



DEFENSE FINANCE AND ACCOUNTING SERVICE
ARLINGTON

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JAN 23 2003



MEMORANDUM FOR DIRECTOR, COMMERCIAL PAY SERVICES

SUBJECT: Vendor Pay Services Business Case Analysis

The DFAS Transformation Strategy outlines the requirement to analyze and implement different options for each DFAS segment, defined by Product Lines. The transformation process starts by conducting a Business Case Analysis (BCA) on the selected function. The BCA provides sufficient information on the function, available options and cost, and analyzes risk to allow DFAS Leadership to make an informed decision on the best course of action.

Vendor Pay Services has been identified as the next transformation candidate from our integrated BCA schedule and a BCA must be accomplished to ensure the correct transformation is selected. I have approved the following dates for the Vendor Pay Services BCA:

- Appoint BCA Team: January 30-31, 2003
- Begin BCA: February 14, 2003
- Complete BCA: May 15, 2003
- Begin Transformation Action: June 15, 2003

The following materials are included to assist you in conducting the Vendor Pay Services BCA:

- Business Case Analysis process instructions
- BCA report template
- Vendor Pay Services manpower table

Any questions or concerns should be coordinated with the Director, Competitive Sourcing Division, Mr. James Chittick, at (703) 607-5176 or at James.Chittick@DFAS.mil.

Thomas R. Bloom
Director

Attachments:
As stated

BUSINESS CASE ANALYSIS PROCESS

INTRODUCTION

The DFAS Transformation Strategy identifies procedures and methods to improve DFAS business operations in compliance with the President's Management Agenda and the 2002 Defense Planning Guide.

Prior to initiating a transformation study, a business case is made to analyze a project's proposed benefits and risks before a significant amount of funds are invested. During the pre-announcement steps of a transformation study, a Business Case Analysis (BCA) will be developed. A BCA includes information concerning scope, alternatives considered, estimated costs and return on investment, schedule, risks and general acquisition approach.

The following information is intended to provide a general explanation of a BCA, a process outline on how to conduct a BCA, and provide a template for DFAS BCA reports.

The Competitive Sourcing Division will coordinate with the BLE, PLE and DFAS management to determine when a function will be scheduled for a BCA. The BLE develops the scope of the function as a first step of the BCA and then the BCA Team develops the BCA with a recommended course of action.

DEFINITION OF A BUSINESS CASE ANALYSIS

A Business Case Analysis (BCA) is an analysis tool used to present alternatives and supporting information to DFAS leadership for a decision. A BCA presents all relevant facts and issues, available options, and a recommended action.

The BCA should:

- Define the mission, scope, and boundaries of the function under study
- Clearly define the organization, manpower, costs, and resources of the current function
- Present a comparison to other possible sources
- Present options for consideration with an analysis of the benefits and drawbacks of each option

The BCA should not:

- Limit information or options to influence the final decision

BCA PROCESS

The Business Case Analysis process is a structured and logical procedure to answer the critical questions of:

- What function is being studied?
- What are the current resources performing the function?
- Are there any comparable commercial alternatives?
- What are the available options?

- What is the recommended course of action?

Conducting a BCA can be broken down into seven basic steps.

1. Appoint the BCA team
2. Define the Scope of the Study
3. Define the Current Organization
4. Conduct Market Research
5. Define and Analyze Options
6. Provide Recommendation
7. Decision

Step	Primary POC	Time Required
Step 1 – Appoint the BCA Team	BLE	2 days
Step 2 – Define the Scope of Study	BLE	14 days
Step 3 – Define the Current Organization	BCA Team	30 days
Step 4 – Conduct Market Research	BCA Team	30 days
Step 5 – Define and Analyze Options	BCA Team	30 days
Step 6 – Provide Recommendation	BCA Team	7 days
Step 7 – Decision	DFAS Leadership Council	7 days
Total Time		90 days

Step	Activity	# Days	Month 1	Month 2	Month 3
1	Appoint BCA Team	2			
2	Define Scope of Study	14			
3	Define Current Organization	30			
4	Conduct Market Research	30			
5	Define & Analyze Options	30			
6	Provide Recommendation	7			
7	Decision	7			

Step 1 - Appoint the BCA Team

In Step 1, the Business Line Executive establishes the BCA Team. The BLE should coordinate with the Competitive Sourcing Division to identify the required skills and experience needed on the team. Appointment of the team members will be in writing to ensure all members know and understand their responsibilities. The BLE will coordinate any training required with the Competitive Sourcing Division.

Team composition and number is flexible and the BLE must balance the need for the proper expertise with the limitations of time and sensitivity of the issue. Top level managers and functional-expert participation on the BCA Team will increase the breadth of functional experience and knowledge, thus improving the overall quality of the final BCA report.

Required BCA Team members include:

- BCA Team Leader (BLE, PLE, or a direct appointed representative of the BLE)
- Function manager(s)
- Functional expert(s)
- Human Resources representative
- General Counsel representative
- Competitive Sourcing Division representative
- Acquisition Services Directorate representative
- Resource Management representative

Recommended BCA Team members include:

- Key customer representative(s)
- Technology Services Organization representative

Establishing the BCA Team should take approximately 2 days to identify the team members and publish an appointment letter.

Step 2 - Define the Scope of the Study

Step 2 - Defining the Scope of the Study, is critical to the success of the BCA study and the follow-on transformation actions. This step addresses the boundaries of the function under study, relationship to the DFAS mission and customers, and the impact of inherently governmental or core functions.

The BLE begins by defining the scope of the function for analysis in the BCA. This scope should also include a general definition of the boundaries of the function, or business unit. A business unit can be defined as related tasks, services, and functions that can be grouped together as a singular function/organization. The definition of the business unit defines the boundaries of the work that will be included in the study but should not try to state the desired organizational end result. The BLE should define the business unit as a severable (independent) function whenever possible. For transformation purposes, a severable business unit is a function or organization with clear boundaries around processes that begin and end within the business unit. A severable function should be able to operate the key processes separate from the rest of the organization with definable inputs and outputs.

The BLE must also state the relationship of the defined function (business unit) to the DFAS mission. This should also identify the key DFAS customers of the services within the function.

The last consideration in defining the scope of the study is a consideration of inherently governmental or core functions within the defined business unit. The BLE must take into account the impact of inherently governmental responsibilities that must remain with the government. Also, the functions should be considered in reference to DFAS core functions and the possible impacts to the DFAS mission and organization.

The BLE should coordinate with the Competitive Sourcing Division and Corporate Planning for assistance in defining the scope of the study. It may be beneficial for the BLE to conduct a small off-site to facilitate completion of step 2.

In this step, the BLE should also define the focus of the BCA and expected outcome of the BCA Team. This leadership direction is critical and provides to the BCA Team a focus and basic set of guiding principles to use in gathering information, evaluating options, and providing a final BCA recommendation.

Step 2 - Defining the Scope of the Study should take approximately 14 days.

Step 3 - Define the Current Organization

Step 3 - Defining the Current Organization, is the most time consuming and detailed step in the BCA Process. It is critical for the evaluation of options and final decision that the current organization be clearly defined to include resources (manpower, facilities, budget), relationships (internal DFAS, external support, and customers), and key functions (processes, deliverables, general workload).

The first stage of Step 3 is to outline the personnel within the business unit. The Resource Management representative should provide the manpower data from the Resource Analysis Decision Support System (RADSS), e-BIZ, or the current manpower database system, and should include the number of authorized positions and personnel assigned. The numbers should include all personnel within the boundaries of the current function affected by the study, immaterial of whether the positions will be included in the final study. Also included in the personnel description is a summary from the previous Commercial Activities (CA) Inventory detailing whether the positions have been coded as inherently governmental or commercial activities.

A listing of the locations of all personnel should be included. This information should also include a breakdown of the facilities and whether they are DFAS owned, leased, or provided by other means to the function. The analysis should include square footage, cost, and other impacts such as shared usage or if the facilities are on the BRAC list.

The BCA should also include a brief description of the budget and cost expenditures of the function. The Resource Management (RM) representative should be able to provide an explanation of the budget/funding line of the function. Also, the RM representative should provide to the BCA Team a cost/expense report that defines current personnel, contract, capital funding, and other non-labor expenses.

The functional relationships should also be described in this step. Functional relationships should include three areas: internal DFAS, external suppliers, and customers. Internal DFAS relationships include IT/Systems functions, interfaces with other DFAS systems, or cross-functional operations with other DFAS organizations. External suppliers can include any ISSAs, support contracts, or interfaces with other non-DFAS agents required for mission accomplishment. Customer relationships are the most important and should cover both the

interface and information received from DFAS customers (service branches) but also the relationship with customers when providing outputs/services.

The BCA should also clearly describe the functions included in the business unit. The description of functions should illustrate all major processes in the business unit, the overall workload of the function, and the deliverables or outputs of the function. This description is not meant to be a complete explanation of all the processes within the business unit, rather it is intended to give an overview of the processes involved and provide a macro level understanding of these processes. Each process should be explained in enough detail to show the basic inputs, action steps, and outputs. For assistance, the BCA Team may utilize Business Models, data collection sheets, or other function description tools available.

Lastly, a description of the systems utilized through the processes listed should be included. The Systems Integration representative should provide the information to the BCA Team for inclusion in the BCA report. Systems information should include a summary of current systems used and the interfaces of these systems, a description of the in-process system upgrades or changes, and a description of any planned system upgrades, replacements, or changes.

Step 3 - Defining the Current Organization should take approximately 30 days.

Step 4 - Conduct Market Research

Step 4 – Conducting Market Research, should begin shortly after Step 3 is started. The Acquisition Services representative in coordination with the Competitive Sourcing representative will conduct the market research for the BCA. The desired outcome of this section is a clear view of commercial availability of similar services, general commercial standards for the services, and if desired, other options of conversion to contract (i.e. Preferential Preferred Programs such as NISH, NIB, etc.). This is meant to be a macro view of the commercial market and does not replace the requirement for in-depth market research required by FAR Part 10.

This market research can be conducted through a variety of means to include a Request for Information (RFI) to industry, web searches, or contacting individual companies or associations that are involved in similar services.

Most important in this step is the description of the commercial availability of similar services. The market research results should explain any similar commercial services to the functions being studied and how these commercial functions relate to the current DFAS function in scale and performance. Commercial industry trends and identifiable best practices from industry should also be highlighted in the market research. Also, the market research should look for lessons learned from other government studies of similar functions.

A brief comparison of the DFAS standards of service to the industry standards should also be provided. This will alert management to the differences in service standards and possible areas of adjustment to commercial standards, or possible areas of increased cost if higher government standards are required.

The BCA should also present options for conversion to Preferential Preferred Programs if applicable to the function, leadership's vision, and the available transformation options.

The last objective of the market research should be to summarize the possible industry level of interest in competing for the function, which will also provide justification for the final BCA recommendation.

Step 4 - Conduct Market Research should take approximately 30 days, running concurrently with Step 3.

Step 5 - Define and Analyze Options

Step 5 is simply the presentation of the available options and an analysis of each option. The information on each option should focus on providing enough information on all factors involved to allow management to make a well-informed decision as to the appropriate action 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 of the option and 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 be addressed for each alternative.

The option description should include a clear definition of the end result that is comparative to the scope description of the current business unit (Step 2). This will provide management a reference of what the function could look like and how it would fit in with DFAS should the option be implemented.

The option benefit analysis should provide a clear comparison of the strengths and weakness of the option. The positive aspects of the option should be emphasized to show what the gain would be to DFAS to implement this specific course of action. The benefit analysis can be accomplished using various tools such as worksheets, benefit models, or Strength, Weakness, Opportunity, and Threats (SWOT) Analysis.

The cost analysis is an estimate of the future cost of the function under the alternative. The cost analysis should be quantifiable and should address the impact to cost from influences such as performance standards, customer satisfaction, workload surges, etc. This evaluation should be consistent with commercial standards. The cost of an alternative should include an estimation of study costs, development costs, operations costs, contract costs, overhead costs, maintenance costs, transition costs, or any other costs to achieve and maintain the alternative. A-76 cost methodology can not be used for this analysis.

The impact of the option on current personnel should be clearly stated. Factors to consider include personnel placement, relocation or retraining, RIF procedures, VERA/VSIP application, and the application of the Right of First Refusal.

The BCA risk assessment should consider tangible risks (such as previous mentioned costs or personnel impact) and intangible risks (such as political repercussions, customer impression, and

overall sensitivity concerning the function). The risk assessment should also address methods to mitigate the risks of the alternative course of action and how the actions can affect the overall end result.

The Acquisition Services representative will provide a general acquisition approach for each option to include the recommended solicitation method.

Step 5 – Define and Analyze Options should take approximately 30 days.

Step 6 - Provide Recommendation

The BCA recommendation is based upon the previous analysis of the available options from Step 5. This should indicate the course of action that has the greatest benefit and lowest risk focussing on the DFAS mission. A synopsis of the benefit and risk analysis should be provided for the recommendation to support the action. Included in the recommendation is a brief statement of the timeline to implement the option, the costs to conduct the recommended action, and a general estimation of savings. The BCA report should also include a listing of the critical success factors that must be accomplished to ensure the recommended option produces the desired end result.

The BCA report is finalized and provided to the Business Line Executive by the BCA Team Chairman. The BLE will coordinate with the Competitive Sourcing Division to present the BCA report to the DLC. The BLE may require the BCA Team Chairman to assist with the presentation of the BCA report to the DLC. Once the BCA is provided to the DLC for decision, the BCA Team is finished with the tasking, but team members may be called upon to participate on or advise other teams in the process.

Step 6 – Provide Recommendation should take approximately 7 days.

Step 7 - Decision

The DFAS Leadership Council will evaluate the information presented in the BCA and make a final determination of the correct course of action. The Director, DFAS will approve the action and authorize the announcement of an A-76 Cost Comparison or other transformation action.

The DFAS Competitive Sourcing Division will identify an A-76 Cost Comparison or transformation Action Manager who will coordinate all further actions in the study. Progress updates will be provided to the DLC as required.

Step 7 – Decision should take approximately 7 days.

BCA Template

A. SCOPE

1. Definition of Business Unit
 - a. Number of personnel in business unit
 - b. Critical functions in business unit
 - c. Business unit boundaries
2. Relation to DFAS Strategy & Mission
 - a. DFAS strategy and goals
 - b. Inherently Government functions within business unit
 - c. Core functions within business unit
 - d. Severability of functions into a separate business unit
3. Critical Relationships
4. Commercial Market Considerations
 - a. Comparability to commercial market services
 - b. Credible commercial interest in function
5. Assumptions

B. CURRENT ORGANIZATION

1. Personnel
 - a. Authorized
 - b. Assigned
 - c. Location of Personnel
 - d. RADSS and Commercial Activities Inventory comparison
 - e. Breakdown of positions affected by inherently governmental duties
2. Locations
 - a. Facility listing
 - b. Facility cost
 - c. Other facility considerations (i.e. BRAC)
3. Cost/Budget
 - a. Function programmed budget
 - b. Previous cost expenditures of function
 - c. Other cost considerations
4. Functional Relationships

- a. Internal DFAS
 - i. IT
 - ii. DFAS cross functions
 - b. External Suppliers
 - i. ISSAs
 - ii. Contracts
 - c. Customers
5. Key Processes and Outputs
- a. Major processes within business unit
 - b. Historical workload and future workload estimate
 - c. Key deliverables and outputs
6. Systems
- a. Current system in use
 - b. Upgrades or changes in-process
 - c. Planned upgrades, migrations, or system modifications

C. MARKET RESEARCH

- 1. Commercial Availability of Similar Services
 - a. Industry benchmarks and best practices
 - b. Industry trends in associated services
 - c. Comparison in scale
- 2. Commercial Standards for Services
- 3. Application of Preferential Preferred Programs
- 4. Summary of Commercial Interest

D. OPTIONS AND ANALYSIS

- 1. Option 1 (repeat as necessary for each available option)
 - a. Description of option and end result business unit
 - b. Benefit analysis
 - i. Strengths (Pros)
 - ii. Weaknesses (Cons)
 - c. Cost analysis
 - i. Estimate of future cost of performance
 - ii. Estimate cost of implementation
 - iii. Estimated long term savings

- d. Personnel impact
- e. Risk assessment
 - i. Tangible risks
 - ii. Intangible
 - iii. Methods to mitigate risks
- f. General Acquisition Approach

E. RECOMMENDED ACTION

- 1. Synopsis of Recommended Course of Action
- 2. General Timeline for Implementation
- 3. Critical Factors for Success
- 4. Estimated Cost Savings

F. ADDITIONAL INFORMATION

- 1. BCA Team Member List
- 2. Other (as needed)

Vendor Pay Services Personnel

Authorized / On Board

The total authorized vs. on board manpower information is provided, current as of Sep 30, 2002.

Location			Authorized (Workyears)			On Board (#Persons)		
			Civilian (FTEs)	Military (FTEs)	Total	Civilian	Military	Total
Charleston			72.3		72.3	68		68
Columbus			264.5		264.5	242		242
Dayton			84.5	19	103.5	79	17	96
Denver					0			0
Europe			234	37	271	232	32	264
Indianapolis			257.5	12	269.5	254	9	263
Japan			68.9	9	77.9	69	11	80
Kansas City			42.6		42.6	40		40
Lawton			43.6	16	59.6	43	11	54
Lexington			13.1	2	15.1	13	1	14
Limestone			77.5	22	99.5	89	11	100
Norfolk			111.9		111.9	116		116
Oakland			38.7		38.7	35		35
Omaha			39.7	86	125.7	56	64	120
Orlando			74.3	29	103.3	61	26	87
Pacific			43.6	16	59.6	45	19	64
Pensacola			113.9		113.9	91		91
Rome			72.3		72.3	70		70
Rock Island			91.1		91.1	83		83
San Antonio			119.1	38	157.1	127	38	165
San Bernardino			39.9	37	76.9	34	20	54
San Diego			70.3		70.3	65		65
Seaside			11.1	2	13.1	10	1	11
St. Louis			54.9		54.9	52		52
Total			2,039.3	325	2,364.3	1,974	260	2,234

Location of Personnel

All Vendor Pay Services personnel in the business unit are geographically located at the DFAS sites listed above.

Commercial Activities FAIR Act Inventory

The 2002 Commercial Activity (CA) Inventory is based upon information on September 30, 2002. A summary table of the Vendor Pay Services positions follows. This is preliminary data and has not yet been validated.

Criteria F/J/K - Military Total	283
Criteria E - Inherently Governmental Total	131
Criteria R - CA Total	1754.4
Total All	2168.4