

# Resource Management



3rd Quarter 2004

The Army Financial Management Community welcomes  
The Honorable Valerie Lynn Baldwin, Assistant Secretary  
of the Army (Financial Management and Comptroller)

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AND COMPTROLLER**

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# Resource Management

3rd Quarter 2004

"Professional Development"

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The Army Financial Management Community welcomes  
The Honorable Valerie Lynn Baldwin, Assistant Secretary  
of the Army (Financial Management and Comptroller)



Ms. Valerie Lynn Baldwin serves on the Army Secretariat as the Assistant Secretary of the Army for Financial Management and Comptroller. She was appointed to this position on 23 July 2004. From 1996 until assuming her current duties as the Assistant Secretary of the Army for Financial Management and Comptroller, Ms Baldwin was a member of the Appropriations Committee staff of the United States House of Representatives, serving most recently as the Staff Director of the Military Construction Appropriations Subcommittee. From 1996 until moving to the Military Construction Appropriations Subcommittee in 2001, she was a Staff Assistant on the Veterans Affairs, Housing and Urban Development and Independent Agencies Appropriations Subcommittee. She also served as the Legislative Counsel to the Housing Subcommittee of the Financial Services Committee from 1993 to 1996. Prior to 1993, she served as a Trial Attorney at the Department of Housing and Urban Development, and as a Legislative Assistant on the staffs of Senator Nancy Landon Kassebaum and Senator John Glenn.

Ms Baldwin received her juris doctorate degree from the University of Kansas School of Law, her master's degree from the London School of Economics and Political Science, her bachelor's degree from Wichita State University, and her associate's degree from Seward County Community College.

## A Message from the Principal Deputy Assistant Secretary of the Army (Financial Management and Comptroller)

Mr. Ernest J. Gregory



I have a vision for transforming financial management in the Army. That vision is to establish one accounting system, which will form the financial management backbone for all business areas within the Army. It will be constructed as an Enterprise Resource Planning (ERP) system that will provide entry and exit points for other business areas, such as logistics and contracting, to send and retrieve required financial data.

We are on the way to making this vision a reality. The key is to adopt new, modern business processes supported by an enabling system — not to adapt a new enabling system so that it looks and feels like our old processes and system. Implementation of one general fund (versus revolving fund) accounting system for the Army will be the first step. With the adoption of modern, proven business practices embedded in a commercial off-the-shelf (COTS) ERP system — the General Fund Enterprise Business System

(GFEBS) — we will bring Army accounting into the 21st century.

Why do we need a modern business system? The Standard Finance System (STANFINS), its business processes and technology are more than 30 years old! STANFINS does not provide you and Army decision-makers with the timely, reliable and accurate financial information needed to make informed decisions. Further, the lack of a modern system results in wasting resources on data calls, work-arounds and data reconciliations. In addition, because our accounting system was built more than three decades ago, it does not meet today's legal and management control requirements for public financial management.

The Army established the GFEBS Executive Steering Committee (ESC) in March 2004 to provide the governance process for our developmental effort. Membership includes Army major command resource managers, as well as representatives from the Army Audit Agency, select Headquarters staff agencies, OSD, the Air Force and the Navy. The Principal Deputy ASA (FM&C) is the executive sponsor and chair, and the Deputy Assistant Secretary of the Army (Financial Operations) serves as the ESC executive secretary.

Several working groups already have met to document "as is" requirements; to identify "trigger" points for accounting transactions; and to crosswalk requirements to the "Blue Book," the consolidated list of federal government and DoD accounting requirements.

This fall, we plan to release a contracting vehicle to select a systems integrator, who will identify an appropriate COTS product and an application service provider to implement GFEBS. That COTS product will include core financial management tools, such as a general ledger, funds management, payment management, receivable management, cost management and reporting. We intend for GFEBS to replace completely multiple, aging

legacy systems: STANFINS, the Standard Operation and Maintenance Army Research and Development System, the Defense Joint Accounting System, the Database Commitment Accounting System and the Computerized Accounts Payable System.

Along the way, the Army will reengineer all business areas — not just back-room finance and accounting processes — around the commercial Enterprise Resource Planning system. According to the project office, the GFEBS end state will be: "a CFO-compliant General Fund Finance and Accounting System, on a Joint Financial Management Improvement Program (JFMIP)-certified COTS ERP product, that is capable of supporting the Department of Defense (not just the Army) with accurate, reliable, and timely financial information, in peacetime and in war."

Why do I believe our current plan will succeed where other attempts have failed? I believe the key is early "buy-in" from the highest levels. At the very top, President Bush established his management agenda (the President's Management Agenda) to improve management and performance within the federal government. The Executive Branch Management Scorecard tracks how well the departments and major agencies execute PMA initiatives, and the scorecard will monitor improvements in financial performance. This will help us to fine-tune our efforts. Within our immediate community, the Acting Secretary of the Army has set firm financial goals. According to Secretary Brownlee, "Earning an unqualified opinion on our financial statements will attest to the quality of the financial information we provide managers. Thus, an unqualified opinion remains a priority across the Army."

Additionally, the Army's Program Executive Officer Enterprise Information Systems (PEO EIS) has assigned a full-time, experienced, Acquisition Corps-certified, Level III project manager to lead us through the acquisition process. Our Defense Finance and Accounting Service (DFAS) partner is fulfilling the "combat developer" role or, as we would call it, the accounting requirements role. The quality team charged

with design and implementation also includes ASA (FM&C) and it will incorporate input from the Army at large, as well as from the Air Force and the Navy.

A considerable amount of planning and documentation already has been accomplished, but we are looking forward to release of the contracting vehicle to move this program into high gear. Even with all of this progress and a framework in place, the Army's financial transformation will work only with your buy-in, assistance, cooperation and willingness to advance beyond the present. Help the Army build our new Army/DoD Financial Backbone!!

# Capability Based Resourcing

*by Mr. Joe Dailey, CGFM*

We do indeed live in interesting times, full of unprecedented challenges and change: We are heavily involved in the Global War on Terrorism (GWOT), nine of 10 active divisions have seen action in Afghanistan or Iraq; we are in the midst of the largest troop rotation since WWII; we are radically transforming ourselves into a modular, brigade (or Unit of Action) based Army and streamlining the field command structure—all at the same time. We also are fulfilling the various peacetime missions and roles assigned to the Army under Title X and other laws and regulations.

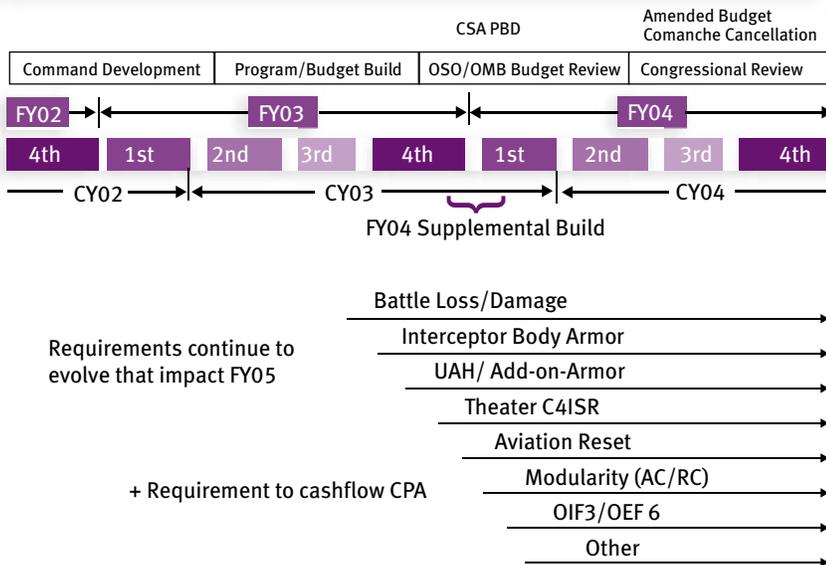
The problem that resource managers at HQDA are confronted with is how to resource the Army's changing requirements using the current Planning, Programming Budget and Execution system (PPBE) process. Today, PPBE is executed as four distinct processes, which do not concretely link to each other. Planning does not provide Program Analysis and Evaluation Directorate (PAED) and the (Planning Evaluation Groups) PEGs with the detailed guidance required for programming during the Program Objective Memorandum

(POM). POM data does not easily translate into the budget exhibits used to justify resources to the Office of Management and Budget (OMB) and the Congress. Finally, the difficulty of accurately forecasting requirements two years in advance (FY05 example below) ensures that we don't execute as we budget. As a result, the HQDA staff expends material amounts of effort working around the system to keep the process moving.

One solution is to integrate the pieces of PPBE. We need to reorganize our mindset, thought processes and the data elements in our resource management databases so that we resource capabilities, NOT programs or systems. The linkage of strategy and resources across the phases of PPBE provides the opportunity to consider resource tradeoffs among priorities, emerging requirements and constraints while balancing strategy, force structure and resources. While effort will also facilitate the addressing of emerging requirements (GWOT and other contingency operations, etc.) normally funded via Supplemental Appropriations, it is important to note that we are discussing how we build the "peacetime" program and budget. Supplemental budgets are outside the scope of this article; however, the impact of growing GWOT-related requirements is the primary catalyst for changing how we execute PPBE.

## The FY05 Budget in 2-Year Lead-Time

Normal budget timelines do not permit quick reaction to emerging fiscal needs



## Background

PPBE has been a work in progress ever since it was implemented under Secretary of Defense Robert McNamara in the 1960s. The current Army programming system has a materiel solution or hardware mindset at its heart and is a legacy of the Cold War. The Army makes POM or programming funding decisions at the Management Decision Package (MDEP) level. The MDEP is an Army-unique tool, which evolved from the need to track the development and procurement of equipment (through its life-cycle and across appropriations). Over time, the MDEP has been expanded to manage all Army programs. The MDEP has served the Army well but its programmatic nature is a handicap in today's current chaotic environment. Replacing PPBE's program/hardware focus with a capability focus will correct many of its problems.

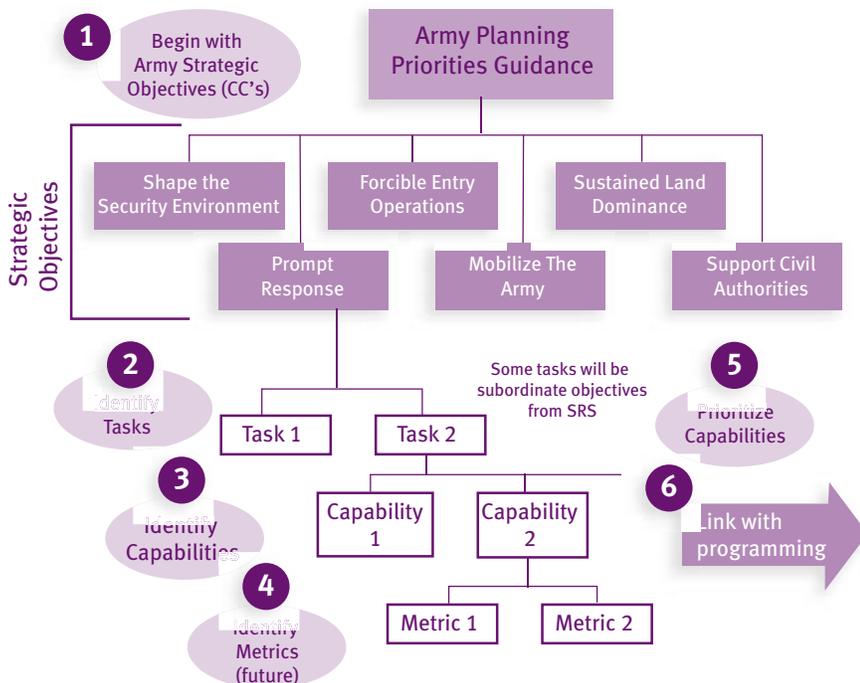
## Planning

The Army's planning process is capabilities-based, providing priorities and risk management guidance through The Army Plan (TAP). Part one of the TAP, Army Strategic Planning Guidance (ASPG), contains the vision of Army leadership along with priorities for available resources. Part two, Army Planning Priorities Guidance (APPG), translates part one's strategic direction into operational, priorities and risk-management guidance. The APPG is intended to provide a bridge from the ASPG to part three, Army Program Guidance Memorandum (APGM). The APGM offers detailed programming guidance, at the program and MDEP levels, to the PEGs for the current POM cycle. Unfortunately, this is where the process breaks down.

Repeated efforts to crosswalk Army capabilities to the current MDEPs have never been satisfactorily completed. The mappings resulted in a myriad of many relationships between the capabilities and MDEPs<sup>2</sup>. As a result, there is no direct link between strategy and programming. The TAP cannot provide detailed guidance to the PEGs as they validate requirements and make funding recommendations during the POM build. The needed details are not available

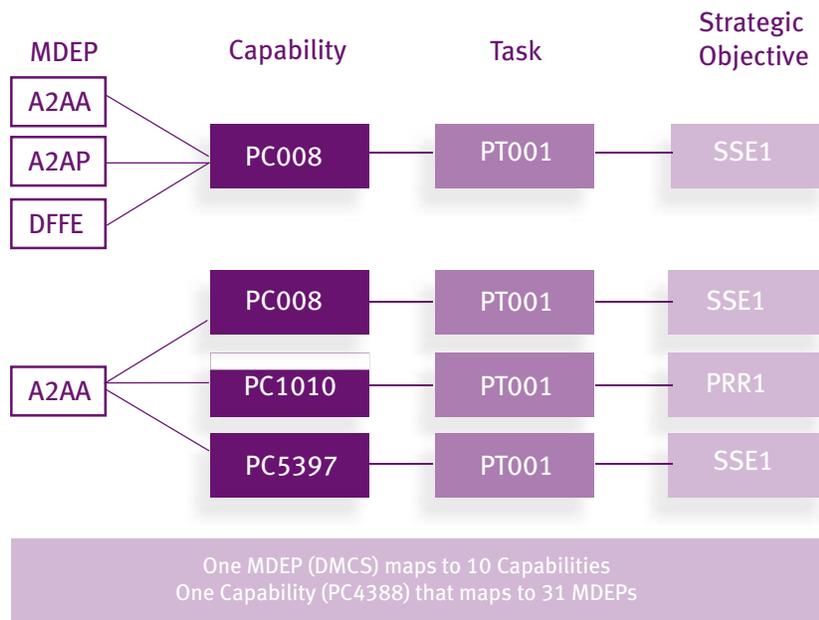
## Section II, Army Planning Priorities Guidance

Producing Capabilities-Based Planning Guidance



## Mapping MDEPs to Capabilities

Snapshot as of Feb 2004



until the Technical Guidance Memorandum is published, prior to POM File 1.0 (PF 1.0) and near the end of the PEG's POM build. The result is a process that could be depicted as "pPBe," with programmers in PAED/G8 providing the bridge between planning and budget phases. Additionally, PAED must solicit POM guidance directly from senior leadership, instead of it flowing naturally from the planning process.

### Programming

The MDEP-centric programming process is able to produce a POM, a Program of Record and a Future Year Defense Program that satisfy the requirements of the Office of the Secretary of Defense (OSD). Our programming process has evolved over the past few POMs into tracking large amounts of data on various initiatives by Major Force Program so that incremental costs can be tracked and reported to OSD. However, this

level of detail, useful in the programming process, does not translate well into the development of budget exhibits and justification materials.

### Budget

Budget materials discuss the percentage of change between budget years in terms of discrete categories, such as program and price growth<sup>3</sup>, instead of the long term, detailed programmatic view of the POM. Budget exhibits and justification materials are built around Budget Activity (BA) and Sub Activity levels for Operations and Support Appropriations, BA and Standard Study Number (SSN), or project level for the Investment Appropriations. The requirements vary by appropriation and category<sup>4</sup>, requiring reorganization and aggregation of the POM data into the formats appropriate to the Budget Estimate Submission and the President's Budget.

The Army budget process successfully produces budget exhibits and justification materials required by OSD, OMB and the Congress. However, not maintaining a programmatic level of detail forces us to translate budget decisions into the higher level of detail required by the PEGs prior to the start of the next POM cycle – and effort that, by and large, is redundant.

### Execution

At the end of the process, we actually spend the money that we have planned, programmed and budgeted across a two-year period. Federal law governs budget execution and its data requirements do not match the existing program or budget formats due to our increased focus on Major Command rather than Appropriation, MDEP or Program Element. (The Army executes Operations and Support (O&M and MILPERS) budgets by BA and Sub Activity Group (SAG), not by Program Element or MDEP.) The process does connect for the Research, Development and Acquisition (RDA) and Investment Appropriations, which execute at the Budget Line Item Number (BLIN) and can be tracked back to the SSN used during the Program and Budget phases. The MDEP is not used consistently in any appropriation during execution, breaking the connection once initial guidance is issued.

### Need for Change?

If the Army has operated this way for years, is there a need for change? For all of its faults, PPBE still is one of the best constructs to tie long- and short-term planning, annual budgets and execution together. In 1993, the Congress passed the Government Performance and Results Act (GPRA), which encouraged other government departments and agencies to adopt a PPBE-like strategic planning process<sup>5</sup>. During the Cold War, the process was adequate, as the major threat to national interests was confined to a single, large, well-armed military power and a few smaller potential adversaries. The environment was fairly stable,

and changes in threat capabilities could be anticipated<sup>6</sup>. Since the fall of the Soviet regime, the geopolitical environment has been anything but predictable. The United States may be without peer as the world's sole superpower, but we are confronted by a bewildering variety of adversaries and threats. This environment calls for a system that can tie plans, programs and budgetary resources together while responding to constantly changing or emerging threats and requirements.

Another reason to adopt a capabilities-centric process is that OSD already has moved in this direction. On October 31, 2003, even before the final results of the Aldridge Study were published, Secretary



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of Defense Donald Rumsfeld signed a memorandum, titled "Initiation of a Joint Capabilities Development Process". This document established as a goal "development of a streamlined and collaborative, yet competitive process that produces fully integrated joint warfighting capabilities"<sup>7</sup>. This new process would be based on the Defense Secretary's and Combatant Commanders' priorities, with the center of effort moving upwards from the Services to OSD. We in the Army have a choice: we can embrace this change and attempt to work within its construct; or, we can fight it. General Schoomaker, since his arrival, has challenged us to become "A Campaign Quality Army with a Joint and Expeditionary Mindset."<sup>8</sup> with this statement; I believe that our vote has been cast. Adoption of

a capabilities centric process is key for the Army's leadership to remain "a player" in future OSD resource decisions. Early adoption of a capabilities centric process that satisfies Army requirements could also work to our favor since OSD is still struggling with implementation<sup>9</sup>.

## Road Map to Capability Based Resourcing

For all of these reasons, the current way in which we execute the PPBE system is not adequate to the task. But, a drastic reengineering effort won't help us today. The solution isn't to throw out the current system but to realign its parts to work in concert, with each other. To put it another way: This realignment would refocus PPBE so that it "begins with the end in mind." The concept behind PPBE is sound, and we should build upon its strengths so that information flows and resources can be tracked from the planning phase through the programming and budget phases into execution. We can get to a Capability-Based Resourcing process with just a few fundamental modifications to the existing structure during the "off year" FY 07-11 cycle. Implementation would be completed during the full FY 08-13 POM cycle.

## Planning (revised)

The methodology for constructing The Army Plan would remain the same, except that we would keep in mind the need to translate its products through the programming phase into a budget that can be both justified and executed. This would require detailed planning to cover not only the strategic and operational component but also the sustaining base and institutional component. As the ASPG is crafted, we could map capabilities to a new equivalent data element, a Capability Decision Package (CDEP) instead of trying to map capabilities to MDEPs. This would allow for a one-to-one or one-to-many data element relationship for each capability. This fundamental change would enable the APPG to achieve its purpose: providing a link between the ASPG and the APMG, and translating plan-

ning risk guidance into language that programmers and PEGs can use. The APMG would have to be reorganized around CDEPs (initially with a crosswalk from the old MDEP structure) in order to provide detailed guidance to the PEGs at the beginning of the POM. This level of detail also would assist in building future editions of the new Part IV, the Army Campaign Plan. The ACP is a strategic-level, yet detailed, Operations Order that supplies direction for detailed planning, preparation and execution of senior leader strategy.

## Programming (revised)

The existing PEG structure would remain, as it facilitates a balance between the strategic goals of the Army and its Title X responsibilities. POM requirements and funding decisions would be reorganized around the CDEP, and CDEPs would replace MDEPs, once PEGs crosswalk requirements and funding (building on the results of G3's mapping efforts) to the new CDEP structure during the FY 07-11 off-year cycle. Except for this change, the Army would continue to use its current database structure during the off-year cycle and POM 08-13. Full integration would require a programming process and database redesign that balance the details required by OSD's programmers and facilitate the building of budget exhibits and materials, while still being mindful of budget execution requirements. The upcoming FY 07-11 off-year cycle provides a test of this new process prior to the full POM 08-13 cycle. The linkage between the planning and budget phases would have a side benefit: allowing Army PAED to achieve the goals set for the Army Resource Framework (ARF) in terms of tracking dollars throughout the Planning, Programming and Budget phases of the process<sup>10</sup>. The current ARF is not tied to capabilities as a result of the MDEP mapping problem; however, the conversion to CDEPs would connect the ARF to all three phases of PPBE.

### Budget (revised)

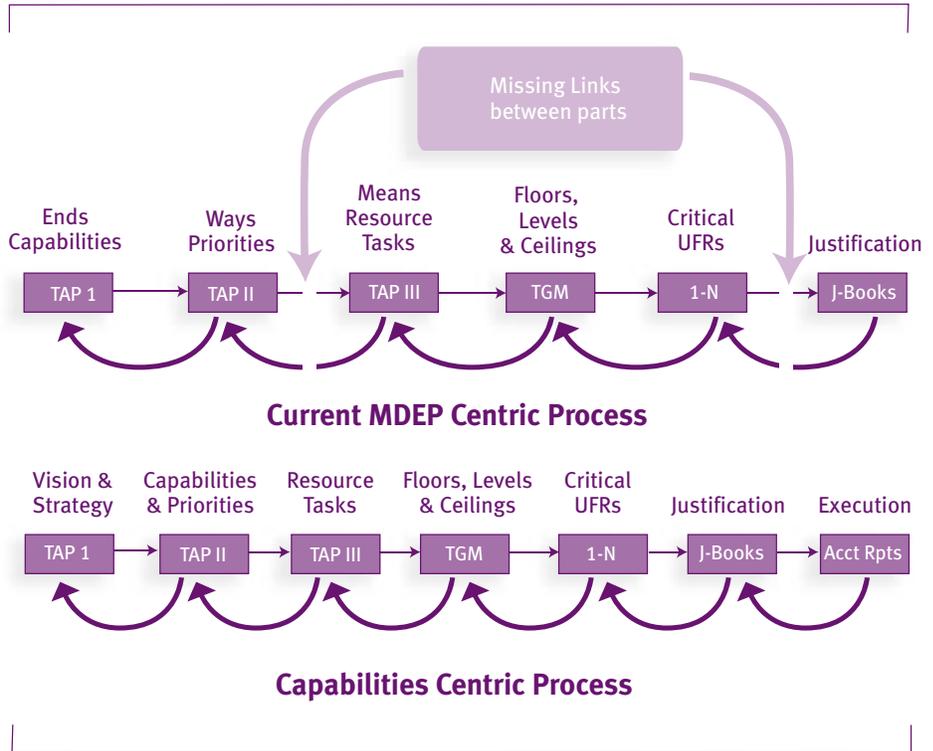
The budget justification process would be strengthened because we would be able to link the resource displays in our budget exhibits to the capabilities and strategy articulated by Army leadership. Army Program Elements probably will require reorganization to ensure the capability linkage, support the programming database redesign, and execution requirements. This bridge to execution is important because it bolsters the use of current and prior-year execution data as input for resource decisions during future program and budget cycles. This enables achievement of a key requirement of DoD's Management Initiative Decision (MID) 913, that execution data inform budget and program decisions during the second, or off-year of the cycle.

### Execution (revised)

In the near term, there would be minimal change to the way the Army executes its budgets. However, the alignment of capabilities to budget and program data would facilitate the use of actual budget execution as a decision tool for future budget and programming decisions, as required by MID 913.

To complete the transition to Capabilities-Based Resourcing, the procedures and systems used to distribute funding and to account for the expenditure of resources must also change. The new systems and processes should embrace capabilities, enhance data exchange and visibility at all levels and implement cost accounting. This part will take much longer than changing the other three pieces because the Army does not own these processes. Funds control policy and regulation begins with the Treasury Department and OSD providing guidance for specific defense requirements. OSD is responsible for accounting policy. The Business Management Modernization Program (BMMP<sup>12</sup>) monitors changes to existing or planned systems that are operated by the Defense Finance and Accounting Service (DFAS).

The new systems should be easy to operate, as well as, provide adequate man-



Maximum Level of Army Support					
Percent of		Percent of			
Operation	Fiscal Year	Force Structure	\$8 Annual Funding	Army Base TOA	Army O&S
Somalia	93	26K	\$0.5	1%	1%
Haiti	95	15K	\$0.4	1%	1%
Bosnia	97	6.5K	\$1.83%	4%	
Kosovo	00	7.2K	\$1.62%	3%	
GWOT	04	216K	\$40.1	42%	58%

agement controls necessary to prevent fraud, waste and abuse of public resources. Financial management systems which support DoD accounting needs are essential to achieving the improvement in financial management envisioned by the Chief Financial Officers Act of 1990 (P.L. 101-576) and contribute to the goal of producing auditable financial statements.

The Army's performance metrics also must be modified to embrace a capability-based structure. This enables leadership to know how much we spent on capability X, and to evaluate "if" the Army achieved its goals.

## Summary

The integration of the parts of the PPBE process is long overdue. Our wakeup call came on September 11. The old system was adequate during the 1990s era of Stability and Support Operations<sup>13</sup>, also known as Operations Other Than War. However, in the post 9/11 world, the Global War on Terrorism (GWOT) carries new fiscal realities. The exponential jump in emerging requirements that must be funded out of the Army's base and supplemental budgets provide the stimulus for change. Although the Capability Based Resourcing is a peacetime or base program/budget tool, it also facilitates resource-informed consideration of modifications to Army priorities; resources can be tracked back to strategic goals and supporting capabilities, even if not included in the original base program or budget.

Large bureaucracies are loathe to reform themselves. However, the current situation requires the Army to adapt quickly, if it is to provide senior leaders the financial information they need to make informed decisions on the reallocation of limited resources in response to rapidly changing strategic and operational requirements. Our current environment demands a flexible PPBE system that can provide timely and accurate resource information and is adaptable to sustained wartime operations. The realignment of PPBE phases into an integrated capability-based (CDEP)-process is an executable solution well within our reach.

### About the Author:

*Mr. Joe Dailey, is the Executive for Budget, to the Planning, Programming and Budget Committee Headquarters Department of the Army, Office of the Assistant Secretary of the Army for Financial Management and Comptroller and member of the Army Comptroller Program Class of 1999.*

### References:

1. Army Regulation AR 1-1 Army Planning, Programming, Budgeting and Execution System, 30 January 1994. Chapter 3. and The Army Plan FY 2006 –2023.

2. *Auditing Data Relationships or The Power of Join (Part 1)* By Douglas Rogers, F.C.A., I.S.P. and James Strong, B.Sc. E. E., P.Eng. IT Audit Vol. 4, June 1, 2001 The Institute of Internal Auditors. <http://www.theiia.org/itaudit/index.cfm?fuseaction=forum&fid=71> Relational Database terminology used when linking different datasets to each other. Ideal joins between different tables are called one to one relationships i.e. one element in the first table relates to only one element in the second. Joins using one-to-many or many-to-one relationships may produce unclear results.

3 7000.14-R DOD, FINANCIAL MANAGEMENT REGULATION Volume 2A & 2B BUDGET FORMULATION AND PRESENTATION <http://www.dod.mil/comptroller/fmr/>

**Our current  
environment demands a  
flexible PPBE system  
that can provide timely and  
accurate resource  
information...**

4. Appropriations fall into Operations and Support (Military Personnel and Operations and Maintenance); Investment (Procurement Appropriations (Aircraft, Ammunition, Missiles, Weapons and Tracked Combat Vehicles, Other Procurement)); Research, Development, Testing and Evaluation (RDTE); Military Construction; and Family Housing.

5. Implementing Instructions can be found in OMB Circular. A-11 PART 6 PREPARATION AND SUBMISSION OF STRATEGIC PLANS, ANNUAL PERFORMANCE PLANS, AND ANNUAL PROGRAM PERFORMANCE REPORTS [http://www.whitehouse.gov/omb/circulars/a11/current\\_year/s200.pdf](http://www.whitehouse.gov/omb/circulars/a11/current_year/s200.pdf)

6. *A New PPBS Process to Advance Transformation*, Stewart E. Johnson, Defense Horizons #32, Sept. 2003, Center for Technology and National Security Policy, National Defense University

7. Joint Defense Capabilities Study, final report, January 2004, Joint Defense Capabilities Study Team. Appendix A pg A-2

8. The Way Ahead Our Army At War – Relevant and Ready <http://www.army.mil/thewayahead/foreword.html>

9. GAO Report 04-514, Future Year Defense

Program. Actions Needed to Improve Transparency of DoD's Projected Resource Needs. Dated 7 May 2004. OSD's response non-concurred with GAO's recommendation to align program elements in the FYDP to 1) defense capabilities... and 2) the dimensions of the risk management framework. Pg 29.

10. *Binning and the Resource Framework*, LTC Mike Boller, Resource Management, 1st Quarter 2003, pg 26-33.

11. DoD's Management Initiative Decision (MID) 913 — Implementation of a Two-Year Planning, Programming, Budgeting and Execution Process, dated 22 May 2002.

12. The Business Management Modernization Program (BMMP) is a DoD effort to develop, coordinate and manage a systematic approach to transforming DoD business operations. The goals of BMMP are to provide timely, accurate and reliable information for Business Management and to enable improved business operations. Draft DoD Management Initiative Decision (MID) — 920 U.S. Standard General Ledger Financial Management Systems dated 4 April 2004.

13. FM 3-07: Stability operations and Support Operations, Feb 2003, Chap 1. "Stability operations and Support Operations predominate in MOOTW that may include certain smaller scale contingencies and peacetime military engagements..."

"Stability operations promote and protect U.S. national interests by influencing the threat, political, and information dimensions of the operational environment through a combination of peacetime developmental, cooperative activities and coercive actions in response to crisis (FM 3-0). Army forces accomplish stability goals through engagement and response. The military activities that support stability operations are diverse, continuous, and often long-term. Their purpose is to promote and sustain regional and global stability.

"Support operations employ Army forces to assist civil authorities, foreign or domestic, as they prepare for or respond to crisis and relieve suffering (FM 3-0). The primary role of support operations is to meet the immediate needs of designated groups, for a limited time, until civil authorities can accomplish these tasks without military assistance. Support operations also have two subordinate types: domestic support operations and foreign humanitarian assistance."

# Productivity Management

by Major Ryan Saw

## The Six Sigma Digital Journey at Motorola

Motorola doesn't use the term productivity management to describe its overarching business process improvement methodology; it refers instead to the term, "Design for Six Sigma" (DFSS) which has many of the same objectives as the military's productivity management. DFSS is designed for technology and product development and is primarily in the manufacturing arena. Mike Fenger, Corporate Vice President and Director of Motorola's Corporate Initiative's Group (CIG) states, "DFSS is not just an initiative, but the way we work." In other words, it is a mindset and deliberate tenet of the Motorola corporate culture based on continuous improvement. He adds, "It (DFSS) needs to be elevated to everything we do, as much a part of our daily routine as anything else."

Having observed DFSS in practice, I see how it can apply to any organization seeking process improvement. This is the prescription the Army seeks in looking at *The Army Way Ahead*, an overview of the Army Strategic Planning Guidance (ASPG). The ASPG represents the Army senior leadership's vision of how the organization will fulfill its mission to provide necessary forces and capabilities to the Combatant Commanders supporting national security and defense strategies.

At Motorola, an established framework exists to advocate and accelerate change. DFSS is coupled with effective program management and the rigorous M-gates process for product development<sup>1</sup>.

One of the foundations of Six Sigma is DMAIC ("dee-may-ik"), an acronym which stands for Define, Measure, Analyze, Improve and Control. General Electric adopted Six Sigma and made it and the DMAIC process famous. The 1<sup>st</sup> Quarter, 2002 RM Journal featured an interesting article on the subject, "The Six Sigma Strategy at General Electric." Today,



Motorola has its associates working to deliver the next generation of Six Sigma, "Digital Six Sigma®."

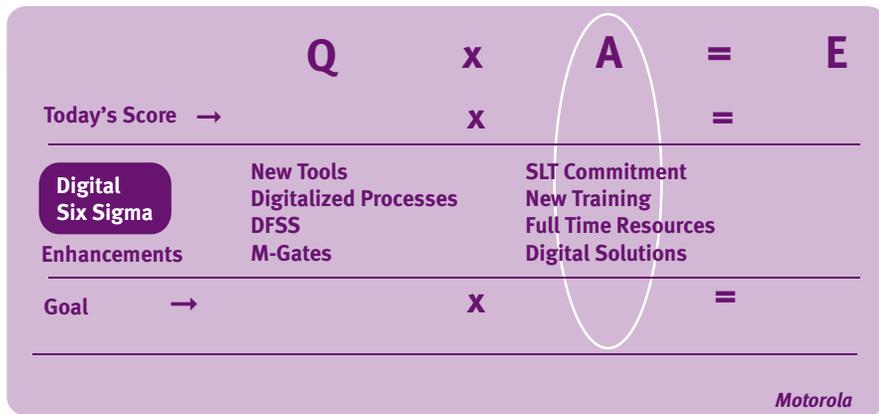
### Old vs. New

Digital Six Sigma (DSS) takes the lessons learned from all companies that adopted Six Sigma, good and bad, and incorporates them into the process. At the same time, the speed with which the organization achieves its stated Six Sigma project goals is significantly increased through the application of IT solutions, hence the term, "digital." E-tracking, e-analysis, e-training and e-compliance tools are applied to the improvement methodology at Motorola. Ron Kozoman, a "Blackbelt"<sup>2</sup> expert within the Third Generation Cellular Technology (3G) Team stated it elegantly of Design For Six Sigma, "It's changing the mindset from only using DFSS in a manufacturing environment and applying it to all functions, human resource management, supply chain management, etc. It is spending time on added value processes and eliminating redundancies." DFSS adopters throw another acronym around in daily conversation. BHAG, or "Big Hairly

Audacious Goals" sounds wise-cracking, but the corporate humor belies the serious principle that drives Motorola's resource allocation. The setting of goals and objectives in this private sector organization is not to be trifled with; its managers are dead serious about the aggressiveness they demand in all disciplines. Figure 4 shows how Motorola will bring about this change. The scores were left blank for a specific purpose. In the equation,  $Q \times A = E$ , quality multiplied by acceptance leads to greater effectiveness. The scores are insignificant if senior management does not support the process and change management is not emphasized. Highly trained statistical and analytical "blackbelts" are a cornerstone of Six Sigma and execution of DFSS. DSS emerged as a concept in 2002 for the corporation to build upon a solid foundation to establish a revolutionary new Business Process Management Systems (BPMS). This evolution to a new Six Sigma paradigm, one in which IT tools supercharged processes, where portal and Web technology enabled the corporation to apply business improvement more broadly and rapidly is today at the heart of the most aggressive goal, to realize cost reductions of as much as \$3 billion. It is changing the way the company does business, from one end to the other. DSS no longer strains to simply reduce the number of defects, but instead strives toward the broader goal of reducing all variation around accomplishing business goals and objectives. The question, "How did we do this before?" or "What is the best design for the next cellular phone?" is no longer articulated, but questions like "What does the customer want?" and "How do I regain lost market share?" drive projects.

Digital Six Sigma cannot function without a supportive, committed infrastructure, a lesson the US Army can benefit from. The infrastructure DSS thrives upon BPMS. The BPMS provides the foundation upon which to build a collaborative, consolidated, enterprise-wide environment for the implementation of systematic Six Sigma initiatives. Think of BPMS as an engine to analyze the behavior of the processes, not how each operates independently, but in terms of how

## How Can We Make It More Effective?



they behave collaboratively and interactively at all levels of the organization.<sup>5</sup>

The key components include people, systems, machines, Six Sigma processes and new initiatives that function across the value chain, in an end-to-end fashion. A World class organization, Motorola is working to develop and institutionalize Digital Six Sigma throughout its culture.

Toward the close of 2003, a cross-functional team worked on solutions to deliver the “digital” in Digital Six Sigma, IT tools such as e-tracking and e-visibility, capabilities incorporated into what’s called the “digital cockpit,” a real-time project tracking solution. It’s called a digital cockpit because like an aircraft’s cockpit, this desktop view provides us a look at all the critical, real-time instrumentation and measurements necessary to navigate a program, project, or activity through to successful, on-time completion.<sup>6</sup> The digital cockpit brings yet more culture change to Motorola, with businesses, operations, functions and even suppliers being tracked and accountable for information and progress-to-plan. All is shared collectively and updated in real time, leaving no room for “fudge factor.” Motorola leverages information technology and web-based applications so that timely, responsive and accurate information can be converted into increased productivity and effectiveness. The philosophy and approach of the digital cockpit can be

readily tailored to suit the Army’s purposes, but the challenge of culture change and adoption is an obstacle multiplied many times over that of Motorola.

### Why Productivity Management Will Work Well at Motorola

Productivity management works well at Motorola because senior leadership supports the program and is totally committed. Motorola attacks non-productivity at every opportunity. One of its leading change advocates, Mike Fenger, Corporate Vice President for Personal Communications Sector (PCS) Business, Operations and Planning, is a “dual-hatted” leader at Motorola, serving as corporate vice president and director of the Corporate Initiatives Group, or CIG, and within the PCS. As CIG lead, he is charged with implementing DSS throughout the entire Motorola organization. At the same time, he currently attends to process improvement within PCS, a business facing perhaps one of the most aggressive and challenging markets in the world; wireless phones and the former General Electric executive’s presence is making a difference; Program Management, Project Management, and DSS prosper. His insight, motivation and direction provide Motorola with a BHAG such as DSS that is now a part of the Motorola culture instead of a flavor-of-the-day initiative.

Every Motorola employee is exposed to productivity management within the

organization. At a Digital Six Sigma kickoff luncheon at PCS, instead of a “sales pitch” on the benefits of DSS, it immediately became clear that the event in fact would be a working lunch with clear, focused objectives facilitated by a certified “blackbelt.” All senior managers throughout the 3G Cellular Technology Team attended and represented every function: product management, program management, hardware engineers, software engineers, resource management, human resource management, marketing, business operations, quality, and “blackbelts”. This team was to figure out how to increase operating earnings by \$100 million; this involved looking at every process within the 3G Cellular Technology Team. After eight hours being locked in a room, the assembled group figured it out and established a plan using the DSS principles. In hindsight, the luncheon was a training opportunity as well as an approach to regain focus, realign efforts and select projects that offer the greatest financial returns. When the meeting adjourned, every person had a clear direction and was assigned responsibility for the projects. This was a great way to hold managers “feet to the fire” and make them accountable.

Once a project is approved, the sponsor selects the team members. I was selected as a team member on two teams because they impacted financial performance. The first team’s charter was to develop a reduction, reuse and commonality strategy for 3G Technology cellular phones. The second team’s charter was to balance resources across development cycle. This approach provided a systematic process for projects to be pursued.

Finally, product management is effective because of the initiatives that are generated throughout the life of the selected project. Two of these initiatives are “Close the Gap Initiative” and Project Accounting. “Close-the-Gap” is Motorola’s primary cost-improvement process. The concept, which is probably the most readily transferable to the Army of all Motorola’s cost control ideas and tools, is simply looking at cost drivers and comparing them to our competition. Some of the areas of focus at Motorola are development labor, travel, engineering

materials, discretionary spending (comparing to Commander's Reserve in the Army), and telephone usage. This is just a few of the items. Over the course of the year, 3G presents the results of its efforts each month to PCS allowing sector the opportunity to track the progress made. Project Accounting is another initiative Motorola is actively pursuing which is similar to ABC in the Army. The big difference between the two is that Motorola financials systems will have connectivity to program management tools such as Teamply<sup>®</sup> so forecasted budgets and actual budgets can be compared. A unified budgeting and execution database that has data pulls from forecasted data such as Teamply offers huge potential payoffs to the Army as a tool to gain timely control over costs and selection of activities to monitor.

### Army is on the Right Track

Despite their disconnected, segmented resource processes that exist today, the Army has plans to turn things around. The fiscal challenges facing the Army are necessitating changes in the way we do business. The eleven business areas are being encouraged and mandated to begin implementation of the productivity management program. Assistant Secretary of the Army for Financial Management and Comptrollership (ASA(FM&C)) is even offering a \$100,000 cash award to the best Cost Management/Activity Based Costing (CM/ABC) cost initiatives submitted for each of the 11 business areas for fiscal year (FY) 2004. CM/ABC initiatives may result from cost savings, productivity or performance improvement, or increased efficiency in each command.

The United States Installation Management Activity, (IMA) one of the eleven business areas, has a charter and vision that will be a catalyst for this activity to get on the same path as Motorola. IMA's key objectives for the upcoming year are: implementing installation design standards (IDS), Army Baseline Services (ABS) and performance measures; streamlining garrison organizations and functions; implement CM/ABC; and initiating business process redesign. The next step will be to connect all these objectives into one overall methodol-

ogy such as DSS with the purpose of institutionalizing a productivity management culture throughout IMA using CM/ABC to drive continuous cost reduction and clear evidence of productivity improvement. IMA has an aggressive approach to productivity management in 2004, but the implementation plan still has to be executed. The Army has not had a very good track record. Efforts to streamline processes and centralize management to the Army are threatening because it could mean reductions in the workforce. Consequently, implementation plans are delayed. Something of this sort happens at Motorola also, but the impacts are lessened because processes are more integrated across all functions than in the Army. For example, a failure to meet a milestone on a project or program could mean a slippage in ship dates of product resulting in customer dissatisfaction, reduced profit margins and poor quality.

The intent of this article was not to paint a picture of perfection at Motorola in productivity management and all their related business processes. Motorola is just getting started and has a long way to go before they change the hearts and minds of all employees within the organization. There are definitely areas for improvement such as the establishment of budgets for all programs and projects and reducing the number of defects. But the real questions that should have been answered are "Can their business processes be benchmarked by the Army?" or "How can Motorola deliver products on-time, below cost, and within quality standards?". The answers to these questions should spur your interest and arouse your curiosity as a comptroller or financial manager. They did during my first 6 months.

### Conclusion

The details of the process may be different, but the methodology for the process, the rigor and discipline will remain the same. It goes without saying; Corporate America is significantly different than the United States Army.

Motorola operates in a fiercely competitive, economic environment which forces them to operate as efficiently and productively

as possible since its very survival is threatened. As both organizations are fond of noting, fear of death focuses the mind. Motorola can not get behind its competition. Success often depends upon which company has the most sound practices and processes and who can execute faster with lesser errors. Motorola moved too slowly to transition from analog to digital cellular phones in the early 1990's and remains today chasing its competition. It failed to improve its processes and decision-making faster. The Army will suffer the same fate if it fails to streamline its resource processes and insist on making them complimentary, integrated and productive. But the good news is both Motorola through Digital Six Sigma and the Army through productivity management can overcome the challenges before them.

#### About the Author:

Major Ryan Saw is one of five Functional Area 45 officers participating in the Training With Industry program, in his case with the Motorola Corporation.

#### References:

1. M-Gates is a process management concept adopted by Motorola for making and validating significant business decisions at key points in the Market and Product Line Planning (MPP) and System and Product Development (SPD) Business Lifecycle phases.
2. Six Sigma black belts are skilled in precisely defining DMAIC processes and then developing effective ways to apply them so that they work in practice across an organization. They work alongside Six Sigma team members, many are which employees involved in the process to be improved.
5. Smith, Howard & Fingar, Peter. "The Third Wave of Business Process Improvement: Digital Six Sigma." Business Process Management Library (2003): 14pp. Online. Internet. Jan.6, 2004; [http://www.bpml.org/bpml-library/87799c1690.Digital\\_Six\\_Sigma.pdf](http://www.bpml.org/bpml-library/87799c1690.Digital_Six_Sigma.pdf)
6. "Digital Cockpit Cleared for Take-off." Feature Stories Archive: Digital Six Sigma: n.pag. Online. Intranet. Jan.7, 2004; <http://dss.mot.com/DSSFeature01.htm>
7. Motorola has 16 gates that must be met before end of life of a product. They include: 15) Idea Accepted 14) Concept Accepted 13) Solution Accepted 12) Portfolio Accepted 11) Solution Lockdown 10) Project Initiation 9) System Requirements Baseline 8) System Requirements Allocated 7) Contract Book Baseline & Approved 6) Design Readiness 5) System Test Readiness 4) Ready for Field Test 3) Ready for Controlled Introduction 2) Volume Deployment 1) Retirement Plan Approved 0) End of Life
8. Teamply is an abbreviated name for the Primavera Enterprise Program Management Tool which is used at Motorola. It is a software database that manages and computes program resources, schedules and program status.

# National Defense Program and Budget Transformation

Excerpted From The New Book:

## *Budgeting And Financial Management for National Defense*<sup>1</sup>

by Mr. Jerry L. McCaffery and Mr. Lawrence R. Jones

Book contents:

**Chapter 1** National Defense Policy and Resource Decision Making: Unique Challenges; **Chapter 2** The Federal Government Budget Process; **Chapter 3** Budgeting for National Defense: Complicated But Workable; **Chapter 4** The Planning, Programming, Budgeting, Execution System; **Chapter 5** Congress and the Defense Budget: From the Cold War to the War on Terrorism; **Chapter 6** Supplemental Appropriations for National Defense; **Chapter 7** Defense Budget Execution; **Chapter 8** Budget Process Participants - The Pentagon; **Chapter 9** Budget Process Participants - The Claimants; **Chapter 10** Financial Management and Defense Budgeting; **Chapter 11** Budgeting and Management of Defense Weapons Acquisition; **Chapter 12** National Defense and Federal Government Budgeting and Management Reform: History, Transformation and the Future

For four decades the Department of Defense has prepared its resource plan and budget using the Planning, Programming, Budgeting System, or PPBS, renamed by reform in 2003 to PPBES with the added E for execution. As a decision process PPBES is important for many reasons, not the least of which is that through it commitments are made for spending that represents about 48% of the discretionary portion of the federal budget in FY 2004, and \$2.1 trillion from 2004 through 2008. This is almost six times the size of the next largest discretionary account in the federal budget, that of the Department of Health and Human Services. Despite spending of this magnitude, the news media generally pay little attention to the defense budget decision process.

PPBS has been deployed in DoD since 1964. Despite its persistence, important changes have been made to it on occasion. While the basic structure of PPBS remains,



it has been changed in several important ways. First, the reform merged separate program and budget review into a single review cycle performed simultaneously rather than sequentially. Second, it incorporated a biennial budget process matched to national electoral cycles with major strategic changes slated for the second and fourth year of a Presidential term with minimal updating to be done in the first and third years. Third, it fixed timing of the process so that planning and budgeting were clearly derivative processes driven by the Quadrennial Defense Review (QDR) and the National Military Strategy. Fourth, it changed the cycle for Office of the Secretary of Defense (OSD) provision of top level planning information to the military departments and services from annual to biennial.

These changes have created a two-year decision cycle with a complete review in year one followed by limited incremental review in year two. This is meant to

decrease turbulence and reduce unnecessary re-making of decisions. Further, changes made in each on-year cycle are intended to have quicker effect by compressing the programming and budgeting cycles while still preserving the decisions made in the on-year cycle through the off-year by limiting reconsideration of decisions to only the most necessary updates. In essence, decisions are to be made more quickly but should last longer.

PPBS has provided DoD a roughly rational mechanism for coordinating a number of semiautonomous and individually complex decision processes related meeting war preparedness, fighting and support resource requirements. PPBS has applied relatively neutral expertise from the civilian and military parts of the organization within a decision process that is inevitably political on its own and also is driven by politics. PPBS has embraced a variety of political agendas across a number of Presidential administrations to project and enable resource management over an extended planning and budgeting horizon. A relevant question presently is the extent to which the recently revised PPBE system will assist in meeting the resource decision demands of a world changed by the events of 11 September 2001 and thereafter.

In this book excerpt we review the history of PPBS and indicate how the reforms of 2003 have changed it. We also speculate about the limits to change within the Department of Defense and at the political interface between DoD and Congress given the expectation that the latter will give up little of its legislative prerogatives regardless of what DoD does in planning, programming, budgeting and execution.

### PPBS History and Development

PPBS was implemented in DoD originally by Defense Secretary Robert McNamara and by Charles Hitch, Robert Anthony, and others during the administrations of Presidents Kennedy and Johnson in the 1960s (Thompson and Jones, 1994). Prior to 1962, the DoD did not have a top-down coordinated approach for planning and budgeting

(Puritano, 1981; Korb, 1977; Korb, 1979; Joint DoD/GAO Working Group on PPBS, 1983). Until this time, the Secretary of Defense (SECDEF) had played a limited role in budget review as each military service developed and defended its own budget. McNamara had used PPBS when he was the President of the Ford Motors Corporation and he and Hitch, his Comptroller, had confidence that the system would be valuable for long-range resource planning and allocation in DoD. McNamara wanted PPBS to become the primary resource decision and allocation mechanism used by the DoD. McNamara implemented the system after President John F. Kennedy tasked him to establish tighter control by the Secretary of Defense, a civilian, over the military departments and services. As a former member of Congress, Kennedy was highly distrustful of the military service planning and budgeting. He ordered McNamara to take control of DoD planning and budgeting away from the military and put it in the hands of civilian leadership. Consequently, the initial motivation for establishing PPBS had as much to do with control and politics as it did with rational resource planning and budgeting. By June 30, 1964, PPBS was fully operational within the Department of Defense (Thompson and Jones, 1994; Feltes, 1976; Korb, 1977; Korb, 1979).

Hitch implemented PPBS and systems analysis throughout DoD, but most of the program analysis was done by his “whiz kids” in the Office of the Secretary of Defense (OSD) under the Comptroller and the office of Program Analysis and Evaluation. The military departments were not anxious to implement PPBS, but had to do so eventually to play in the new planning and budgeting game run and orchestrated by Hitch and his staff. After a few years, the military departments were fully engaged in learning how to compete in the new PPBS process. However, as noted, PPBS was not just budget reform – it was a new approach to analysis and competition between alternative programs, weapons systems and, ultimately, multi-year

programmatic objectives. Additional reforms beyond PPBS were to be proposed by DoD under the Johnson administration.

Charles Hitch was followed as DoD Comptroller by Robert N. Anthony, a professor of management control on loan from Harvard University’s School of Business, who proposed an ambitious set of changes to DoD budgeting and accounting in 1966 in what was termed Project Prime. Among other things, Project Prime would have divided all parts of DoD into mission, revenue, expense and service centers, consistent with management control theory according to Anthony, and required accrual accounting with reimbursable fee-for-service internal transactional payments (using negotiated or shadow prices) throughout DoD (Thompson and Jones, 1994: 66-68). What Anthony envisioned was a reimbursable accounting process similar to what was implemented in much of DoD by Comptroller Sean O’Keefe and Deputy Comptroller Donald Shycoff as part of the Defense Management Report initiatives of 1989-1992 under the Bush administration and Defense Secretary Dick Cheney (Jones and Bixler, 1992). Project Prime also included accrual accounting and budgeting for DoD. Accrual accounting is required now under the Chief Financial Officers Act of 1990, which DoD has been unable to implement successfully. Clearly, Anthony was ahead of his time in his vision of how DoD accounting and budgeting should be organized (Thompson and Jones, 1994: 67-68).

Congress did not support Anthony’s proposed changes. Key members of the appropriations committees refused to allow the change to accrual accounting and rejected Project Prime, probably because they thought it would reduce their leverage to micromanage DoD through the budget. Opposition was so strong that it was suggested Anthony should be asked to resign. Anthony was not asked to do so, but chose to return to Harvard and the experiment was ended (Jones, 2001b).

While the manner in which PPBS operates has varied to some extent under different Presidents and Secretaries of Defense, the basic characteristics of the system have

remained in place for more than 40 years. In 2003, changes were made in the venerable PPB system, driven by Secretary of Defense Rumsfeld who felt the process was too slow and cumbersome and did not deliver the “right stuff” on a timely basis. Changes were intended to accelerate the cycle to avoid unnecessary remaking of decisions and to deliver the right stuff more quickly.

## The Reformed PPBES Cycle

DoD Management Initiative Decision (MID) 913 set out a two-year budget and planning cycle within the framework of the four years in a Presidential administration (Secretary of Defense, 2003a: 3-4).

### Year One: Review and Refinement

Year one requires “review and refinement” of the previous President’s strategy and plans, including only limited changes in programs and budgets, an early national security strategy, and an “off-year Defense Planning Guidance (DPG).” As stated in MID-913, “The off-year DPG will be issued at the discretion of the Secretary of Defense...The off-year DPG will not introduce major changes to the defense program, except as specifically directed by the Secretary or Deputy Secretary of Defense...However, a small and discrete number of programming changes will be required to reflect real world changes and as part of the continuing need to align the defense program with the defense strategy,” (Secretary of Defense, 2003a: 5). A major objective of the off-year guidance will be to provide the planning and analysis necessary to identify major program issues for the next DPG. One of the benefits of the new four-year cycle is that it fits the PPB process into the electoral cycle. Incoming administrations usually struggle to get their people on board in the first year and significant defense policy changes usually do not come until later. The new cycle recognizes this reality. Significant events do happen in year one. The National Security Strategy is issued at about mid-year and the Quadrennial Defense review begins shortly thereafter (June) and is issued early in Year Two (February). These are significant

guidances for defense strategy and resource allocation. Also in year one, the new administration may take steps to insert its defense policy priorities in the budget submitted to Congress and to make changes caused by fact-of-life events in acquisition programs. Congress may also make changes in this year that have consequences for the following years.

### Year Two: Full PPBE Cycle- Formalizing the Agenda

Year two in the new four-year framework is more intense in that the military departments and services and OSD will conduct full program, planning, budget and execution reviews to formalize the President’s defense posture and strategy, including the resource portion of the strategy. In addition to a QDR issued early in the year, the second year will include a full, “on-year” Defense Planning Guidance (DPG), issued in May and designed to implement the QDR results. Previously, the QDR had been issued on 30 September in the first year of a Presidential administration. However, in the FY 2003 Defense Authorization Act, Congress changed the QDR reporting requirement to the second year to provide new DoD leadership more time for analysis and preparation. Senior defense officials had argued to Congress that the requirement to submit a QDR in the first year was too much to ask of a new administration barely through the rigorous congressional process for confirmation of presidential appointees to head the DoD and military departments. Year two will see then a full Program Objective Memorandum (POM) and a full budget build. These will result in a full Future Year Defense Plan (FYDP) build. A full execution review is also scheduled for years two and four. Giving this the same emphasis as the POM/Budget build is new.

### Year Three: Execution of Guidance

The new planning and budget process specifies that year three be used for “execution” of the President’s defense plan and budget agenda as provided in the QDR and the previous year’s DPG. Year three corresponds with FY 2005 in the budget cycle

and could include an “off-year” DPG if so desired by the Secretary of Defense. This off-year guidance could task new studies, or incorporate fact-of-life changes in acquisition programs including increased costs or schedule delays as well as congressionally mandated changes. Year three and year one are not quite the same, in that an incoming administration may have changes it wishes to make to its predecessor’s budget. It is possible that Congressional elections prior to Year three may convince an administration to change its course in ways it had not expected. Additionally, in any year a significant change in the threat situation may result in a full PPBE cycle. In May 2003, Dr. Dov Zakheim, former under Secretary of Defense (Comptroller/Chief Financial Officer) indicated that no 2005 DPG was to be prepared under the Bush administration and Rumsfeld. However, the Presidential elections of 2004 could change this plan. Year three is a year of refinement of objectives and metrics with only the most necessary program or budget change proposals considered.

### Year Four: Full PPBE Cycle – Ensuring the Legacy

Year four in the budget and planning cycle is characterized in MID-913 as the point where the achievements of a four-year Presidential administration are assessed. This year will include preparation of a full DPG to refine the alignment between Presidential strategy and the DoD program and budget. As usual, the DPG will initiate and guide the cycle of military department and service POM and budget preparation, review and submission (for FY 2006). Then, the next full PPBES cycle will encompass Fiscal Years 2006 to 2011.

## Increased Emphasis on Budget Execution

Budget execution is an important part of the new PPBE system. Normally execution consists of first gaining permission to spend appropriations approved by Congress through a separate budget submission process referred to as the allotment process. In allotment review, DoD must show how it

intends to spend what has been appropriated, by quarter, month, or fiscal year for multiple year appropriations. This is always somewhat different than what was proposed in the President's budget since appropriations must now be attributed to programs and allocated into the months they will be obligated (usually by quarters). After allotment approval is received from Office of Management and Budget (OMB) and the Treasury, DoD begins the process of separating and distributing shares of the DoD budget to the military departments and services and other DoD commands and agencies. After they have received their spending allotment authority, these resource claimants begin to incur obligations to spend, and then liquidate their obligations through outlay of money.

During this process, comptrollers and budget officials at all levels of DoD monitor and control execution of programs and funding. At the mid point of the spending year, the military departments and services typically conduct a mid-year review to facilitate shifting of money to areas of highest need. At the end of the fiscal year (September), all DoD accounts must be reconciled with appropriations and spending must be accounted for prior to closing the accounts from further obligation and outlay (for annual accounts). Financial and management audits by military department audit agencies, the DoD Inspectors General, the General Accountability Office (GAO) and other entities follow the conclusion of execution and reporting. Traditionally, budget execution has been left primarily to the military departments. However, the revised process provides OSD with greater opportunity to examine and critique the budget execution decisions of the military departments and services. Comptroller official Dr. Dov Zakheim reported in February 2003 a widespread agreement in DoD not to return to a comprehensive annual budget and program review; rather the intent was to use the off year to measure the "burn rate" (rate of spending) in an execution review. To this end, comptroller staff indicated the review would include asking questions such as

how money is being spent, if it should be moved to other areas and accounts, and what results have been achieved.

A federal budget process change initiated by the Bush administration, announced in February 2003 and subsequently by the DoD Comptroller, is implementation of "performance-based budgeting," to focus more on the costs of achieving desired military and programmatic outcomes, rather than concentrating budget review on the details of program administration and production. The driving military concept behind performance-based-budgeting (PBB) is the concept of "effects-based capabilities" for war fighting. The effects-based approach focuses on desired end results from a military action rather than the military action itself. Under this concept, military commanders specify the results, such as capture of territory, in addition to the amounts and types of forces needed to achieve the outcome.

In the revised PPBES process, military department officials and Combatant Commanders (COCOM) may create Program Change Proposals (PCPs) to affect the POM and Budget Change Proposals (BCPs) to speak to new budget needs. The PCPs allow for fact of life changes to the previous year's POM; they are meant to be few and of relatively large size. Guidance for 2003 indicated the PCPs had to exceed a set dollar threshold or have serious policy and programmatic implications. For example, in 2003 the Navy submitted only three PCPs, one worth \$100 million that involved 450 line items. For all of DoD the number of PCPs numbered about 120. For the COCOMs, the PCPs are a new tool but, as for the military departments, they have to suggest offsets. For example, if a COCOM wants to increase force protection in one area at a certain cost, he has to suggest weakening force protection in another area as an offset for the increase. This is meant to be a zero-sum game. Changes have to be accompanied by offsets or billpayers.

As is usual with any offset procedure, those who submit either PCPs or BCPs take the risk that the offsets they suggest will be accepted, but the accompanying change

proposals the offsets were intended to fund might not be. In such cases, the offset reveals a pot of money for a lower priority item that might be directed to another area. The budget change proposals were expected to be more numerous but smaller. They too would be largely fact of life changes (e.g. cost increases, schedule delays, new congressional directives) and would have to be paid for by offsets. Although the individual BCP need not be offset, the package of offsets provided by a military department has to be offset and provide a zero balance change. The FY 2006 budget request will be prepared completely anew, marking the first biennial POM and budget in the new two-year cycle. A Defense Planning Guidance will be prepared by OSD to guide the FY 2006 process.

From our view, the PPBES cycle timing changes were sensible given that new administrations often do not have the people in place or the insights necessary to put new DoD programs in place and prepare budget initiatives in the first year. Thus, designating the first year for review of national security strategy and the work on the Quadrennial Defense Review sets the scene for a complete budget build in the second year. Designating the off years as years of minimal change, but allowing mechanisms for changes that do need to be made separately in program change proposals and budget change proposals also seems sensible and should cut down the turmoil involved in a complete POM-Budget rebuild each year.

## Conclusions

Important changes have been made in the DoD planning and budgeting process. The simultaneous execution of the POM and budget review and its consolidation into one database is an important change. In the old system, a good POM could still be lost on the way to the final budget. Doing the POM and budget simultaneously should result in fewer surprises and less re-programming of changes to the POM in the budget process than before, and the review process should be quicker

and less linear, i.e., a layered process rather than a sequential process.

Secondly, the outcome focus of the process is an important change. Secretary of Defense Rumsfeld has emphasized outcomes and in one service, the Navy, the implementation approach illustrates this concern in two ways. Procurement accounts now are focused around the outcomes that each weapon system bought will provide. The performance models for steaming hours and flying hours also are outcome focused. This covers almost 90% of the Navy budget. Nevertheless, Congress still appropriates by line item and DoD has to be able to translate capabilities-based resource requests into budget items and make winning arguments for these translations. The fact is that appropriation line-items make it easier for Congress to buy things -- and what has not changed is where the power of the purse is located. In the words of one DoD budget player, "...there are a lot of changes, but what has not been changed is the Constitution. Changes will end when they bump into things that are Constitutional. The appropriation process is still a congressional process and changes in the Pentagon process have to be responsive to the needs of Congress. The menu of changes the Pentagon can pursue is not unlimited."

Thirdly, the new process appears to put the Secretary of Defense and staff into the process at early stages. Proposed decisions in the new PPBES are intended to reach the Secretary before they have been made, while options are still open, and while important and large-scale changes still may be made. When Secretary of Defense inputs came at the end of the stream of decisions, some alternatives that could have been pursued were pre-empted simply because they would cause too much breakage in other programs or because everyone had already become committed to the likely outcomes of the decision. Veteran observers see these changes as an evolving process, cautioning officers bound for the Pentagon in a couple of years not to memorize the new process until they get there, since it has changed

significantly since 2001 and probably will continue to change.

Lastly, the new emphasis on execution seems to be an important change, but it is too early to tell how this will turn out. It seems clear that no one wants to be viewed as decreasing military effectiveness in the name of saving dollars. If the new emphasis on execution becomes a code word for efficiency and this is translated into "doing things on the cheap," then execution review will become known for what it is -- a budget reduction drill with increased oversight from the DoD level.

The lag time for full and satisfactory implementation of DoD-level macro changes in planning, programming, budgeting and execution probably is two to four years, although many wrinkles will be worked out by the military departments after the first new cycle has been completed. However, it is understood by seasoned observers of such changes that the solutions and new processes developed by the military departments and services are likely to differ -- this would appear to be inevitable, given the highly differentiated resource management systems and program/budget processes used by the respective military departments and services. Overall, cautious optimism about the new process has been voiced from many quarters.

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#### Notes

- 1 Excerpted from chapters 4 and 12, 2004.

# National Capital Region Perspectives on Resourcing Army Installation Management Operations

Colonel Douglas C. Bonner

Homeland defense has caused a revolutionary response in the aftermath of September 11, 2001 where America no longer vests its security in vast oceans, landmass, and air space as natural features that discourage intrusion. This new initiative within our government created the Department of Homeland Security and the Department of Defense's U. S. Northern Command (NORTHCOM) through realignment of military forces. NORTHCOM's natural concern became how to protect the nation's capital as a key center of gravity for our government. Many resources are available in the National Capital Region; however, there was no single element responsible for command and control. Thus NORTHCOM organized Joint Forces Headquarters-National Capital Region by direction of Secretary of Defense as its immediate element for all home land security and civil support requirements in the NCR (14:-). U. S. Army Military District of Washington forms the nucleus of this element along with augmentation from Navy, Marine, and Air Force elements in the NCR (4:9). The essence of this effort is to bring to bear all resources in the NCR for crisis response. A key resource for success exists in installations each service use in executing respective Title 10 functions. The U. S. Army's recent transformation of installation management presents challenges for command and control where technical control of NCR installations fall under the purview of the Director, Installation Management Agency. The U. S. Army Installation Management Agency's (IMA) control of Army installations in the National

Capital Region (NCR) severely constrains the critical new role of the U. S. Army Military District of Washington (MDW) as Army Service Component for Joint Forces Headquarters-National Capital Region (JFHQ-NCR). ***The doctrinal foundation for theater logistical support, control of resources, and IMA directions and initiatives pose significant hurdles to the success of a critical joint mission that must succeed in future operations.*** The goal is to examine these three hurdles and how each affects the relevancy of joint operations.

First, doctrine for critical theater logistical support is essential to success of Joint Task Force (JTF) operations in the NCR, a national center of gravity (3:3-6, 12-22). Control of key installations is an essential component for executing theater logistics. Joint and Army doctrine as published within Joint Publication 4-0 and Army Field Manual 4-0 both delineate joint logistics as a key multiplier for Joint Task Force operations (11:Exec Summary, Chapter 3; 13: I-3, I-5, I-17). Tactics techniques, and procedures for sustainment all pinpoint control of key bases from which service components of the JTF perform vital reception, security, preparation, and onward movement of critical forces (12: Chapter 1). The traditional mantra of deployed JTF operations presupposes that forces would move into and secure an area of operations to carry out these critical tasks. However, a transformation in how we define deployed forces is necessary as a foundation for understanding how we execute logistical support in the context of the Global War on Terrorism.



Office of the Secretary of Defense (OSD,) NORTHCOM, and the Services recognized the need to establish a joint force element in the NCR as an outgrowth of the fact that joint military operations provide the greatest good to our nation. This defined the NCR as a Joint Operations Area (JOA) as articulated in Joint Publication 5-0 (4: GL3). As such, JFHQ-NCR operates daily as a deployed force in its assigned JOA (10: 1.1-2.3). Traditional settings for JOAs are often in foreign theaters where establishment and refinement, and of key bases are prime concerns before operations can progress through key phases. JFHQ-NCR and MDW operate within a JOA that supersedes norms (10: 2.1). Army installations in and adjacent to the NCR are a vital resource from which Army Forces (ARFOR) assets must be prepared to support joint operations daily (3: 13, 16, 19). The Army's published focus areas pinpoint installations as flagships from which to project Army forces to JTF operations (18:-; 21: 15); however, this appears to suggest a traditional perspective where Army deploys forces from home bases to foreign theaters. Technical control of Army installations by IMA does not easily support this construct given IMA's focus for efficient base operations for the entire Army. Efficiency in base operations provided the means for giving IMA total control of all resources vice mission commanders (17: -).

The second hurdle challenging MDW as Army Service Component is evident in lack of control for manpower or fiscal resources for installations. The Army's intent to free mission commanders of installation management and focus only on wartime missions actually complicates JFHQ-NCR and MDW operations. Again the traditional medium dictates strategic thinking and policy where mission commanders control units that deploy to key theaters away from home station. This appropriately casts the installation as a power projection platform for Army forces and home base for support to forward operations, daily garrison needs, and families (21:-; 22:-). Thus Army priorities for resources will lean more to deploying forces and sustaining daily base operations functions such as base logistics, facilities

engineering, housing, training resources, personnel and community activities, revitalization, modernization, security, law enforcement, tenant support, and a host of others. This is drastically different from operating an installation as an immediate source of sustaining power as a forward base within an existing JOA. MDW's prior ownership and control of installation resources were arguably more effective in ensuring balance and effectiveness of resources.

In a pre-transformation environment, MDW controlled seven installations both inside and outside the NCR covering four states from New York to Virginia. This included resources totaling 2912 soldiers, 2689 civilians, and an annual operating budget over \$356M (7:-). Installation funding profiles averaged 90% when measuring base requirements to actual funds received (8:-). Since the beginning of FY04, profiles have averaged much lesser rates given Army fiscal challenges. The MDW Commander's role concerning installations is that of a newly defined term called Senior Mission Commander which transcends to an advisory and oversight capacity with necessary interaction with Director, IMA on key resource decisions (2: Exec Summary). Thus, MDW Commander who duals as JFHQ-NCR Commander has an NCR operational mission focus that will heavily impact installation resources in a JTF operation whereas the Director, IMA has an Army-wide base operations focus that seeks the best standard of support for all Army installations worldwide. Exploration of this fundamental difference in missions in further detail should lead to an optimal solution that accomplishes both missions. The writer offers readers further evidence of this difference with key examples of current policies and initiatives germane only to the installation management perspective.

Thus the third and final hurdle to the new operational mission shows current IMA policy and initiatives provide guidelines counterproductive in planning resources for critical mission areas such as aviation operations, military police operations, force protection, and anti-terrorism. Each of these

functions is an important pillar in the context of JFHQ-NCR's role as NORTHCOM's focal point for homeland defense and civil support roles in the NCR. They are equally important in MDW's role as the Army Service Component Command to JFHQ-NCR. MDW brings these critical elements to bear daily in its Army MACOM role that support a three pronged mission for contingency operations, ceremonial operations, and a full range of legal support operations commensurate with General Court Martial Convening Authority for the NCR (3: 7-29). Aviation support, military police operations, force protection, and anti-terrorism are key ingredients to the success of the three mission drivers. IMA has published policies or undertaken initiatives that challenge joint and MACOM roles with each ingredient.

MDW's contingency profile uses its aviation element the 12<sup>th</sup> Aviation Battalion to be prepared to execute important operations plans with joint linkages (3: 37). JFHQ-NCR will likely infuse some growth in the joint effort. Current DA and IMA policies mandate a transfer of Davis Army Airfield at Fort Belvoir, Virginia and the Pentagon Helipad from MDW to IMA control for base operations efficiencies (6:-). Currently, the 12<sup>th</sup> Aviation Battalion performs airfield operations and support along with its primary aviation operations that provides operational efficiency with unity of control and effort (20: Chapter 28). Execution of the Army and IMA plan for transfer of control and operation of Davis Army Airfield and the Pentagon Helipad essentially breaks unity of control. Aviation operations in the NCR will require three different entities vice one where the MDW Commander now only looks to Commander, 12<sup>th</sup> Aviation on any aviation matter. Likewise, IMA initiatives involving military police operations potentially cause an erosion of capability for MDW.

The Army's mandate to meet Program Budget Decision 712 targets for military to civilian conversions imposed a target of 4000 positions on IMA (15:-; 16:-). IMA as technical owners of staffing documents with military police assets at Fort Myer, Virginia, a key force essential to MDW

operations, plans to convert 170 military police positions to civilians. Such a conversion would severely affect contingency and ceremonial operations in the NCR, particularly at an installation that houses the most senior military leadership to the security plans supporting execution of high profile events in the NCR such as routine arrival ceremonies for foreign dignitaries, military support to inauguration activities, state funerals, and others. Given these points, one can deduce the importance of force protection and anti-terrorism needs in the vital NCR; however, IMA ownership of resources provides an overarching challenge.

IMA's Organization and Operations Plans published during the height of Army's Transformation of Installation Management in FYs 02 and 03 designated MACOM Commanders and Senior Mission Commanders as the primary owners and proponents for force protection and anti-terrorism operations at installations (1: no #). Responsibility without actual control of resources was the key edict. Prior to transformation, such efforts totaled approximately \$30M in MDW (8:-). Given new constructs for resources MACOM and Senior Mission Commanders only received opportunities to validate requirements prior to submission of program and budget requests to DA (1: no #). DA distributes actual funding when approved to IMA. The key problem lies in using a funding structure that was conducive to pre-transformation operations. Clearly, the basic axiom that gave commanders control via ownership of all manpower and fiscal resources is out of balance. Such policy forms the realistic challenges to a very important role for homeland defense and civil support in the NCR.

Conclusively, advocates of opposing positions on the value of IMA would all agree that protection of the NCR is critical to our nation's security posture as our center of governance. More importantly, it is paramount to conclude Army's IMA operation does not provide immediate continuity required in JFHQ-NCR's vital role despite Army intent to free mission commanders of base operations responsibilities. JFHQ-NCR is a forward deployed JTF charged to take immediate action in the event of homeland

defense and civil support needs. Joint and Army doctrine as a departure point for executing theater logistics and sustainment requires control of key Army installations for MDW as Army Service Component for JFHQ-NCR. IMA's control of resources required to operate key NCR installations does not provide relevancy and situational awareness to a joint mission as efficiency for base operations support supersedes a critical mission requirement. Specific evidence concerning current IMA policies and initiatives shows adverse affects on MDW critical mission components for aviation, military police, force protection, and anti-terrorism operations. Solutions lie within the context of a very informed dialogue where IMA must recognize the primacy of homeland defense and civil support in the NCR in keeping with the Army's focus for a joint and expeditionary mindset. Support to a forward deployed JTF is vital and represents a shift in the fundamental application of where installations as flagships usually support mobilization and deployment efforts primarily as a base of embarkation.

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# The Army Management Control Program

“Control, Control! You Must Learn Control!”

*Major Karl M. Kraus*

Remember the movie *The Empire Strikes Back*? The hero of the Star Wars movie series Luke Skywalker and his trusty side-kick R2D2 travel to Dagobah, the bog planet, in search of Yoda. Once there Yoda, the physically unimpressive Jedi Master, begins to train the young Skywalker on the skills necessary to become a Jedi. Just as Luke begins to succeed at focusing his own mind to leverage “the force”, he begins to experience visions of the future that cause him to lose his focus. It is at this point that Yoda chastises Luke saying, “Control, Control. You Must Learn Control!”

So it is for us, the members of the resource management community. With time we become masters of the basics of our profession like forecasting requirements and allocating budgets. But we too are called to learn control. In this case it is management control that we must master. Management control, which for the purpose of this article is synonymous with internal control, is the set of actions taken by managers to ensure not only good stewardship, but also their organization’s ongoing compliance with all applicable laws, regulations, and policies. These basic tenants of management control apply to leaders at all levels of the Army.

The Assistant Secretary of the Army (Financial Management and Comptroller) (ASA(FM&C)) has overall responsibility for implementing the Army Management Control Program (MCP). Commanders in turn often look to their resource management leaders to be subject matter experts on the development and implementation of effective MCPs. Intuitively, management control does not seem difficult to understand. Indeed, promotion through the management ranks requires mastering many of the same skills prescribed for the implementation of successful MCPs. However, the military services’ inability to achieve a clean audit of their financial statements indicates that there is still work to be done in this field. The intent of this article is to review and illustrate the fundamental components of effective MCPs using examples from private industry.

It is important to recognize the difference between management controls and MCPs. Management controls are the individual measures that are collectively implemented and administered in an overarching MCP. Employed haphazardly, even the most robust individual management controls can be ineffective. The goal for managers is to

**“The goal for managers is to identify and implement complimentary control measures in an orchestrated fashion to achieve a comprehensive control program.”**

identify and implement complimentary control measures in an orchestrated fashion to achieve a comprehensive control program.

Army Regulation 11-2, Management Control, provides direct guidance for the implementation of MCPs within the Army. It specifies that heads of reporting organizations and assessable unit managers are responsible for understanding and applying the Comptroller General Standards for Internal Control in the Federal Government<sup>1</sup>. In November 1999, the General Accountability Office (GAO) updated its original list of standards. The GAO’s 1999 version reorganizes the standards for internal control into five mutually supportive areas represented in figure 1.

**Figure 1**  
**GAO’s Standards for Internal Control**



The GAO Standards for Internal Control provide guidance to managers as they develop a comprehensive MCP. This represents an evolution from simply implementing management controls in isolation. The pyramid structure shows that an effective controls program is built upon a foundation referred to as the control environment. At the heart of the program is the risk assessment process that determines where management must focus its attention and the control activities that are implemented to

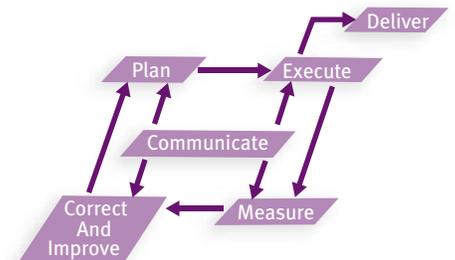
monitor performance in these areas. Once established, the program needs to be constantly monitored to ensure desired results. An important facilitator of the MCP is the ability to communicate information about the control program throughout the organization. When collectively implemented, these five components provide a structure to develop and implement an effective, sustainable MCP.

Many illustrations of the principles associated with the standards for internal control are in practice at the Boeing Company. I had the opportunity to witness firsthand an application of one facet of Boeing’s MCP during my Training with Industry assignment with the company. Boeing is the world’s largest manufacturer of satellites, commercial jetliners, and military aircraft and a global market leader in missile defense, human space flight, and launch services.<sup>2</sup> It is well known for its history of producing commercial jetliners and military fighters, bombers, transports, rotorcraft, missiles and munitions. The company’s success is directly related to the success of the individual programs like the 7#7 series of jets, the Army’s Apache helicopter, the Air Force’s F-15 Eagle or the Navy’s F/A-18E/F Super Hornet. Each of these programs is unique in its own particular way, so Boeing created a Program Management Process Council to standardize the administration of the various programs.

Boeing’s Program Management Process Council established a set of key practices that are used by program managers during the day-to-day execution of their programs. Collectively these practices are integrated into a MCP that Boeing calls its Program Management System. Figure 2 diagrams the relationships of the Program Management System. Individual program managers use this system to implement the business plans for their respective programs. The Council refers to the key management activities of

the Program Management System as the Boeing Program Management Best Practices (PMBP). The PMBP are designed to enable coordinated actions and provide visibility into program health to support timely decision-making for implementing corrective action<sup>3</sup>. The Boeing Program Management System provides a working example of the implementation of the GAO Standards frameworks for an MCP. Many similarities are evident between the frameworks.

**Figure 2**  
**Boeing’s Program Management System**



Source: Boeing Team Leader Training Graphic, Copyright © 2003

The remainder of this article illustrates the five components of the GAO Standards with examples from the Boeing Program Management System.

**Control Environment**

The basis of a successful MCP is directly related to the control environment established within the organization. The control environment as identified in the GAO Standards is commonly referred to in military circles as the command climate. When considering the control environment the manager must assess how the members of the organization are doing at observing proper procedures and their overall standards of performance. The art

of establishing an effective control environment involves leading from the front. Senior level leaders and managers must demonstrate that their own performance is beyond reproach. They need to recognize and observe regulatory guidance and ensure that the subordinate members of the organization adopt the same standards in their performance. The organization should have an inviolable code of ethics like the Army Values (Loyalty, Duty, Respect, Selfless-Service, Honor, Integrity and Personal Courage). Particular attention should be given to the amount of emphasis placed on operational performance. A myopic view of Net Profit as the only material performance metric is an example of a flawed control environment. Excessive pressure to improve operations can push subordinates to compromise organizational ethics to meet performance objectives.

The Boeing Company recognizes the importance of its pledge to ethical behavior in sustaining an effective control environment. Within the past year Boeing has engaged in a “Recommitment to Ethics” campaign throughout the organization. The campaign includes a variety of ethics training and awareness programs for both new and seasoned employees. Results of independent reviews of the company’s ethics program released in December 2003, were widely published both internally and externally. “We found Boeing’s ethics program to be well above average,” said Steve Priest, president of Ethical Leadership Group, a leading business ethics consulting firm. “More importantly, we note that Boeing’s culture supports ethical, responsible behavior.”<sup>24</sup> Boeing’s emphasis on integrity in their corporate climate demonstrates the importance of the control environment in establishing a successful MCP.

## Risk Assessment

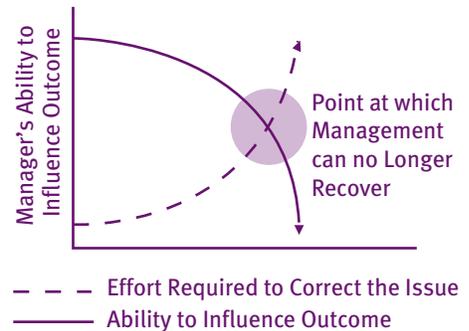
There is little that is accomplished in today’s Army that does not involve risk assessment. Managers use risk assessment to determine what key areas require attention as they develop their MCPs. The GAO Standards defines risk assessment as, “the identification and analysis of relevant risks

associated with achieving objectives... and forming a basis for determining how risks should be managed.”<sup>25</sup> Fundamental to assessing the risk for any organization is the need to have a comprehensive understanding of the organization and its particular operating environment. While these specific organizational characteristics are paramount there are some common areas that any organization will need to consider when assessing its risk. These areas include compliance with the law, accomplishment of objectives and the fostering of an effective control environment.

Managers have an inherent responsibility to ensure that the operations that they oversee perform within the bounds of all applicable laws and regulations. Although ignorance of the law is never a legitimate excuse it can present plausible risk. Job experience and professional development studies help familiarize individual managers with legal requirements associated with their organization. In addition to regulatory requirements, managers need to understand the purpose, the processes and the products that collectively constitute their organization’s operations. The effective manager has to be able to envision the desired endstate for the organization and articulate how this endstate can be achieved. Then the manager can begin to assess the risk pertinent to the envisioned operational objectives. The importance of an effective control environment has already been recognized. Risks to the control environment include influences that sidetrack employees from understanding the organizational standards for behavior and accepting the fact that they are individually as well as collectively responsible for meeting these standards.

The Boeing Company Program Management Process Council has performed a high-level risk assessment designed to be universally applicable to the Company’s widely varied programs. Cost, schedule and technical risks are common challenges that every program manager has to balance. Managing cost is essential to ensuring the availability of sufficient resources to meet contractual specifications and earning a profit. Producing products

Figure 3



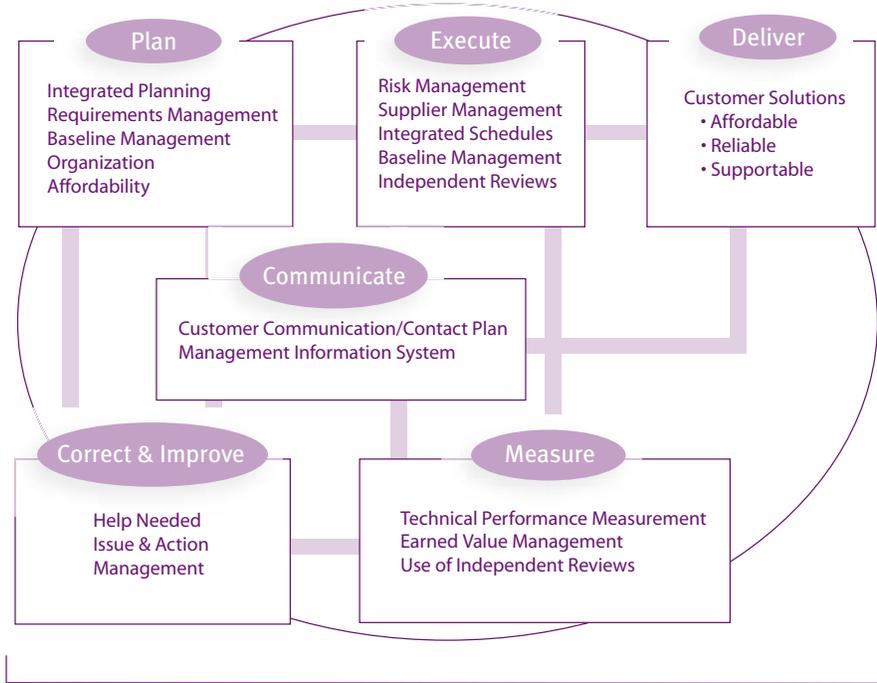
for customers within a contractual timeline requires schedule risk management. Effectively managing technical risk results in the delivery of quality products that possess the functionality desired by the customer. There are seemingly endless numbers of risks present in Boeing’s many programs. But just as all colors on the color wheel are a derivative of the three primary colors, most if not all of the risks present in Boeing’s individual programs are a derivative of the primary program risks to cost, schedule and technical performance.

## Control Activities

After assessing the risks that the organization is subject to, managers can identify actions appropriate to mitigate these risks. “Control activities are the policies, procedures, techniques and mechanisms that enforce management’s directives.”<sup>26</sup> The control activities that managers select become the alert sensors that indicate the organization is operating in accordance with prescribed policies and procedures to achieve intended results. They constitute the regular interface between managers and their organization’s day-to-day operations.

Control activities, when properly selected, allow management to identify deviations from expected performance early enough to respond in a timely manner. Figure 3 demonstrates the relationship between early problem identification and management’s ability to intervene to resolve

**Figure 4**  
**Program Management Best Practices**



an issue. If lip service only is given to the MCP and the organization surges to meet the regulatory requirements only when an annual statement is due or when an audit is pending, the MCP will not achieve its intended purpose. Management needs to be constantly vigilant, always considering from where the next challenge or risk to organizational success might come.

Selecting the best control activities to ensure compliance with established policies and procedures should not necessarily create a new burden on managers. Proper integration of the control activities into the overall operating environment will ensure that the cost of the control activities selected is appropriate given the magnitude of the risk they are intended to monitor and the probability of its occurrence. The goal should be to identify key control activities whose failure will likely break or seriously impair the system. Typically the Pareto principle will apply to control activities. This principle maintains that 20 percent of the control activities selected will effectively

monitor approximately 80 percent of the risk to which the organization is subject. Management will want to be most proactive in their surveillance of these “critical few” control activities while they in more of a management by exception mode for the remaining “trivial many”.

In the Boeing Program Management System the control activities are the PMBP established to address the cost, schedule and technical performance risk to programs. The PMBP represent the control activities program managers use to manage their programs. Each practice is aligned with one or more of the major components of the Program Management System as identified in Figure 4. A discussion of the individual Best Practices themselves is beyond the scope of this article. The strength of the PMBP, however, lie in the ability of the individual program manager to understand, adopt and implement each of these control activities into a integrated MCP. Collectively these management practices help the Boeing

Company: a) achieve bottom-line performance, meeting customer and shareholder expectations; b) attain top-line growth by attracting new contracts based on their demonstrated performance<sup>7</sup>.

### Information and Communication

The grease that lubricates an effective MCP is the information flow throughout the organization. All members must understand the standards for their performance. The control activities that are identified effectively communicate what activities are priorities for the management. They serve as a kind of beacon for everyone in the organization, providing a common focus and a common language for talking about it. In *The Art of War*, Sun Tzu stated that, “Gongs and drums, banners and flags, are means whereby the ears and eyes of the host may be focused on one particular point.”<sup>8</sup> Similar fanfare when advertising MCP results within an organization can likewise establish a common focal point. Communicating things like internal audit reports or results of recurring reports or management reviews effectively transmits what particular activities are being measured and therefore highlights their importance throughout the organization. It also lets the members know collectively where they are meeting the standard and where improvement is still necessary.

Boeing’s Program Management System is a well-advertised, integral part of Boeing’s corporate climate. The Program Management Process Council that monitors and improves the implementation of the PMBP is made up of CEOs and senior vice presidents from across Boeing’s seven business units. They and many of their subordinate leaders have previous experience directing Boeing programs and are strong supporters of the Program Management System. There is a dedicated site on the Boeing intranet that describes the PMBP concept since its original implementation in the company. The concepts are formally taught at Program Managers’ workshops and at Team Leader training sessions. Internal assessments and audits of programs are highlighted events that bring key

team members from the programs together with their corporate subject matter expert counterparts for both feedback and evaluation of their performance. The Program Management System provides a common frame of reference for communicating performance priorities both within Boeing programs and throughout the company.

## Monitoring

Monitoring is the regular maintenance required to keep the established MCP current and effective. Effective monitoring should focus on ensuring that the controls established are being implemented as prescribed and that they are effectively fostering desired performance within the organization. Boeing's PMBP have evolved since they were first formally introduced in 1998. Then there were nine basic control activities. Now there are eighteen best practices, four more under review to be added and one in development. Regular disciplined evaluation of the effectiveness of the MCP is necessary to ensure that it remains a valuable tool.

Implementation of Boeing's Program Management System is achieved through scheduled series of assessments and audits. The assessment process Boeing uses relies on a maturity model created to evaluate each of the PMBPs. The maturity model is a matrix that describes key attributes of each PMBP and establishes objective evaluation criteria to be used to assess program management's effectiveness in utilizing the PMBP. Problem areas identified by the MCP should be thoroughly and expeditiously resolved. Brutal honesty in the feedback process of any MCP is key to improving its effectiveness. Continuous evaluation and improvement in an organization's MCP will provide leaders with assurance that their organizations are achieving intended results in accordance with established policy and procedures.

## The Result of Control - Value

The fundamental purpose behind management controls in the Army is to provide reasonable assurance to Congress, DoD and the Army's own leadership that those actions that they expect to happen are indeed happening. Local responsibility for administering an MCP is often assigned to the organization's resource management directorate for administration. The GAO's Standards provides a framework for organizations to consider as they develop and implement their MCPs. Successful MCPs should not be viewed as an administrative burden. Effectively integrated into the organization, MCPs provide leaders and managers with a program that highlights procedural and operational standards that when followed are likely to result in the accomplishment of planned performance objectives. Additionally, a climate that communicates and consistently assesses its MCP and key control activities will benefit from enhanced abilities to identify the root cause of problems within the organization in a timely fashion. This allows maximum flexibility in correcting these shortcomings.

A call to understand the concept of control is being made in the Army. Before departing as the Assistant Secretary of the Army for Financial Management and Comptroller (ASA(FM&C)), the Honorable Sandra Pack commissioned a team to develop a roadmap to guide the resource management community in their administration of management controls<sup>9</sup>. Boeing's Program Management Council is an example of a lead agent with a similar character. The Program Management Council's PMBPs represent Boeing's key control activities that collectively constitute their Program Management System. Both the Army and Boeing recognize the important role that management controls have in providing assurance that the respective organizations are performing as intended. Management control is a concept that permeates the entire structure of the Army. Even marginal improvements in our implementation of management control processes can potentially achieve millions or billions of dollars in savings. This more efficient

management of our allocated resources will directly result in better support our soldiers and thereby for our nation. So take a moment. Consider the effectiveness of your control program. And may the force be with you.

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## About the Author:

*Major Karl Kraus is one of five Functional Area 45 officers participating in the Training With Industry program, in his case with the Boeing Company.*

## Election Year 2004

# Guidelines For Federal Employees Under Hatch Act Amendments

By Mr. Matt Reres, Deputy General Counsel (Ethics & Fiscal)

As you are aware, this is a Presidential election year. In addition to the election of our President, we Americans will vote for those competing for seats in the House of Representatives and the Senate, as well as for those competing for various elected positions at the state and local levels. As Americans, our right to vote for those who will represent us is sacred to each of us. Yet, our right as soldiers and Army civilian employees to vote for our candidates is tempered with certain caveats. The following list contains examples of permissible and prohibited activities for federal employees under Hatch Act amendments. You should be aware that the U.S. Office of Special Counsel (OSC) provides advisory opinions on Hatch Act issues, and investigates reports or complaints of Hatch Act violations. 1-800-85-HATCH (854-2824)

May be candidates for public office in nonpartisan elections

May register and vote as they choose

May assist in voter registration drives

May express opinions about candidates and issues

May contribute money to political organizations

May attend political fundraising functions

May attend and be active at political rallies and meetings

May join and be an active member of a political party or club

May sign nominating petitions

May campaign for or against referendum questions, constitutional amendments, municipal ordinances

May campaign for or against candidates in partisan elections

May make campaign speeches for candidates in partisan elections

May distribute campaign literature in partisan elections

May hold office in political clubs or parties including serving as a delegate to a convention

May never use their official authority or influence to interfere with an election

May never solicit, accept or receive political contributions unless both individuals are members of the same federal labor organization or employee organization and the one solicited is never a subordinate employee

May never knowingly solicit or discourage the political activity of any person who has business before the agency

May never engage in political activity while on duty

May never engage in political activity in any government office

May never engage in political activity while wearing an official uniform

May never engage in political activity while using a government vehicle

May never be candidates for public office in partisan elections

May never wear political buttons on duty

The rules that apply to our activities associated with the upcoming elections are easily understood.

For that reason, we may participate in these elections to the degree that is permitted. But whether we participate or decline, we should always exercise our Constitutional right—We should VOTE!

### About the Author:

Mr. Matt Reres is the Deputy General Counsel (Ethics & Fiscal) in the Army's Office of the General Counsel.



## Managing Resources How Informed Are You?

by Helen Tierney

The Army Day keynote speaker was Lieutenant General (LTG) Jerry Sinn, the Military Deputy for Budget, Office of the Assistant Secretary of the Army, Financial Management and Comptroller. LTG Jerry Sinn is the senior military resource manager in the Army, and advises the political and senior military leadership on all fiscal Army matters.

LTG Sinn warmly welcomed almost 800 Army resource management professionals to the Professional Development Institute (PDI) in the beautiful Cleveland Convention Center Little Theater. He opened his remarks by drawing a parallel between the turbulent times when the theater was opened in the 1930s and the world environment today. Following his brief welcoming remarks LTG Sinn presented awards to many outstanding Army Resource Managers Award program selectees. Please see the 2nd Quarter 2004 "Resource Management" magazine for a brief summary of the RM award winners and their outstanding achievements.

In LTG Sinn's plenary remarks he opened with the observation that the Army has successfully transitioned to a campaign quality force that is relevant and ready to prevail in the Global War on Terrorism (GWOT). He stated that demands on the Army have produced tremendous challenges for the Army Resource Management community. The Army comptrollers must continue to manage the Army's day to day wartime fiscal requirements, ensure the Congressionally directed increase of 30,000 Soldiers is properly and seamlessly funded, and at the same



time look towards the future to guarantee there is funding for transformation, especially for the Future Combat System.

LTG Sinn then looked at the demographics of the Army Resource Management community. He noted that there are about 3,575 military comptrollers with an average age of 31, and that the average age of the 9614 civilians in the Comptroller Civilian (CP 11) career field is 49. Additionally, LTG Sinn remarked that there are 157 interns, and that about half of the CP 11 SES corps is eligible to retire now. A good news aspect of being an Army comptroller is the outstanding training opportunities that are open to all. Education programs range from the highly prestigious Army Comptroller MBA and MaPA program at Syracuse University, to training with industry, fellowships at OMB and Brookings, and many other training opportunities. LTG Jerry Sinn urged all comptrollers to take advantage of these outstanding programs.

LTG Sinn then presented an abbreviated look at trends in the Federal deficit as projected a year ago, and as projected in March 2004, and the impact of the deficit on the Army FY05 budget.

In concluding his remarks, LTG Sinn challenged the Army Resource Managers to an Army resource quiz. He suggested that all comptrollers everywhere need to understand the numbers and policies that impact on Army funding. It is a leader's job to ensure their staffs are knowledgeable regarding the kind of resource management of information below.

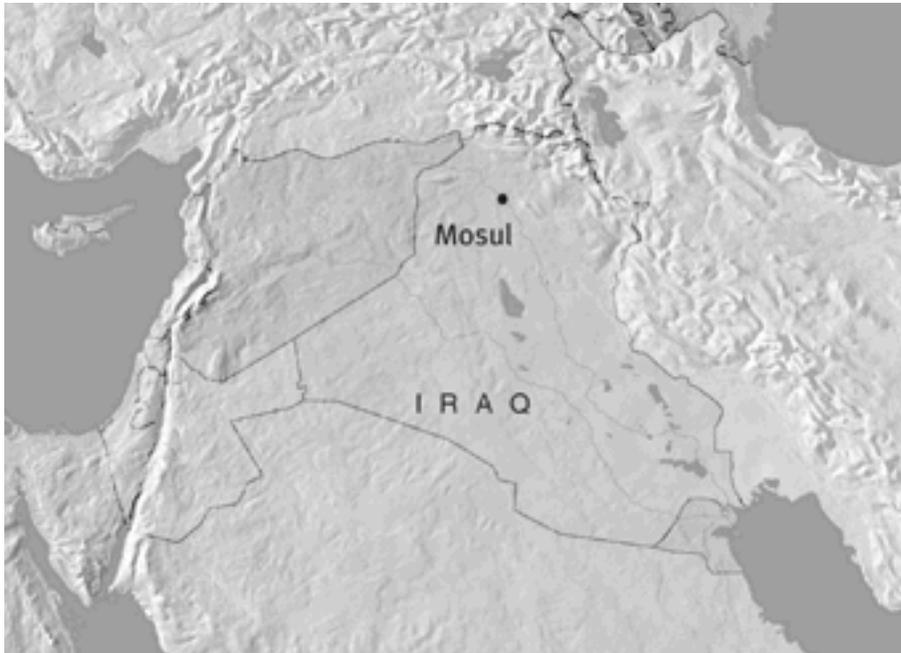
LTG Sinn's plenary remarks were followed by three thought provoking breakout sessions. Major General Lynn Hartsell, the Director of the Army Budget gave a timely presentation on Army FY04 and FY05 budget. He touched on the complexities of the FY04 mid year review, expectations for closing out FY04, the FY05 President's budget now being debated in Congress, and the FY05 GWOT Supplemental. Brigadier General Robert Durbin, Deputy Director, Program Analysis and Evaluation Directorate/G8 gave an excellent perspective of transformation and the future force in his presentation "Army Focus Areas Progress to Date & Army Campaign Plan." Colonel Joseph Anderson, Commander of the Second Brigade, 101st Air Assault gave a fast paced multi-media presentation on operations in Mosul, the second largest city in Iraq. This presentation provided a very positive and completely different perspective of the success of Operation Iraqi Freedom than what is often portrayed in the media. All three sessions are covered in more depth in other articles in this magazine.

### About the Author:

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## Winning Hearts and Minds: Innovative Resource Management in Mosul, Iraq



**T**he theme of the 2004 Professional Development Institute (PDI) Army Day in Cleveland, Ohio was Managing Resources During Wartime. This theme was emphasized throughout the three information sessions that were presented. Colonel Joseph Anderson, Commander of the Second Brigade Combat Team (BCT) of the 101st Airborne Division, presented a dynamic and interesting session about recent operations in Iraq. The presentation started with a stirring and patriotic video entitled “The Fallen Comrade”, a compilation of pictures and video, set to music, of soldiers conducting operations in Iraq.

Colonel Anderson’s BCT was deployed to Northern Iraq from April 2003 through February 2004. Recently back from this deployment, his perspective was an enlightening look into operations in a war zone. The Second BCT’s mission in Iraq was to conduct stability and support operations in the town of Mosul and its surrounding areas. This included maintaining a secure and stable environment, identifying and detaining enemy combatants, facilitating the delivery of basic services and promoting the establishment of government institutions.

The 101st Airborne Division had an Area of Operation (AO) of about 75,000 sq km, with a total of 3 BCTs. Of that area, the 2d BCT’s AO encompassed about 4,130 sq km, including Mosul. According to Colonel Anderson, the town of Mosul is the second largest city in Iraq and birthplace of the Ba’ath Party. He said, “There are several very different areas in Iraq. The north [Mosul] and south are mirror images of each other. They are more secure and developed. In the north, you have the Sunni and in the south, the Shiites. The central region [Baghdad] is different, and has problems.”

Law and order was one of the highest priorities for Colonel Anderson’s team. He said, “One of the biggest challenges we faced was ordinary and continuous crime, mostly looting”. Some Saddam loyalists used mosques to gather and plan attacks, store weapons and spread anti-American propaganda. Colonel Anderson attributed sixty-percent of the security problems to Saddam loyalists and about ten-percent of the problems to outsiders coming into Iraq, one third of which were pure terrorists [Al Qaeda and other groups].

To counter threats to law and order, Colonel Anderson’s team established and trained Facility Protection Security Forces, who guarded critical sites such as banks, government buildings and other national assets. They also trained the Iraqi Civil Defense Corps, who helped restore civil authority and protect citizens from foreign and domestic enemies.

Colonel Anderson’s presentation highlighted the daily challenges in managing the city. The challenges included a language and cultural barrier, limited resources and competing priorities, contracting issues and combat hazards. According to Colonel Anderson, running the city was “ten times harder than fighting a war on a day to day basis”. It required a skilled and adaptive combat brigade team.

The culture and language barriers were significant in Iraq. Colonel Anderson said, "We had 245 interpreters at the company level and I could have used twice that many." One of the counter-intelligence programs the Second BCT ran was a local radio station. Colonel Anderson held weekly Q & A sessions where local citizens could call in and ask about anything they wanted to. This was all facilitated through the use of skilled interpreters.

Cultural differences also created several contracting challenges. The contract bidding process had to be explained to locals interested in bidding for reconstruction jobs. In Iraq culture, construction jobs are typically given to friends of the foreman. Iraqis were confused by the contract bidding process, especially western rules and regulations. Additionally, the team only had one contracting officer and contracts had to be written for almost every local construction job.

One of the main financial management resource tools at Colonel Anderson's disposal was the Commanders Emergency Response Program (CERP) fund. This fund was used to facilitate the rebuilding of Mosul's infrastructure, a critical mission for the Second BCT. The Commanders in the field determined which projects and in what order they would be completed. Colonel Anderson felt that Commanders were close to the situation and knew best where resources need to go. He said, "There tends to be concentration of resources to the major cities, but the outlying areas need assistance too. You can't ignore the suburbs." Overall, there were many tasks to be accomplished and issues over who gets the funding, but the money eventually gets to the right places.

There were stories of people carrying cash in suitcases or footlockers. Colonel Anderson confirmed that those stories were true, but those individuals were designated to do so and the cash had to be signed for

when payments were made and forms were filled out. Everything had to be documented for audit and accountability purposes. It was all in U.S. currency and was used to pay for CERP projects and supplies. The civil servants and new police forces had to be paid. CERP funds were also used to purchase weapons and information.

**Colonel Anderson's team established and trained Facility Protection Security Forces, who guarded critical sites such as banks, government buildings and other national assets.**

One group of projects high on the priority list was getting the schools back up and running, especially the elementary schools. Most Ba'ath party people are well educated and the schools are important to them. The challenges in getting the schools back in working order included repairing the buildings, finding teachers and changing the course curriculum. Many teachers left when the war started and so it was a challenge to find new teachers. The course material had to be changed to a broad based education curriculum. The secondary and technical schools needed rebuilding as well. There is still more to be done, but significant progress has been made.

Financial resources are an important issue everywhere in Iraq. The Iraqi government was establishing a new currency and replacing the old currency at the banks. People were being encouraged to set up individual bank accounts, sometimes for the first time. The Iraqi people are getting

control of their own money and doing things for themselves.

To thwart combat and security hazards, the Second BCT spent a lot of time tracking and analyzing the patterns and trends of insurgent attacks. They developed sources to identify where the bad guys were hiding, such as hotels, cottages and safe houses. Then they conducted raids to capture them. Other operations included checkpoints to screen Iraqi identification cards and identify possible bad guys. The Second BCT also cleared more than 800 mines and 750 unexploded ordinance sites.

One factor that hurts the stability and security of an area is the frequent rotation of troops. Too many rotations hurt efforts to build relationships, according to Colonel Anderson. He said that the key to stability is long-range rotations. Some regions have just begun to trust the troops and then they are rotated out and a new relationship of trust has to be established. The local population was confused and didn't know whom to trust.

There were lots of questions at the end of Colonel Anderson's presentation. One person in the audience asked about women in the workforce and government. Colonel Anderson said that women represent a small percentage of the workforce, but they are beginning to play key roles, including politics. The Kurds are the most progressive on this issue. Iraq is a tremendously different culture. The United States has assessed the ongoing cultural changes and tried to rebalance the power, including putting women into the workforce. The Second BCT helped build a women's union hall for meeting and social gatherings. There are roundtables about women's rights. Genuine progress is being made.

Some in the audience wanted to know how Army civilians could support the troops in Iraq and what if there were opportunities to serve over there. Colonel

Anderson encouraged civilians to work with leadership to implement programs such as Rapid Fielding of Equipment (RFE) which helps increase Warfighter lethality and survivability. Reactive Armor and Vehicle Hardening also increase survivability. Intelligence tracking systems such as Blue Force Tracking increases situational awareness. Jamming devices help protect critical intelligence. Information sharing on the battlefield is crucial to success. As for opportunities to serve in Iraq, Colonel Anderson said the Army needs contracting officers, ideally one for each Unit of Action. There is a shortage of contracting officers and finance people. Also, they need staff coordination people to organize administrative details.

Another major issue that came up was the press coverage of Operation Iraq Freedom. A couple of people asked why Americans aren't hearing about the progress being made in Iraq or any of the good news stories. Colonel Anderson emphasized the importance of the embedded media for fostering good news, both there and here.

One of the major keys to success in Iraq is passing on the lessons learned and training our troops to be better prepared for whatever situations they may face there and elsewhere. Since returning in February 2004, Colonel Anderson has been talking with Commanders and troops, educating them on the challenges and needs of the mission in terms of training and resources. He shares the lessons he and other Commanders learned over in Iraq about what worked well and what didn't. Colonel Anderson emphasized that the Army is modifying the training. The Army is including role-playing of civil situations. Troops need to understand civic organization and government. The Warfighter has to be adaptable and flexible.

Lastly, people wanted to know when or if the Brigade and Division were going back to Iraq and the impact of the war on reten-

tion. Colonel Anderson said he was "thrilled to serve", and that "our retention is high in the 101st Air Assault, Soldiers are not leaving." The Division met their recruiting goal one month early and the soldiers are happy.

In summary, it was very informative and enlightening presentation. Colonel Anderson brought the boots on the ground perspective to life for the Army financial management community. His presentation emphasized the importance of effectively managing personnel, equipment and financial resources to be successful in Operation Iraqi Freedom. Resources, such as CERP funds, are making a real difference in the war and improving the daily lives of the Iraqi people. Colonel Anderson ended his presentations by thanking everyone for their service and support. In return, the Army financial management community thanks Colonel Anderson for his tremendous service to the Nation.

**About the Author:**

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**Resources, such as CERP funds, are making a real difference in the war and improving the daily lives of the Iraqi people.**



## FY04 & FY05 Budget Overview

By Kenneshia D.J. Murray



**M**ajor General (MG) Lynn Hartsell presented the 2004 Army Day Fiscal Year 2004 (FY04) and Fiscal Year 2005 (FY05) Budget Session.

MG Hartsell opened the presentation with a warm and sincere welcome to the Army Resource Managers, "Thank you for who you are and what you do. It is what we do that lets the soldiers do what they have to do." MG Hartsell then quickly moved into sharing his recent experience with the mid year review, predictions on closing out FY04, and what could be expected in the FY05 President's Budget, and a FY05 Global War on Terrorism (GWOT) supplemental. MG Hartsell promised the audience that he would do his best to keep his presentation simple-something that is difficult to do with such a complex subject.

MG Hartsell stated that the FY04 mid-year review was like no other he had ever experienced. Due to the GWOT OPTEMPO, there was an Army funding shortfall of \$10.9 billion. Even though the Army did well gaining some additional funding in the OSD mid-year review, and the Air

Force agreed to fund some of the Logistics Civil Augmentation Program bill, which is one of the Army's highest cost contracts, there is still a significant funding shortfall. To manage this shortfall, the Army will have to push costs/work into FY05 where it is "not illegal, immoral, or

where it would impact readiness." This includes deferring work in the depot reset arena, annual facility maintenance, and delaying some PCS moves until FY05.

The next topic of discussion was FY05 President's Budget. MG Hartsell stated the FY05 budget themes centered around three focus areas: readiness, people and future force. In order for the Army to provide ready land force capabilities to combatant commanders, transformation of the Army into modular forces is essential to meet the growing GWOT mission and enhance warfighting readiness. Additionally, Soldiers need the best available capabilities and equipment to conduct operations. Maintaining the quality of life for Soldiers and their families is also essential. The requirement to sustain commitment for six Stryker brigade combat teams in another FY05 budget focus. Possible budget estimates for FY05 are about \$98.5 billion. Overall, MG Hartsell believes that from a funding perspective, FY05 will be similar to FY04, except there will be even more challenges. MG Hartsell concluded the FY05 portion of his presentation by para-

phrasing the Army Chief of Staff, General Schoomaker, and told the assembled resource managers that he thought that FY05 would be a year of "changing the valves with the engine running."

MG Hartsell said that it is clear that FY05 supplemental funding will be necessary to support FY05 challenges. Operations in Iraq and Afghanistan, for example, are not funded in the President's Budget, as DoD cannot predict the involvement or costs of future contingency operations. MG Hartsell stated it was critical that the Army receive at least a portion of the required supplemental funding early in the fiscal year, so that work deferred in FY04 due to the FY04 funding shortfall could be accomplished before there was an impact on readiness.

MG Hartsell appreciatively closed the session by again thanking the Army resource managers for all of their efforts and he enthusiastically invited everyone to, "Put a smile on your face and be happy about what you do."

### **About the Author:**

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## Transformation Resource Strategy—Relevant and Ready Core Competencies

By Ms. Monica Davis

In the Little Theater, of the Cleveland Convention Center, people listened attentively as Brigadier General (BG) Robert Durbin, Deputy Director, Program Analysis and Evaluation Directorate, Headquarters, Department of the Army, presented the “Army Focus Areas Progress to Date and Army Campaign Plan.” BG Durbin is responsible for analyzing and developing the Army program, considering Defense and Army objectives, costs, and resource constraints. As Deputy Director, BG Durbin had the opportunity to serve on the new Army Chief of Staff transformation team, working with General Peter Schoomaker.

BG Durbin opened the session by stating the environment under which the Army operated had changed. Post 911, “We are an Army at War.”

BG Durbin stated the Army continuously changes and will continue to improve relevance and readiness, however there is still a cloud of uncertainty. In order for the Army to remain “Relevant and Ready,” BG Durbin said it must balance two core competencies and land power capabilities: Train and Equip Soldiers and Grow Leaders; as well as Provide Relevant and Ready Land Power Capability to the Combatant Commander and the Joint Team. To balance these core competencies the Army must concentrate on 17 immediate focus areas. Integrating these focus areas will be an ongoing effort.

BG Durbin stated the conceptual framework for integrating these focus areas included The Army Plan (TAP) and The Army Campaign Plan (ACP). The TAP has

three parts: strategy, risk analysis, and programmatic guidance. The ACP is product oriented, not input focused. Its key outcomes have to do with increased jointness, campaign quality capabilities, and updated processes and policies.

BG Durbin then discussed emerging resource demands for the POM 06-11 Unfunded Requirements. The Strategic Planning Guidance (SPG) has a set of funding of which sixty-two percent (\$30B) of SPG bills are already identified within Emerging and POM 05-09 Unfunded Requirements. The Joint Planning Guidance (JPG), focus areas, and Integrated Priority Lists (IPL) requirements reflect DoD and Army priorities. The goal is to get all three requirements to co-align so that all funding provides the right capabilities in our Army for combatant commanders that support our Army strategies.

BG Durbin talked about the top three resourcing strategy decisions for POM/BES FY 06-11. He discussed the objectives of Army Transformation and the Army Campaign Plan. The mission is to build a campaign-quality Army with joint and expeditionary capabilities now. BG Durbin stated this is how we will achieve balance. He said the Army is too resilient to break. The Army is going to stay with an all-volunteer force. We will bring in a quality force that makes the Army what it is today, which is the bottom line in everything we do.

BG Durbin discussed force stabilization initiatives, which will align soldier assignments with unit operational cycles for a

period of 36 months, providing stability and predictability. In structuring the force, he said the reserve component and the active component must compliment each other. Restructuring the force resulted in a decrease in field artillery and air defense units and an increase in military police units and transformation units. As part of the restructuring, the Army has to divest cold war structures to better fight the war on terrorism, relieve stress on high demand units, improve readiness and deployability of units, and execute military to civilian conversions. This is the most significant Army restructuring in the last 50 years.

In order to win the war on terrorism, the Army must provide ready and capable forces. The Active Component (AC) will operate on a 3-year cycle (1 year in 3). The Army National Guard (ARNG) will operate on a 5-year cycle (1 year in 5) and the Reserve Component (RC) will operate on a 6-year cycle (1 year in 6). The Army must manage readiness and availability of force.

BG Durbin concluded by discussing the POM FY 06-11 Strategy. He stated the strategy addresses fact of life changes and considers the JPG and Combatant Commander Integrated Priority Lists funding requirements. In addition, modularity programs will be resourced by supplemental funding. BG Durbin then discussed the Army resourcing status, in which it has an \$11B resourcing shortfall. The goal is to eliminate the shortfall and buy back the program risk.

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