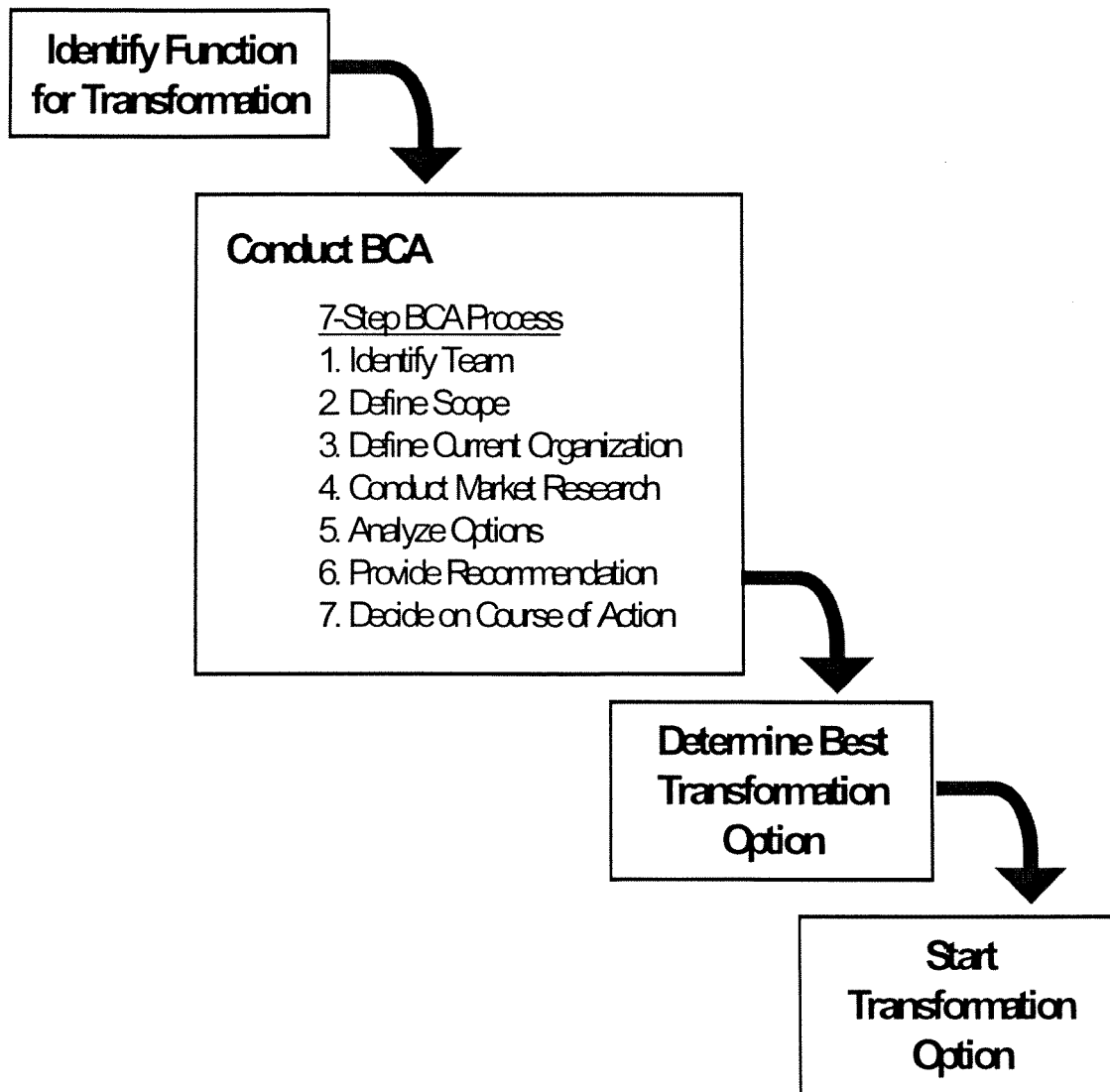


Figure 1. Transformation Strategy

6. The Business Case Analysis (BCA) Process

The BCA is the key to the transformation strategy and forms the basis for management decisions. The Business Line Executive (BLE) is primarily responsible for conducting this analysis. The purpose of the BCA is to determine the best transformation methodology for the function being considered for transformation. The objectives of the BCA are to:

- Define the mission, scope, and boundaries of the function under study;

- Clearly define the organization, manpower, cost, and resources of the current function;
- Present a comparison with other commercial alternatives; and
- Present options for consideration with an analysis of the benefits and drawbacks.

The BCA process consists of the seven steps shown in Figure 1 and is programmed to take about 90 days to complete as shown in the Figure 2.

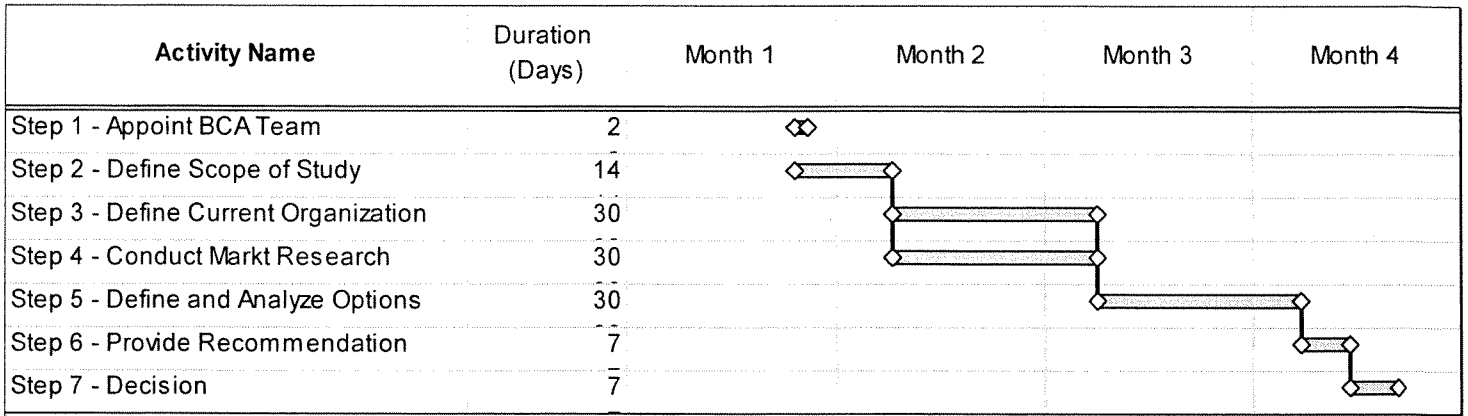


Figure 2. BCA Timeline

The following sections summarize the key steps of the BCA process. DFAS is developing a BCA Guide that provides the detailed process information needed to complete a BCA. This guide will be posted on the DFAS ePortal on the Competitive Sourcing page when completed.

6. a. Step 1 - Appoint the BCA Team

Successful completion of the BCA will depend on the quality, experience and dedication of the team identified to conduct the analysis. Because this analysis will have far reaching effects on DFAS mission, personnel, and costs, the BCA analysis team is chaired by the BLE, Product Line Executive (PLE), or a direct reporting representative to the BLE. The BCA Team members should include functional expertise and be supported by legal, personnel, procurement, financial analysts, and systems experts. In some analyses, key customer representatives may need to participate.

6. b. Step 2 - Define the Scope of the Study

This is the most important step of the analysis in that it will define the boundaries of the function under study, its relationship to the DFAS mission and customers, and the impact of inherently governmental or core functions. The definition of the business unit defines the boundaries of the work that will be included in the study. The business unit must sound with clearly severable work, but the definition should not try to state the desired organizational end result.

6. c. Step 3 - Define the Current Organization

This step will be the most time consuming and detailed part of the analysis. It defines the foundation for evaluation of transformation options and the final recommendation. The current organization must be clearly defined to include resources (manpower, facilities, budget), relationships (internal DFAS, external support, and customers), and key functions (processes, deliverables, and general workload).

6. d. Step 4 - Conduct Market Research

This step requires significant involvement of the Acquisition Services representative in coordination with the Competitive Sourcing representative. The desired outcome of this section is a clear view of commercial availability of similar services, general commercial standards for the services, and identifies any other potential options for conversion to contract (i.e. Preferential Preferred Programs such as NISH, NIB, etc.).

6. e. Step 5 - Define and Analyze Options

This step examines the available options and analyzes each option. Sufficient information must be gathered for each option to allow management to make a well-informed decision that is in the best interest of DFAS and the DoD. All alternative courses of action should be included in the BCA. Each option should be presented separately and include a basic description, the end result, a benefit analysis, a cost analysis, personnel impact analysis, and an overall risk assessment of the tangible and intangible risks of implementing the option. A basic acquisition approach should also be addressed for each alternative.

6. f. Step 6 - Provide Recommendation

This step prioritizes the options examined in Step 5 and generates a recommendation identifying the course of action that has the greatest benefit and lowest risk while focussing on the DFAS mission. A synopsis of the benefit and risk analysis is provided that supports the recommendation. The final BCA report is provided to the DFAS Leadership Council (DLC).

6. g. Step 7 - Decision

The DFAS Leadership Council evaluates the recommendation provided in the BCA and makes a final determination of the course of action that will be implemented and the projected timeline.

7. Transformation Implementation

Once the DFAS Leadership Council or Director has decided on a course of action, the transformation process can begin. Actual implementation time will be dictated by a number of factors including the transformation option choice made, interaction with other DFAS transformation efforts or other DoD transformation initiatives such as BRAC and the development of the DoD Enterprise Financial Management Architecture.

8. Conclusion

A completed, comprehensive Business Case Analysis and a DFAS Leadership Council decision will provide a solid foundation for follow-on transformation actions associated with pursuing the recommended course of action for the DFAS function under study. Through this Transformation Strategy, DFAS will determine the appropriate course of action to transform functions. With the assistance of the Business Case Analysis Guide, the Competitive Sourcing Guide, our Competitive Sourcing Lessons Learned, and potential legislative and policy relief to broaden available options, DFAS can be a model for transformation and continue its tradition of “best value” service to clients and customers.