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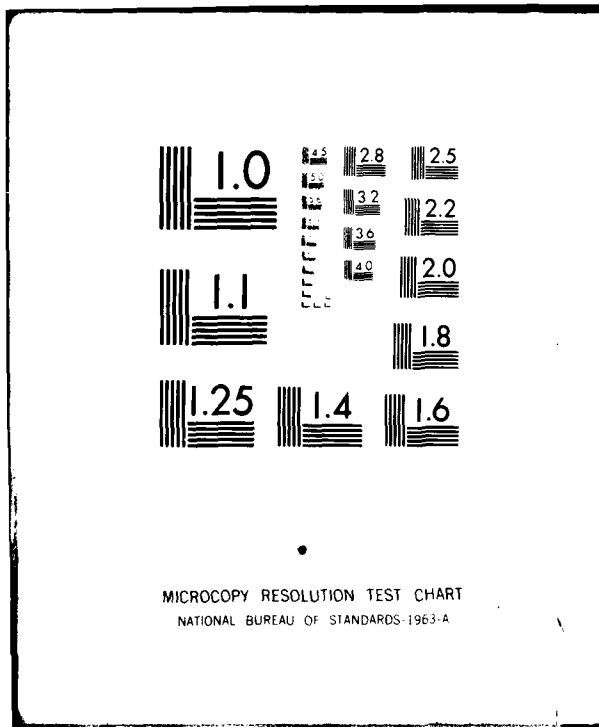
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IMPROVED PROCEDURES FOR FORMULATION AND
EXECUTION OF OPERATIONS AND MAINTENANCE
BUDGETS FOR LOGISTIC RESOURCES

John D. Morgan
Norman B. Davis
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September 1979

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FYDP Logistic Resource Annex
Obligations
Decision Package Sets
Program Decision Memoranda
Decision Units
Consolidated Guidance
Financial Management Systems
DoD Planning, Programming and Budgeting System
O&M Budget Formulation, Justification and Execution
O&M Fund Control Systems
O&M Fund Utilization Visibility
Management Reserves

(Cont. block 20 - Abstract)

The study presents a thorough review of existing relevant policies and procedures and highlights opportunities for improvements to satisfy task objectives.

Finally, the study presents conclusions and a set of short-run and long-run recommendations. The short-run recommendations suggest changes that could be made for immediately improved capabilities that could be implemented starting with the May 1980 POM. For the long run, it is recommended that the Logistic Resource Annex to the FYDP be used for administering new visibility and logistic fund control procedures and that management reserves be established in the O&M appropriations.

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BUDGETS FOR LOGISTIC RESOURCES**

John D. Morgan
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September 1979



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COST ANALYSIS GROUP
400 Army-Navy Drive, Arlington, Virginia 22202**

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PREFACE

This study, prepared by the Cost Analysis Group of the Institute for Defense Analyses (IDA), reports on work accomplished for the Office of the Assistant Secretary of Defense for Manpower, Reserve Affairs and Logistics (OASD/MRA&L) under Task Order Number 79-II-2, January 15, 1979.

The objective of this research was to develop better methods for ensuring that logistic resources financed by Operations and Maintenance (O&M) appropriations are used in a manner consistent with Secretary of Defense (SecDef) decisions and policies. Systems currently used at the Office of the Secretary of Defense (OSD) level to allocate and account for O&M-financed logistic resources do not permit OSD to ensure that these resources are utilized in accordance with these decisions and policies.

The task involved the following specific requirements:

- (1) Review and evaluate OSD and Service policies, procedures, methods, and techniques for management control of the processes of O&M budget formulation and execution, especially as these processes involve O&M-funded logistic programs. This includes an evaluation of various institutional or procedural factors that affect the O&M budgeting process.
- (2) Develop and recommend new or improved policies, procedures or techniques to provide more effective OSD-level control of O&M budget formulation and execution, especially with respect to O&M funded logistic programs.

Chapter I provides information on the conceptual framework for this study including study assumptions and the general procedures followed in the Services for O&M budget formulation, justification and execution. This chapter includes a discussion

of Department of Defense (DoD) resource management philosophies that relate to visibility and control of O&M budgets.

Chapter II reviews O&M budget formulation procedures in the Department of Defense. This chapter includes comprehensive treatment of OSD and Service procedures for applying zero-base budget concepts to O&M budget formulation. Chapter conclusions give reasons why the existing procedures do not satisfy OASD/MRA&L requirements for adequate visibility and control of O&M financed logistic resources in the budget formulation stage.

Chapter III covers O&M budget execution in the DoD. There is extensive treatment of opportunities for better visibility and control of O&M financed logistic resource allocations using existing systems. Current limitations on budget execution are also covered in this chapter.

Chapter IV contains recommendations on how to achieve OASD/MRA&L's objectives for better methods to ensure that logistic resources financed by O&M appropriations are used in a manner consistent with SecDef decisions and policies. These recommendations include some that can be implemented immediately, others that can be implemented in the short run but will require more staff preparation and, finally, long-run recommendations for a complete system to permit the most efficient administration of the O&M fund control procedures as related to logistic resources. In summary, the authors suggest, in the short run, more active participation by OASD/MRA&L in various activities related to O&M budget visibility and control with some revisions in existing budget formulation and execution procedures. The long-run proposals are based on using the Logistic Resource Annex (LRA) to the DoD Five Year Defense Program (FYDP) as the structure for a complete O&M logistic resource fund control system. A potentially controversial long-run recommendation is to establish a management reserve for each of the O&M appropriations.

The appendixes of this study contain samples of important budget administration documents, a paper on budgeting for inflation and the effect of unbudgeted inflation on program execution, and a copy of the task order for the study.

Periodic reviews and critiques of IDA's work were performed by a Technical Review Board composed of Mr. Joseph G. Turke, Office, Secretary of Defense, Dr. Francis L. McDonald, Department of Energy and Dr. Harry Williams, Director of the IDA Program Analysis Division. We appreciate the constructive comments and recommendations of the Technical Review Board.

EXECUTIVE SUMMARY

A. THE INSTITUTE FOR DEFENSE ANALYSES TASK

OASD/MRA&L officials asked IDA to examine current procedures for management control of Operations and Maintenance (O&M) appropriation budget formulation and execution processes and to develop recommendations for more effective OSD-level control of these processes. OASD/MRA&L's interest pertained especially to these processes as related to O&M-funded logistic programs. These programs provide support resources to help maintain operational and training forces and equipment in an acceptable state of readiness. They cover the standard supply, maintenance and transportation functions, with related goods and services.

The study provides the following research results:

- (1) A review and evaluation of current procedures to formulate and execute O&M appropriation budgets with particular reference to visibility provided and control methods used in existing systems.
- (2) An identification of opportunities for OASD/MRA&L to use more effectively the existing O&M budget systems to achieve its objectives of improved management control of the O&M budget processes as related to logistic resources.
- (3) A set of short-run and long-run recommendations to improve existing systems and to provide new policies and procedures to achieve OASD/MRA&L objectives.

B. BACKGROUND

The OSD Program Objective Memoranda (POM) issue papers that are prepared after receipt of the Service POMs in May identify significant problem areas on which SecDef decisions must be made

to guide the Services in preparing their annual budgets. For several years these papers have identified recurring logistic issues that persist from year to year regardless of OASD/MRA&L efforts to resolve these issues in the annual program/budget process. Often, logistic resource levels directed in SecDef decision memoranda to the Services for budgeting were changed later in O&M budget formulation and execution, causing these logistic issues to recur.

OASD/MRA&L concluded that a study was required to review and evaluate existing O&M budget formulation and execution procedures related especially to management control of these processes for logistic resources. It postulated that a study might produce recommendations that would lead to correction of the problem of persistent underfunding in some logistic support areas when OASD/MRA&L had assumed that adequate funding had been provided in SecDef decisions.

C. O&M APPROPRIATION BUDGET FORMULATION

The OSD Consolidated Guidance (CG) and its companion POM Preparation Instructions issued in the February-to-April time period initiate the program and budget cycle that will culminate in Service budget submittals to the Congress the following January. Activities during this February-to-January time period constitute budget formulation, although within the Services preparatory formulation activities are underway prior to February. OSD decisions on approved resource levels for budgeting are issued in August in Program Decision Memoranda (PDM)¹ that respond to Service POMs submitted in May, and in Decision Package Sets issued in the October-to-December period that respond to Service O&M Budgets submitted in September.

¹Amended Program Decision Memoranda (APDM) also are issued to reflect final SecDef decisions on reclaims submitted by the Services to decisions shown in the PDMs.

We found that Service POM and budget submittals provide reasonable visibility of logistic resources and programs to be financed by the O&M appropriations. Furthermore, budget decision units (DUs) and their associated subcategories provide a structure within which it is possible to provide meaningful OSD-level visibility and tracking of the logistic impacts of O&M decisions during budget formulation, including the review phases. If Service budget submittals do not provide sufficient detail for specific categories of resources, the required information should be readily available in Service data bases in DU and DU subcategory detail.

During the October-to-December budget review, the OASD/Comptroller issues timely reports to track the results of review activity on the O&M appropriations. A major visibility problem for OASD/MRA&L during the budget formulation period is to determine the nature of final adjustments to Service budgets after Presidential decisions are made in December for incorporation into Service Budget Justification Books to go to the Congress in January.

OASD/MRA&L tools to exercise management control of O&M budget formulation are limited. Directives can be given on prescribed resource levels for some categories of logistic resources in the CG, the PDM, and the APDM. Also, OASD/MRA&L can participate actively and exercise its influence in the budget review period to determine final decisions on these resources. Budget formulation, however, is a very dynamic process, and, even with excellent visibility of developments related to logistic resources, it may be impossible for OASD/MRA&L to control the final level of these resources. Decisions may be made by OMB, the President, and even by SecDef during budget reviews that result in significant changes in these logistic resource levels. Therefore, the most important device to deal with OASD/MRA&L's problem during this period

is a suitable visibility system so OASD/MRA&L can respond to program and budget developments in a timely way.

D. O&M APPROPRIATION BUDGET EXECUTION

OASD/MRA&L has little capability to influence Congressional activities during budget justification, except to participate as actively as possible in the defense of logistic resource fund requirements. The OASD/Comptroller (OASD/C) maintains a data system that provides suitable information to all interested DoD agencies on actions taken by the Congress during their review of the O&M budgets. After passage of the appropriation acts, OASD/MRA&L can work closely with OASD/C to ensure that the O&M operating budgets properly reflect Congressionally approved amounts for logistic resources. Also, OASD/MRA&L may take action to establish controls on obligations of funds for particular logistic resources as part of the fund authorization documents issued to the Services.

Currently, OASD/MRA&L visibility of O&M fund execution is very limited. However, DoD Instruction (DoDI) 7000.5 requires the Services to provide to OSD each quarter extensive information on the use of O&M funds during the execution year presented by budget activity, element of expense, and functional category. OASD/C could make this information available to OASD/MRA&L, but the data are insufficient to meet OASD/MRA&L needs. Additional useful data at lower levels of detail are available in the data bases maintained at the headquarters of all of the Services and could be provided monthly to OASD/MRA&L. Unfortunately, the obligation information is not available until 30 to 45 days after the end of the reporting period.

OASD/MRA&L also can maintain visibility of O&M resource usage by the Services through its review and coordination of reprogramming requests submitted under the provisions of DoDI 7250.10. Although the current reprogramming system focuses

primarily on special Congressional limitations and shifting of resources among budget activities (BAs), OASD/MRA&L should be able to use this system to impose additional internal DoD limitations on O&M funds used to provide logistic support.

E. CONCLUSIONS AND RECOMMENDATIONS

It was concluded that, with certain improvements, the existing O&M fund control systems can satisfy immediate OASD/MRA&L needs for better visibility and control of O&M-financed logistic resources. Important new features must be incorporated into these systems in the long run, however, to establish a complete system for effective management control of these resources. The scope of this research did not include either a formal estimate of the costs of our recommendations, or assessments of the impacts of the recommendations on OSD and the Services beyond the intended improvements in O&M budget formulation, justification and execution.

This study resulted in both policy and procedural recommendations with the latter group including short-run minimum essential, short-run supplementary, and long-run recommendations. The following policy recommendations constitute preconditions that must necessarily precede the implementation of the procedural recommendations. OASD/MRA&L must decide:

- (1) The relevant categories of logistics for visibility and control.
- (2) The kinds of controls to apply.
- (3) The frequency of visibility and control review to require.

If these policy recommendations are adopted, the following short-run recommendations to provide immediate improved capabilities could be implemented starting with the May 1980 POM submittal. Additional time would be required to implement the long-run recommendations that would result in establishment of a complete new management control system.

(1) Minimum Essential Short-Run Recommendations

- a. Expand OASD/MRA&L role in establishing the base for O&M budget execution at the beginning of the fiscal year, including the imposition of internal DoD controls on use of selected categories of logistic resources.
- b. Expand OASD/MRA&L role in the reprogramming process as related to O&M-financed logistic resources.
- c. Increase the OASD/MRA&L use of O&M appropriation accounting information required by DoDI 7000.5.
- d. Provide information to OASD/MRA&L on all final budget actions that affect logistic resources prior to the preparation of Congressional justification documents.

(2) Supplementary Short-Run Recommendations That Require More Comprehensive Changes to Existing Systems.

- a. Require that POM information be displayed in new aggregations and levels of detail in submission to OSD, at least by decision unit and activity group.
- b. Standardize among the Services the POM and OSD budget submission details as related to logistic resources.
- c. Adopt percentage budget activity reprogramming thresholds rather than the current fixed dollar threshold.

(3) Long-Run Recommendations

- a. Adopt the Logistic Resource Annex to the FYDP as the basic structure for administration of OASD/MRA&L visibility and logistic fund control procedures with budget target and notification procedures for selected resource categories in the LRA.
- b. Authorize the Services to maintain official O&M appropriation management reserves in conjunction with more comprehensive controls on O&M-financed categories of logistic resources.

GLOSSARY

AFC	Air Force Council
AFEE	Air Force Element of Expense
AFLC	Air Force Logistics Command
AMSCO	Army Management Structure Code
APDM	Amended Program Decision Memorandum
APN	Aircraft Procurement, Navy
ASB	Air Staff Board
ASD/C	Assistant Secretary of Defense, Comptroller
ASROC	Anti-Submarine Rocket
ASW	Anti-Submarine Warfare
EA	Budget Activity
BCC	Budget Classification Code
BOS	Base Operating Support
CDPS	Consolidated Decision Package Set
CEB	Chief of Naval Operations Executive Board
CG	Consolidated Guidance
CNO	Chief of Naval Operations
DCS/R&P	Deputy Chief of Staff/Requirements and Programs
DMIF	Depot Maintenance Industrial Fund
DoD	Department of Defense
DoDD	Department of Defense Directive
DoDEE	Department of Defense Element of Expense
DoDI	Department of Defense Instruction
DoN	Department of Navy
DP	Decision Package
DPEM	Depot Purchased Equipment Maintenance
DPS	Decision Package Set
DRB	Defense Resources Board
DU	Decision Unit

FAD	Fund Authorization Document
FORSCOM	Forces Command
FSC	Force Structure Committee
FYDP	Five Year Defense Program
ISMF	Inactive Ship Maintenance Facilities
JCS	Joint Chiefs of Staff
JSPS	Joint Strategic Planning System
LRA	Logistic Resource Annex
MFP	Major Force Program
MILPERS	Military Personnel
MPA	Military Personnel, Army
MRP	Maintenance of Real Property
OASD/C	Office of the Assistant Secretary of Defense/ Comptroller
OASD/MRA&L	Office of the Assistant Secretary of Defense/ Manpower, Reserve Affairs, and Logistics
O&M	Operations and Maintenance Appropriation
O&MAF	Operations and Maintenance Appropriation, Air Force
O&MMC	Operations and Maintenance Appropriation, Marine Corps
O&MN	Operations and Maintenance Appropriation, Navy
OMA	Operations and Maintenance Appropriation, Army
OMB	Office of Management and Budget
OSD	Office Secretary of Defense
PABE	Program and Budget Estimates
PA&E	Program Analysis and Evaluation
PBC	Program and Budget Committee
PDIP	Program Development Increment Package
PDM	Program Decision Memorandum
PDP	Program Decision Package
PDRC	Program Development Review Committee
PE	Program Element
POL	Petroleum, Oil and Lubricants
POM	Program Objective Memorandum

PPB	Planning, Programming and Budgeting
PPBS	Planning, Programming and Budgeting System
PPGM	Planning Programming Guidance Memorandum
PPI	POM Preparation Instructions
PRC	Program Review Committee
RCM	Reliability Centered Maintenance
R&D	Research and Development
RDT&E	Research, Development, Test, and Evaluation
RPMA	Real Property Maintenance Activities
SecDef	Secretary of Defense
SELCOM	Select Committee
SMS	Surface Missile System
SPC	Strategy and Planning Committee
TEMP	Tactical Electromagnetic Program
TOA	Total Obligational Authority
USARJ	United States Army Japan
ZBB	Zero Base Budget

DEFINITIONS

ALLOCATION:

An allocation in budget execution is a transfer of obligational authority from one agency or bureau to a transfer appropriation account that is established in another agency or bureau to carry out the purposes of the parent appropriation or fund. In the context of this study, the Services allocate funds to their operating agencies so they can, in turn, make allotments and incur obligations.

ALLOTMENT:

An allotment is an authorization by the head of an operating agency to the head of any installation or other organizational element to incur obligations within a specified amount. Since an allotment is an administrative subdivision of funds, the total amount is a limitation within the meaning of Section 3679 of the Revised Statutes (31 U.S. Code 665). Although no more than one allotment is issued to an activity from a given budget activity, the allotment may provide information as to further subdivisions at lower levels with stated degrees of flexibility as to adjustments between those subdivisions.

AMENDED PROGRAM DECISION MEMORANDUM (APDM):

The APDM is a set of SecDef decisions concerning reclaims to the SecDef decisions made in the PDM. When the APDM is issued, it constitutes the formal end to the POM issue paper cycle, and provides the basis for the Service budget submissions to OSD in the fall.

APPORTIONMENT:

An apportionment is a distribution made by OMB of amounts available for obligation in an appropriation or fund account. These distributions are made for specific time periods, activities, projects, objects, or combinations of them. An apportionment limits the obligations that may be incurred. In the context of this study, OMB apportions O&M funds to the Services.

BANDS:

In the ZBB procedures followed by DoD, bands are ranges of TOA between the minimum and enhanced levels in the Service budgets. The number of bands, and the amount of TOA constituting each one, are determined by OASD/C and specified to the Services for their budget submissions to OSD. Once established, the bands provide points of reference for analysts and decision makers examining the CDSSs arranged in order of priority in the budget submissions.

BASE FOR REPROGRAMMING:

The base for reprogramming is established immediately after final Congressional action on fund authorizations and budget requests. It identifies the purposes, in terms of items or activities measured in quantities and amounts, for which funds have been authorized and appropriated. A report on the base for reprogramming actions will be prepared in accordance with the instructions contained in the appropriate DoD directives by the Services and submitted to the OASD Comptroller for transmission to the Congress.

BASIC BUDGET, ZERO BASE:

The basic budget in the DoD is equivalent to the "current" level budget identified in OMB ZBB instructions. This is the level of performance that would be achieved if activities for the budget year were carried on at current year service or output levels without major policy changes. A basic or current level budget permits internal realignments of activities within existing statutory authorizations.

Also see "fiscal guidance levels."

BUDGET ACTIVITY (BA):

Appropriations are divided into smaller accounts for various purposes. These divisions, called BAs, appear in the program and financing schedule of the President's budget. BAs in the O&M appropriations for the active forces conform to the FYDP major programs to which the appropriation applies. For example, an O&M BA is BA 2, General Purpose Forces.

BUDGET EXECUTION:

Budget execution refers to the apportionment and allocation of funds to carry out approved programs, to the obligation and disbursement of these funds, and to the associated reporting and review of these actions. Thus, budget execution covers the period of performance of programs for which the Congress has appropriated funds.

BUDGET FORMULATION:

Budget formulation refers to the preparation and review of budgets by designated authorities. In this study, the formulation phase of the DoD budget cycle specifically refers to the formulation of the Service budgets submitted to OSD in the fall and to the formulation of the DoD portion of the President's budget submitted to the Congress in January. The Service budgets formulated during the PCM review and the post-APDM periods and the DoD budget formulated during the fall OSD budget review are themselves the products of a series of successive budget formulations at lower levels of authority.

Budget justification and formulation are closely related and at times represent overlapping actions and events. A budget formulated at one level of authority is submitted for justification and review to a higher level of authority. The higher level of authority then uses the lower level budget and its justification in the formulation of its own budget, which in turn will be passed on to a still higher level of authority.

BUDGET JUSTIFICATION:

Budget justification refers to the explanation and substantiation of budget requests to reviewing and approving authorities. In this study, the justification phase of the DoD budget cycle specifically refers to the justification of the President's budget request before Congress. It should be recognized, however, that the President's budget justified to Congress is itself the product of a series of successive budget requests and justifications at lower levels of authority. For example, in the Services individual installations submit and justify budgets to the next higher commands. These commands consolidate their respective installation's budgets and in turn submit and justify budgets to major commands. The major commands consolidate and submit budgets for justification to Service headquarters, and the Service headquarters consolidate and submit budgets for justification to OSD. Finally, these Service budgets submitted to OSD and justified to OSD staff and OMB-Presidential reviewers result in the DoD portion of the President's budget submitted to Congress for review and justification.

CEILINGS:

Ceilings are thresholds expressed in dollars above which a budgeted resource category cannot be budgeted for or obligated.

CONSOLIDATED DECISION PACKAGE SETS (CDFSS):

This is the term used in the ZBB process to describe broad packages of force structure and capability that provide incremental resource additions from the minimum to the basic and from the basic to the enhanced fiscal levels in the Service budgets. These CDFSS are derived from the FOM PDPs following the PDM and APDM. In the Navy CDFSS are made up of smaller sets of resources called serials; in the Army they are made up of PDIPs; and in the Air Force CDFSS are made up of DPs.

CONTROL TOTALS:

Control totals refer to maximum or minimum limitations to which decision makers must adhere in formulating and executing budgets. For example, the zero base budgeting guidance from OMB and OSD to the Services establishes maximum (enhanced), middle (basic), and minimum (decremented) amounts of TOA dollars for the Service budget submissions to OSD. Control totals can be established at any level of detail consistent with the authority of the establishing activity.

DECISION PACKAGE SETS (DPSs):

A decision package set is a series of decision packages that constitutes the total budget request for a program entity designed to obtain a specified output or increment of program capability. For each DU in the prescribed DoD DU list, OSD writes DPS decision alternatives for SecDef approval or disapproval.

DECISION UNITS (DUs):

In the ZBB procedures, a decision unit is defined by OMB directive as the basic program or organizational entity for which budget requests are prepared and for which managers make significant decisions on the amount of spending and the scope or quality of work to be performed. For example, in the Navy DU 018 is "ship maintenance".

ELEMENT OF EXPENSE, DoD:

Elements of expense specify the types of resources being consumed in a functional category or program element. An example is the DoD element of expense for "purchased equipment maintenance, intra-DoD," which includes the cost of purchased maintenance, repair, overhaul, or rework of equipment, ships, aircraft, tanks, etc., purchased from organizations with the DoD. Service charges for material maintenance are included.

ELEMENTS OF EXPENSE, AIR FORCE (AFEES):

Air Force elements of expense and the numerical codes assigned to them (called element of expense and investment codes--EEICs) identify the nature of services and items acquired for immediate consumption (expenses) or capitalization (investments). AFEES are used in the preparation of budgets, operating budgets and financial plans, appropriation obligation and reimbursement accounting systems, operating budget accounting systems, and international balance of payments transactions.

An example is the "bulk grade fuels" AFEE (EEIC 641), which includes all grades of motor fuels and distillates used for any purposes other than heating and power production.

AFEES are identified to OMB object classes and to DoD elements of expense.

ENHANCED BUDGET, ZERO BASE:

The enhanced level program in the ZBB represents a level above the basic or current level where increased output or service levels are consistent with major objectives and where sufficient benefits are expected to warrant the serious review of higher authorities.

Also see "fiscal guidance levels."

FLOORS:

Funding floors are thresholds expressed in dollars below which a budgeted resource category cannot be budgeted for or obligated.

FUNCTIONAL CATEGORY:

Functional categories are designed to collect information in terms of specified groups of related functions to reflect the cost of the function as required to meet requirements of the Congress or other authorities; information useful for deciding the authorization to be provided to an operating activity; a control total tied to an underlying cost accounting system needed for management; cost comparisons useful for making comparisons and special analyses. For example, the supply operations functional category includes expenses for the procurement, receipt, storage, issue, and control of material. Also included are the expenses of ordering and contracting, receiving, storing, care and preservation in storage, rewarehousing, packing and issue, transportation, unit and set assembly, testing, stock control, inventory, administration of supply activities, and related functions.

ISSUE PAPER CYCLE:

The issue paper cycle refers to the series of actions immediately following the May submissions of the Service POMs to OSD. During this cycle, the Service POM programs are reviewed by OSD, and issues emerge for which decision alternatives are recommended to the SecDef. The cycle concludes with the issuance of the PDM and the AFDM.

MANDATORY GUIDANCE, CONSOLIDATED GUIDANCE:

Items of mandatory guidance in the DoD Consolidated Guidance (CG) represent program issues that were not reflected in the President's January 1979 budget but nonetheless issues that the Services are directed by OSD to incorporate into the preparation of their May POMs. For example, an item of mandatory guidance could be for the Air Force to eliminate its depot maintenance backlog by the end of FY 1985. As another example, funds in addition to the TOA control totals could be identified to a Service for a specific program, such as funds for an Asian contingency reaction force not included in the President's budget then before the Congress.

MINIMUM BUDGET, ZERO BASE:

The minimum level program in the ZBB represents the level of performance below which it is not feasible for the decision unit to continue because no constructive contribution could be made toward fulfilling its objectives. Generally, the minimum level should be substantially below the current level. However, it does not have to be a fully acceptable level from the program manager's perspective. The minimum program does not have to completely achieve the objectives of the decision unit, but it must be a level at which the decision unit can function and achieve an acceptable portion of its objectives.

Also see "fiscal guidance levels."

OBLIGATIONS:

An obligation is a budget execution term referring to amounts of orders placed, contract awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. In addition to orders and contracts for future performance, obligations incurred include the value of goods and services accepted and other liabilities arising against the appropriation or fund account without a formal order. Finally, obligations may also represent outlays made for which obligations were not previously reported.

OPERATING AGENCIES:

An operating agency is a major organizational subdivision or entity that is responsible for execution of an identifiable segment of a program. In the DoD, operating agencies are major organizational units within Military Departments that are responsible for active planning, direction, and control of a program including the execution control of funds allocated to it. For example, the Air Force Logistics Command (AFLC) is an operating agency of the Department of the Air Force and AFLC receives fund allocations from the Air Force.

POM PREPARATION INSTRUCTIONS (PPI):

The POM preparation and format instructions provide detailed guidelines for developing the POMs of the military departments and the defense agencies. Issued by OASD/PA&E in February, these instructions specify the information and data required by OSD. For example, the PPI might direct that the significant changes, from current FYDP to POM, in plans for stationing peacetime forces in Europe and general purpose forces for NATO are to be highlighted in POM submissions.

PRESIDENTIAL BUDGET SUBMISSION:

In January of each year, the President submits his proposed budget for the United States Government to the Congress. A portion of this budget is the DoD budget that was formulated during the fall budget review period, when OSD and OMB examined, reviewed, and modified the Service budgets submitted to OSD in September.

PROGRAM DECISION MEMORANDUM (PDM):

The PDM is a set of SecDef decisions concerning specific issues raised and discussed by OSD and the Services during the issue paper cycle following the POM submissions to OSD. These decisions make changes and adjustments to the Service POMs. If not specifically addressed by a SecDef decision in a PDM, the Service POMs are approved, subject to reclama.

PROGRAM DECISION PACKAGE (PDP):

This is the term used in the POM Preparation Instructions to describe broad packages of force structure and capability that provide incremental resource additions from the minimum to the basic and from the basic to the enhanced fiscal levels in the POM. These same packages, after being updated by the PDM and APDM, become the Consolidated Decision Package Sets (CDPS) used for ranking the budget in the fall. In the Navy PDPs are made up of smaller sets of resources called serials;

in the Army PDPs are made up of PDIPs; and in the Air Force, PDPs are made up of DFs.

PROGRAM DEVELOPMENT INCREMENT PACKAGE (PDIP):

A program development increment package is the Army's term for program-oriented sets of incremental resources. A PDIP addresses a specific program or budget issue and is used to specify the manpower and, by appropriation, the total obligational authority needed to produce an increment of military capability. PDIP's permit the incremental development of the Army program and budget by Army activities, subordinate commands, major commands, and the Army headquarters staff. Ranked in priority and associated resources to missions and objectives, PDIPs facilitate decision-making within the Army concerning the Army program and budget. Although not visible to OSD in the POM review, PDIPs appear in the fall budget submission to OSD and are monitored throughout the budget review and ranking-reranking process.

REPROGRAMMING:

Reprogramming encompasses changes in the application of financial resources from the purposes originally contemplated, budgeted, and justified to review authorities. With respect to Congressionally approved resource line items they represent service desired changes to these distributions of resources other than changes made to comply with the intent of Congress in its action on authorization or appropriation legislation.

RESOURCE CATEGORIES:

Resource categories is a general term used in this study to refer to classes of resources that are of interest for budget visibility and control. Resource categories can be at a gross level of detail, such as an O&M budget activity like BA 7, Depot Maintenance, containing billions of dollars, or at a fine level of detail, such as R.O.T.C. support, containing a few hundred thousand dollars. It was used in lieu of the term "line items" because there is a specific hardware connotation to line items that is not attached to resource categories, even though "budget line items" are often generally referred to by analysts in OSD and the Services when discussing any separately visible item of interest in the budget.

SERIALS:

Serials are the Navy's sets of resource requirements that are prepared by resource sponsors and used to make up PDPs and CDPSs in the POM and budget. Serials are the basic building blocks below the PDP and CDPS level for the ZBB

process in the Navy. Serials address specific program or budget issues and specify the manpower, and, by appropriation, the TOA needed to produce an increment of military capability. Ranking in priority and associating resources to missions and objectives, serials facilitate decisionmaking within the Navy concerning the Navy program and budget. Although not visible to OSD in the POM review, serials appear in the fall budget submission to OSD and are monitored throughout the budget review and ranking-reranking process.

SUPPLEMENTAL APPROPRIATIONS:

These are additional budget requests transmitted after House and Senate Appropriations Committees have completed action on the President's budget.

TOTAL OBLIGATIONAL AUTHORITY (TOA):

TOA is the total financial requirements of the Five Year Defense Program or any component thereof required to support the approved program of a given fiscal year. From the viewpoint of the Services, TOA is the total amount of funds available for programming in a given year, regardless of the year the funds are appropriated, obligated, or expended. TOA includes new obligational authority, unprogrammed or reprogrammed obligational authority from prior years, reimbursements not used for replacement of inventory, advance funding for programs to be financed in the future, and unobligated balances transferred from other appropriations.

TRANSFER APPROPRIATION ACCOUNT:

This is a separate account established to receive and subsequently obligate and expend allocations from an appropriation of another organization. In the context of this study, operating agencies of the Services have transfer appropriation accounts to receive allocations of funds appropriated to the Services. These accounts carry symbols identified with the original appropriation. Since allocations are distributions of an appropriation rather than a payment for goods or services provided, allocations are not treated as outlays in the parent account nor as receipts in the transfer appropriation account. The subsequent transactions of the allocation account are usually reported with the transactions of the parent account.

ZERO BASE BUDGET LEVELS:

See zero base budgeting and fiscal guidance levels.

ZERO-BASE BUDGETING (ZBB):

ZBB is a systematic process in which management undertakes the careful examination of the basis for allocating resources in conjunction with the formulation of budget requests and program planning. ZBB requires agencies to establish, for all managerial levels in the agency, quantified objectives, if possible, against which accomplishments can be identified and measured. Agencies must also identify and assess alternative methods of accomplishing internal objectives through analysis of the estimated effects of different resource allocations and performance levels. Finally, agencies must decide upon the relative importance of each program or activity level and provide a credible rationale for reallocating resources within the agency, especially from existing activities to new activities.

Chapter I

INTRODUCTION

This study presents the results of Institute for Defense Analyses (IDA) research to develop better methods for ensuring that Operations and Maintenance appropriation financed logistic resources are used consistent with SecDef decisions and policies. Logistic resources are supporting goods and services used to maintain operational and training forces and equipment in an acceptable state of readiness. These goods and services include supply, transportation and maintenance resources at all levels in the Services as well as indirect supporting resources and activities such as war reserve materials, industrial preparedness measures, and installations and facilities support.

OASD/MRA&L has defined in detail the DoD logistic resource categories in terms of a logistic resource annex that, in accordance with directions in the annual Consolidated Guidance (CG),¹ must be submitted with the Services' Program Objective Memoranda (POM) each May. A proposed Logistic Resource Annex (LRA) to the Five Year Defense Program (FYDP) that identifies the DoD logistic resource categories is discussed in an earlier IDA paper.²

¹The Consolidated Guidance is published by OSD in the February-to-March time period and provides the information required by the Services to prepare their Program Objective Memoranda to be submitted in May. The CG is discussed more thoroughly in Chapter II.

²John D. Morgan, et. al., *Guidelines for the Development and Implementation of a Logistic Resource Annex to the Five Year Defense Program*, IDA P-1334, November 1978.

IDA was requested to undertake this task because (OASD/MRA&L) officials believe that current budget control mechanisms are inadequate to ensure that O&M-financed logistic resources are used in accordance with SecDef decisions and policies. For several years, the POM issue papers have identified recurring logistic issues that persist from year to year despite MRA&L efforts to identify the problems and seek their solution through the PPBS. An important feature of current O&M budget control mechanisms is that they permit the Services great flexibility to redistribute O&M-financed resources during the budget execution phase to fit their own perceptions of priorities.¹ These redistributions can affect areas in which OSD, after intensive analyses, had made decisions on appropriate resource allocations during the POM/Budget review cycle. Thus, problems of underfunding in some logistic support areas continue to appear after OSD decisionmakers assumed that, through their decisions on resource allocations, these problems would at least be alleviated if not solved.²

A well-known example of a recurring logistic issue relates to depot level component repair.³ For several years, in the POM process, the Secretary of Defense directed that increased amounts of resources be applied to depot level component repair only to

¹Some Service representatives contend that no major priority adjustments are made and no O&M resources reallocated without coordination with OASD/C. It has been impossible to verify whether this always occurs or whether OASD/C coordinates with major OSD functional staff offices before agreeing to these Service actions.

²This problem was perceived to be of such importance that in the Program Decision Memorandum of August 16, 1977, the SecDef stated that "The ASD (MRA&L), after consultation with the ASD(C), will provide instructions for developing improved logistics resource visibility and control." See Section VIII, Logistics and Installations, Part A, Peacetime Materiel Readiness.

³The draft Manpower and Logistics Issue Paper of June 27, 1978 (p.19), states, "In light of previously demonstrated Service funding priorities, any additional funding provided for component/exchangeable repair should be 'fenced' and dedicated for this use only."

find that these resources either were not finally budgeted or, after being funded, were diverted to finance other requirements.¹ For example, in various forms Navy depot level component repair funding has been an issue in calendar years 1973 through 1978. The 1973 PDM added \$100 million to FY 75 component repair funding and the 1974 PDM added \$68 million to the FY 76 funding, and yet the calendar year 1975 issue paper discussion of Navy depot level component repair noted that,

Even with these funding additions, the Navy still will not achieve the PPGM-directed objective of reducing the component repair backlog to that minimum level required to maintain an efficient flow of work through the depots by end-FY 77, with that posture to be maintained through FY 81.

Later in the discussion, the calendar year 1975 issue paper also declared that "historically, funds have migrated from component to airframe rework." In an attempt to solve the component repair problem, the issue paper recommended that the depot level component repair program be "fenced" to provide "increased visibility" and "to discourage migration of funds."

The Maintenance of Real Property resource area is particularly vulnerable to withdrawal of funds for perceived higher priority programs during budget execution because maintenance of facilities often can be deferred temporarily without immediate catastrophic results. Of course, eventually the property either becomes unusable, or greater amounts of funds must be expended to correct deteriorating conditions. The problem of

¹In the 1978 PDM/APDM covering component repair the SecDef directed the Navy to include an additional \$120 million for component repair in their basic level FY 80 budget. The Navy included only \$90 million in its budget submission for the basic level over the minimum level and indicated a \$26 million unfunded requirement at the basic level.

deferred MRP through diversion of funds finally became so acute that the Congress applied its own controls in this resource area by establishing minimum levels (floors) on the amounts of funds to be spent annually for MRP by each of the Services.

Depot level component repair and MRP are two important examples of categories of resources in which fund diversion can result in persistent recurrence of problems caused by underfunding. This situation also can prevail in other important categories of logistic resources such as those applied to organizational or intermediate maintenance or supply support. Therefore, in addition to addressing the concern for increased visibility and control in selected resource categories for which problems already are identified, this task addresses the concern that unseen logistic problems may exist that cannot be identified because of inadequate visibility of the relevant resource categories. The calendar year 1975 issue paper offers an example of this concern, again relating to Navy component repair. The issue paper notes that the majority of component repairs are performed at the organizational and intermediate maintenance levels but that the relationship of this activity to the depot level component repair funding problem cannot be addressed in the issue paper partly because "the Services have thus far been unable to provide data on the organizational and intermediate maintenance effort that is devoted to component repair," or, in short, because of inadequate visibility.

In considering the ability of OASD/MRA&L officials to influence O&M-financed resource allocations and reallocations, we must appreciate that the O&M appropriation, compared with other appropriations, presents special control problems. Research and development and military construction funds are applied to generally well-defined projects. Most procurement funds are identified to specific weapons systems and line items of equipment or other hardware. Funds for military personnel can be

related directly to numbers of officers and enlisted personnel with statutory rates of pay and other benefits or entitlements such as travel allowances.

On the other hand, the O&M appropriation finances a wide range of activities varying from the carefully controlled civilian personnel program to minor construction, financing of utilities at field installations, and purchase of depot maintenance services for weapon systems and equipment. Furthermore, this appropriation is unique in that most of the resources it encompasses are budgeted and expended in the field organizations of the Services.¹

Since the O&M appropriation covers all of the defined operating expenses of the Services except for military personnel, and a relatively small amount of operating resources in the RDT&E appropriation, we found that countless resource and program sponsors and monitors have an interest in the O&M appropriation. Staff monitorship is not focused in particular locations in the Service headquarters and OSD staff as are practically all elements of other appropriations. High level appropriation monitorship is conducted generally on a financial basis by the Service directors of budget and OASD/C.²

A. STUDY ASSUMPTIONS

In undertaking this study to address these O&M resource allocation problems, we found it necessary to make the following

¹Field organizations in this context encompass all organizations below the Service Headquarters level.

²Although some program monitors, for example manpower and depot maintenance analysts and staff directors, maintain program oriented systems to monitor their programs.

assumptions regarding existing DoD budget formulation and execution procedures as related to OASD/MRA&L needs:¹

- (1) Decisions. In addition to tracking the SecDef's allocation of total logistic resources, OASD/MRA&L desires to be able to track the impact of SecDef program and budget decisions that affect specific logistic resource levels. This means that proper categories of logistic resources must be identified against which the impacts of decisions can be registered. The following types of decisions are relevant:
 - a. Primary logistic decisions are those decisions that deal only with logistic issues such as a Decision Package Set (DPS) on a Service depot maintenance program that is issued during the OSD budget review period.
 - b. Secondary logistic decisions are those decisions that are directed primarily to resource areas other than logistics but can result in changes in logistic requirements. An example of such a decision would be a PDM on the structure of naval forces that could affect analyses of ship overhaul or modernization requirements for naval ships.
- (2) Timespan. An improved decision tracking system should cover the entire timespan addressed in SecDef decisions. In the DoD Planning, Programming and Budgeting System (PPBS) decisions on budget year resource levels almost always affect resource requirements stated for subsequent years. Any proposed tracking system must incorporate information regarding all of these years.
- (3) Visibility. The current degree and frequency of visibility of O&M data provided through Comptroller-administered data systems during budget formulation and execution are adequate for the OASD/C but inadequate for OASD/MRA&L. OASD/C is the focal point for appropriation accounting systems and has important financing responsibilities for federal funds. Therefore, it is logical to assume that OASD/C has developed data systems

¹The budget process is considered to include three phases: formulation, justification, and execution. The justification phase involves explanation of requirements developed in the formulation phase; therefore, OASD/MRA&L merely requires visibility of actions during the justification phase to know the final levels of resources that will be made available for the execution phase.

that provide the desired degree and scope of information to fulfill these responsibilities. On the other hand, OASD/MRA&L views its responsibilities primarily in programmatic terms and may be unable to satisfy its requirement with those data systems designed primarily to satisfy OASD/C needs.

- (4) Control. Current O&M appropriation controls during budget formulation and execution are adequate for OASD/C but inadequate for OASD/MRA&L. Consistent with our comments on visibility we may assume that OASD/C has installed data systems that permit it to carry out its responsibilities for fund control as required by permanent statutes, annual appropriation acts, and standard DoD procedures. These systems may not, in their current form, support the OASD/MRA&L programmatic needs.

Later in this chapter we will discuss factors relating to these assumptions; however, at this point, it is important to consider the "controllability" characteristics of the O&M appropriations. This leads, then, to a consideration of the management philosophies of the various elements within the Department of Defense with regard to visibility and control of O&M-financed resources.

B. THE NEED FOR O&M APPROPRIATION FUND CONTROL SYSTEMS

1. The Drivers of O&M Requirements and Fund Flexibility

In a static environment it should be possible, theoretically, to administer the O&M budget formulation and execution processes without any formal controls. In this environment O&M requirements would be strictly a function of variables like force size and structure, number of bases and their geographical locations, duration and intensity of operations, logistic support policies, and other similar factors that would determine the O&M appropriations necessary for each Service. A budget would be a mathematical calculation after priorities had been defined and in budget execution there would be no need for the Services to move O&M dollars from one budget category to another.

In the dynamic real world, however, drivers of O&M appropriations requirements change. For various reasons programs do not develop as planned. Also, unpredicted events such as ship fires, weapon system failures, and unplanned force deployments impose heavy new requirements for appropriation support. These unexpected changes in resource drivers and environmental factors create the need for priority reassessments.

Although both the Congress and OSD, in exercising policy control over reprogramming of O&M funds, have recognized that flexibility is required by the Services for efficient day-to-day management they have imposed some limits. Within these limits on Service flexibility, the Services could possibly accommodate minor changes in variables in an initially balanced program and still maintain the integrity of the initial program. Maintenance of this integrity after major changes in variables are accommodated depends on the nature of the changes and Service priorities.

Unfortunately, since all budget activities (BAs) have a \$5 million reprogramming threshold, O&M fund control limitations are unbalanced among major force programs. For example, in each Service FYDP, Program 10 has less than \$100 million in O&M funds, while Program 7 (except in the Marine Corps) has several billion dollars of these funds. Within these FYDP programs (corresponding to O&M budget activities), each Service can shift funds as it sees fit (subject to other possible special limitations discussed in Chapter III). This policy means billions of dollars in flexibility in one area and only tens of millions of dollars of flexibility in another area. At the same time, the DoD budget activity reprogramming authority permits only a \$5 million increase in a single BA without a formal reprogramming action, even though one BA contains billions of dollars of resources and another contains only tens of millions of dollars of resources. As a result, these controls vary from extremely rigid in some resource areas to relatively nonrestrictive in others.

Thus, the current fund control procedures permit the Services flexibility that ranges from very narrow to very broad authority to accommodate changes in O&M appropriation variables depending upon the budget activities affected. Initial program integrity may be maintained or, on the other hand, important priority adjustments could be made that would affect substantially the character of the original program. This leads to the question, What are the categories of resources to which controls should be applied?

2. Criteria for Application of Controls to Categories of Resources

What criteria should be applied in determining the categories of resources that might be candidates for control? We believe there are two such categories. First, there is the category of resources required to execute high priority defense programs. Usually these programs have received the benefit of careful analysis during the POM and budget processes and decisions have been made at the highest levels based on top management perceptions of national defense priorities. Customer funds for depot maintenance of major combatant ships may be an example of this resource category.

The second category of resources represents the lower priority or deferrable programs that consistently will be candidates for reduction of resource support during the budget execution phase as Service managers must cope with new requirements perceived to be of higher priority. Since the Services have no formal system for maintaining O&M management reserves or identified contingency funds, it may be assumed that there is a consistent tendency to reprogram resources from these lower priority or deferrable programs.¹ Eventually these programs

¹Since it is impossible to foresee all known requirements, it may be assumed that prudent Service financial managers are (Continued next page)

must be accorded higher priority, or the programs themselves must be challenged as unnecessary in the defense effort. Repair and maintenance of real property falls into this category. Because the budget process virtually ensures that funds will be requested only for programs that have some degree of necessity in the defense effort, this second category of resources must be considered for control. Otherwise, the deficiencies in financial support may become so critical that they threaten the implementation of high priority programs that were the product of decisions in the POM and budget processes.

Having identified the categories of resources that are candidates for control procedures, the next question is how should we define and apply these procedures. This leads us to a consideration of O&M resource management philosophies in the Department of Defense.

C. OSD AND SERVICE RESOURCE MANAGEMENT PHILOSOPHIES

Most of the OSD officials and virtually all of the Service officials contacted in this study believe that insufficient financial resources are made available to the Department of Defense to accomplish required defense programs. Although many defense officials have expressed this belief in the past, it appears that many more are doing so today. This widely held conviction that defense requirements are seriously underfunded

(cont'd) sufficiently aware of the details of program execution to permit them to identify resource categories from which funds can be reprogrammed internally. These internal reprogrammings reflect Service policy priorities consistent with Service interpretations of SecDef, Presidential, and Congressional guidance. It is possible that some of the same resource categories serve from year to year as the source of internal reprogramming funds. If so, this presumably reflects Service priorities. To an outside observer, these resource categories might appear to be "hidden reserves" that financial managers can tap to meet unexpected contingencies. Although such a characterization is possible, it is not relevant to the more fundamental issue of whether the exercise of Service flexibility in funds application causes SecDef decisions and policies not to be implemented.

influences decisionmakers and managers to be more vitally concerned with resource allocation, or--who controls the distribution of resources and how resources are allocated.

Based on our research, we believe that the following statements accurately describe the views of OSD functional staff officials and Service officials and managers regarding the resource allocation process in DoD for O&M-financed resources. We based these conclusions on discussions with OSD and Service analysts, middle level managers, and a limited number of senior officials in both OSD and the Services. Although we did not meet with top management officials we have no reason to believe that their views would differ from those reflected in the following statements.

1. OSD Management Philosophy

OSD staff officials believe day-to-day management of program execution is clearly the responsibility of Service managers. They believe, however, that determination of the approved levels of resources to be applied throughout the various segments of Service operating programs is the product of a systematic planning, programming, and budgeting process that airs all important factors and permits senior decisionmakers in the executive department and in the Congress to make the proper and desired distribution of these resources. Therefore, adjustments among approved programs should not be based solely on Service managers' different views of priorities. OSD officials recognize the need for some flexibility in shifting resources, but these shifts should always be consistent with the basic resource allocation decisions and the concepts held by senior executive department officials and the Congress.

2. Service Management Philosophy

Service officials and managers almost invariably believe that they should have considerable freedom in shifting resources as required to achieve desired objectives, because they are "closer to the scene" and are most accountable for results. They view themselves as counterparts to "profit center managers" in civilian firms. The prevalence and intensity of this view increases as one moves down the chain of command in the Services. Some Service officials view the PPBS as an unduly cumbersome, time-consuming process in which OSD analysts who have neither responsibility for managing programs nor accountability for results possess too much authority to question and adjust stated requirements. Others accept the process as a legitimate way to determine resource allocations, but they believe that once the overall resource levels are determined the Services should be left alone to manage to achieve results. Often it is pointed out that the Services justify their own budgets to the Congress, and appropriations are made to each Service and not to the Department of Defense as a whole.

D. STUDY FINDINGS ON DoD RESOURCE MANAGEMENT PHILOSOPHIES

After completing our research, we developed the following statements of our general views on control of O&M budget formulation and execution:

- (1) The DoD PPBS, though cumbersome and a candidate for important improvements, permits the application of extensive analyses and judgments at different levels of management leading to suitable decisionmaking on resource allocations. The current trend toward increasing the role of programmers in the budget review process to determine final resource allocations is appropriate.
- (2) OSD functional staff officials should continue to view their responsibilities for analytical activities to extend beyond the time when resource allocations are determined in the program and budget processes and appropriations are made by the Congress. These

officials must have sufficient knowledge of developments during program execution to serve as informed staff advisors to the SecDef. Furthermore, this knowledge of execution year developments permits OSD functional staff officials to maintain a perspective of resource applications and problems that will aid in future programming of resources.

- (3) Service officials require flexibility in shifting resources during the budget execution year. This flexibility is required to deal with unpredictable events and not to permit basic program redirection. Consistent with current reprogramming policies, degrees of flexibility should vary among programs based on priorities.
- (4) Consistent with the above statements the following concepts should be applied:
 - a. Budgets are priced out programs, so the basic resource allocations that result from the budget formulation process are the products of program analyses incorporating resource pricing. Thus, the leadership in building budgets, including the final budget submitted to the Congress should be a program function.¹
 - b. Resource allocation at the initiation of the budget execution year should be consistent with the program decisions made in the budget formulation process, as adjusted by the Congress during the Congressional review. OSD functional staff officials should be thoroughly informed of these resource allocations as they relate to their areas of responsibility.
 - c. OSD functional staff officials should maintain greater visibility of changes in Service resource allocations

¹The role of the programmers in building budgets has been enhanced by the implementation during the FY 80 budget cycle of the "reranking process" and by the establishment during FY 79 of the Defense Resources Board (DRB). Under PA&E leadership, the reranking process is an OSD staff review and readjustment, if necessary, of the Service-prioritized lists of CDPS resource packages above the budget minimum. This process is discussed later in Chapter II. The DRB was established by Secretary of Defense memorandum on April 7, 1979, to "direct and supervise the OSD review of the Service POMs and Budget Submissions. The DRB will examine the major issues raised in those reviews and present its recommendations to the Secretary of Defense." On May 25, 1979, a working group of the DRB, chaired by the PA&E Principal Deputy ASD, was established by Deputy Secretary of Defense memorandum "to develop for DRB consideration a detailed proposal to combine or at least integrate more closely the programming and budgeting functions."

within O&M Budget Activities during the execution year. Controls in some form should be established for major resource reallocations within selected O&M Budget Activities so the SecDef will have the opportunity to determine if adjustments are consistent with his decisions and policies. The Services should continue to have flexibility for resource reallocations that are "below the thresholds" and, therefore, not of sufficient magnitude to threaten the consistency of SecDef decisions and policies. The purpose of this proposal is not to restrict legitimate Service flexibility in execution of O&M budgets; but, rather, to give the SecDef an opportunity to consider major adjustments within BAs on an exception basis before they are implemented.

- d. Fences, floors, ceilings, and other such inflexible constraints should not be applied to Service programs except for a few special programs. Some degree of flexibility should be applied in virtually all programs although, on higher priority and selected programs, prior approval by SecDef may be required for resource reallocations exceeding prescribed levels.

Now we will consider briefly some factors relating to the timespan of interest to the OSD functional staff official in addressing the O&M appropriation, visibility of resource allocations, and control of these allocations.

E. THE BUDGET TIMESPAN OF INTEREST TO OASD/MRA&L

O&M budget formulation, justification, and execution are integral parts of Service PPB systems. The POM submitted in May should be viewed as the first major Service step to inform OSD of O&M resource requirements that should be included in the President's budget to be submitted to the Congress the following January. The budget formulation and justification processes continue through a series of steps until, finally, appropriation acts are passed by the Congress.

Some analysts tacitly view the PPB process for a particular fiscal year as terminating with the passage of the DoD appropriation acts; however, the budget execution phase with its

associated accounting reports essentially "closes the loop" on the complete system. In the Services, the information provided by accounting reports in the execution phase of a fiscal year constitutes important input to the programming phase for future fiscal years, especially with regard to O&M-financed logistic support. Slippage in weapon system overhauls or failure to achieve planned component repair programs has an impact on the resource requirements of future years. This fact implies that OSD functional staff analysts also should have available comprehensive information on program accomplishment and pricing factors during the budget execution phase. Only with this information can they fulfill their OSD staff responsibilities as advisors to the SecDef with cognizance over assigned resource areas.

F. O&M APPROPRIATION DATA VISIBILITY

To ensure adherence to SecDef decisions and policies that affect O&M-financed logistic resources it is essential for OSD to have timely visibility of O&M budget and program developments within the Services. Furthermore, the visibility system must show information at the proper level of detail and by suitable categories of resources.

A good visibility system has at least two major advantages. First, it permits OSD to exercise its influence to correct Service budget and program actions that may be inconsistent with SecDef decisions and policies. Second, such a system functions as an informal control mechanism because it inhibits the Services from taking actions that might be inconsistent with SecDef decisions and policies. Of course, to constitute an effective informal control mechanism, the Services must be confident that any inconsistent actions revealed by the data forwarded to OSD will trigger corrective moves from that office.

It is possible that a suitably administered, well-structured O&M visibility system could be sufficient to control the O&M appropriation without the addition of overt fund application control mechanisms. As it currently is operated, and especially with the addition of the planned LRA to the FYDP, the DoD PPBS provides extensive and recurring visibility of O&M-financed logistic resource usage and programs. Based on our research, however, we believe that overt controls of the type presented later in this study are necessary to ensure that O&M budget execution is consistent with SecDef decisions.

1. Program and Budget Cycle Actions and Related Visibility

Figure 1 shows the well-known overlapping 3-fiscal year budget cycle. For example, in September of any year, the budget analyst may be tracking outlays for the budget year just ending, preparing apportionment request forms for the fiscal year beginning on October 1 and submitting his budget to OSD for the budget to be forwarded to the Congress the following January.

Of interest to us regarding the visibility of program and budget actions are the 10 steps shown in Figure 1. At each of these steps, information in varying levels of detail is available to the OSD functional staff official. At steps 1, 3, 6, 9, and 10, budget information is available for the given fiscal year at a level of detail sufficient to fulfill virtually any OSD analyst's visibility needs. This level of detail also can be provided by the Services at steps 7 and 8, although the current procedures do not routinely furnish this information in published reports.¹ Steps 2, 4, and 5 represent decision points when visibility is available relating to the impact of particular decisions on detailed budget elements.

¹Under the general guidance of DoDD 7200.1, "Administrative Control of Appropriations," apportionments are reviewed at least four times each year to promote the effective use of funds. In (Continued next page)

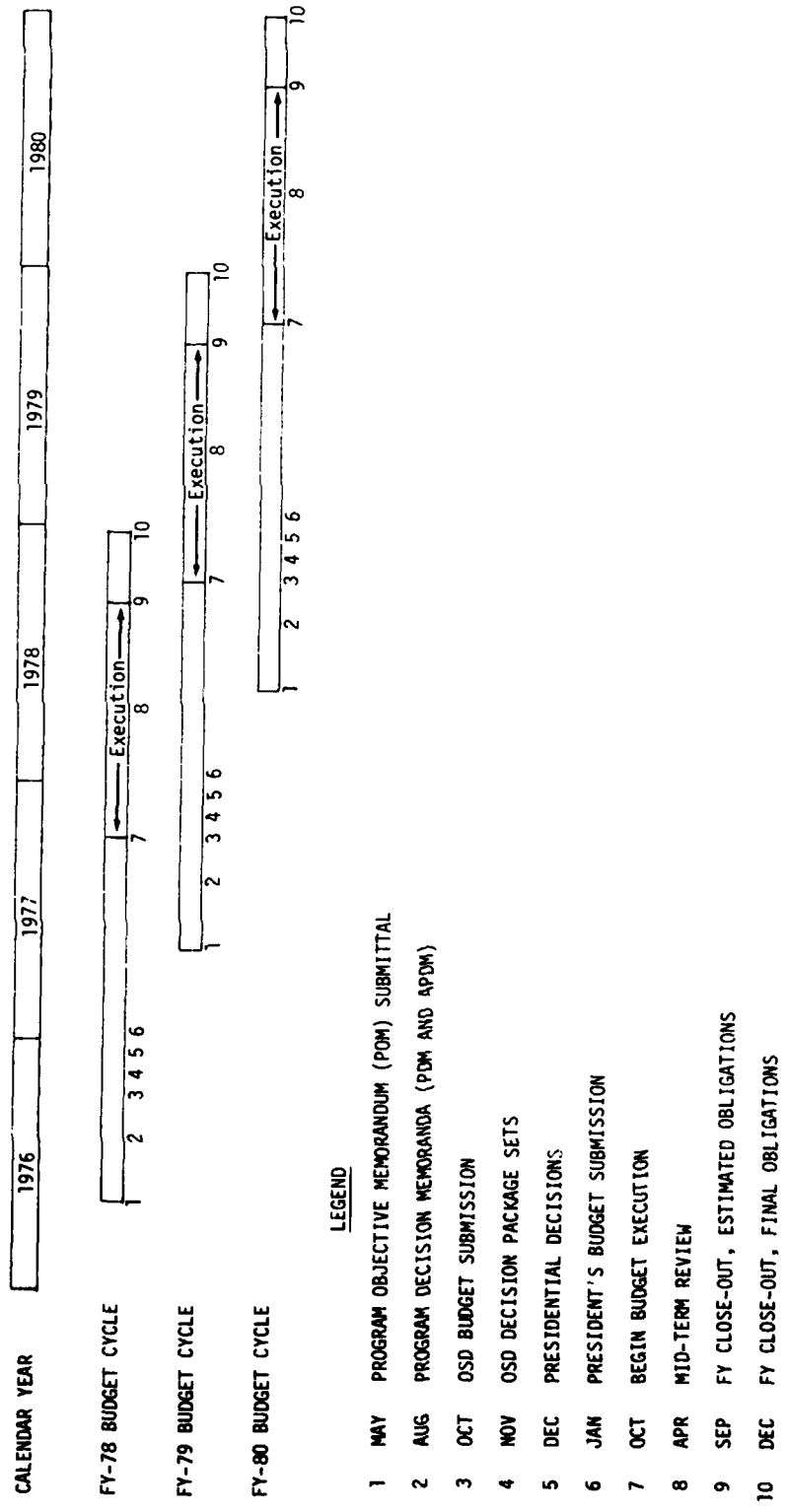


Figure 1. THE OVERLAPPING DoD 3-YEAR BUDGET CYCLE
(Fiscal Years 1978, 1979, and 1980)

In summary Figure 1 shows that a period of 2.5 years covers the basic "life cycle" of a particular O&M appropriation and that during that life cycle the current PPBS provides visibility of resource allocations at 10 separate points in time. Chapters II and III discuss the specific kinds of information available at these milestones in the budget process. At this point, we can simply say that existing systems do or can provide a high degree of visibility regarding O&M financed resources at these milestones in the formulation, justification, and execution phases of the budget cycle.

2. Visibility Provided by the Logistic Resource Annex

The LRA is to be a standard annex to the FYDP and is to be submitted each time the FYDP is updated.¹ We believe that the LRA contains suitable categories of logistic resources, by function and by weapon system, and is available at the proper times to provide good visibility of O&M-financed resource usage and programming. For example, component repair funds must be identified by materiel category and selected weapon system in each LRA submission. Funding levels for real property maintenance activities must be shown by subcategories corresponding to the Service real property maintenance activities (RPMA) budget activity groups. These data will be shown by fiscal year for the period covered by each FYDP.

(cont'd) the past, OSD conducted a formal midterm review of the O&M appropriations, but currently the trend is to rely on the reprogramming system to monitor O&M budget execution. Thus, formal OSD reviews no longer are held although the Services still hold periodic reviews. Milestone 8 is shown in Figure 1 to emphasize the need for visibility during the budget execution.

¹This assumes that current OASD/MRA&L actions to implement the LRA are accomplished as planned.

Other resource areas for potential application of O&M fund control procedures are identified separately in the LRA. Some of these categories are organizational maintenance, modification and alteration installation, sustaining engineering and technical support and base operation, other services and support.

The LRA provides visibility of the results of changes in logistic resource levels, by category, from one PPBS milestone to another, thus reflecting the impact of decisions, including reprogramming, in the budget life cycle. With the incorporation of a suitable "reason for change" procedure, the LRA could provide the basis for a complete logistic resource visibility system.

G. O&M APPROPRIATION CONTROL PROCEDURES

As pointed out in Section B1, we found that O&M fund controls vary from extremely rigid in some resource areas to relatively nonrestrictive in others. General management control is exercised through the administration of formal reprogramming procedures. In apportioning the appropriated O&M funds to the Services, control totals are established at the BA level. By definition the BA level is the first level of indenture below the total appropriation level, and BAs are established corresponding to each of the major programs in the DoD Five Year Defense Program.¹ Figure 2 shows the division of Army, Navy and Air Force O&M appropriation funds by BA for FY 79. These control totals represent the totals by BA in the President's Budget submitted to the Congress in January 1978, as adjusted by the Congress during the Congressional review.

¹O&M BAs also correspond to OSD budget decision units (DUs), which are extensively discussed in Chapter II as important structural elements of visibility and tracking.

DEPARTMENT OF NAVY FY 79 O&M TOTAL
(\$12.553 Billion) BY BUDGET ACTIVITY (BA)

BA 1 \$.971 B

AIR FORCE FY 79 O&M TOTAL
(\$9.406 Billion) BY BUDGET ACTIVITY (BA)

BA 2 \$5.773 B

BA 1, Strategic Forces \$1.627 B

BA 2, General Purpose Forces \$1.711 B

BA 3 \$.556 B

BA 3, Intelligence and Communications \$.702 B

BA 4, Airlift/Sealift \$.626 B

BA 7 \$3.827 B

BA 7 Central Supply and Maintenance \$3.409 B

BA 8 \$1.100 B

BA 8, Training, Medical and Other General Personnel Activities \$1.021 B

BA 9 & 10 \$.326 B

BA 9 & 10 * \$.250 B

ARMY FY 79 O&M TOTAL
(\$9.386 Billion) BY BUDGET ACTIVITY (BA)

BA 2 \$3.102 B

BA 3 \$.565 B

BA 7 \$2.899 B

BA 8 \$2.161 B

BA 9 & 10 \$.659 B

NOTE: These data are from the FY 1979 column of the Services' FY 80 O&M Appropriation Congressional Budget Justification documents submitted to the Congress in January 1979. The BAs correspond to FYDP Major Programs. Only the Air Force has Program 4, Airlift/Sealift funds. None of the Services have active forces O&M funds in Program 5, Guard and Reserve Forces, and Program 6, Research and Development. BA rectangles are drawn to proportional scale and are comparable within and between Services.

*BA 9 Administration and Associated Activities and BA 10 Support of Other Nations

Figure 2. THE ARMY, NAVY, AND AIR FORCE OPERATIONS AND MAINTENANCE APPROPRIATIONS BY BUDGET ACTIVITY - FISCAL YEAR 1979
(In Billions)

The BA control procedure requires SecDef or Congressional approval of a Service-proposed reallocation of resources between or among O&M appropriation BAs when these reallocations cumulatively or individually would increase the funds in a BA by \$5 million or more. Thus, lacking any other special constraints that might be imposed by the Congress, the Services may shift resources among subactivities within a BA without restriction. This represents substantial flexibility in a BA, such as Central Supply and Maintenance, that contained \$3,827 million in Navy-budgeted funds in FY 79.

Within the military Services, general management control of the O&M appropriation is administered through the operating budgets. The Service headquarters allocate the funds to their operating commands and other activities through their approved operating budgets and provide detailed guidance on the degrees of flexibility enjoyed by these organizations in reallocating resources.

Control in the O&M appropriations also is exercised by applying some special constraints on Service flexibility to reallocate resources. These constraints may be applied by the Congress, OMB, OSD, Service headquarters, and even by commands to their subordinate organizations. These special constraints on the expenditure levels for certain resource categories may be rigid floors or ceilings or less restrictive targets. For example, in the FY 79 Army Appropriation Act the Congress directed that not less than \$580.2 million be expended for MRP requirements. Fences requiring funds appropriated for a particular purpose to be used only for that purpose and prohibiting reprogramming such funds to any other requirement also may be applied.

Although the \$5 million reprogramming threshold limits Service flexibility in executing O&M budgets, the special constraints are usually the more burdensome controls. Regardless

of Service perceptions of program priorities, these constraints prevent whole categories of resources from being considered as possible sources of funds if new high priority requirements emerge. In fact, if priorities change in the execution year, these constraints may require the Services to expend resources on what they consider to be lower priority programs and to absorb reductions in their higher priority programs to finance an emerging need for funds.

In administering control procedures, a critical milestone is the statement of distribution of O&M resources by BA, the Base for Reprogramming, which is prepared after completion of Congressional action and upon commencement of the execution year. When this statement (DD Form 1414) is approved by the Congress, it becomes the baseline for any resource reprogramming actions. With the flexibility provided by current procedures, OASD/MRA&L has only limited opportunity to influence O&M resource allocations during the execution year except through the application of special constraints.

H. BUDGET FORMULATION, JUSTIFICATION, AND EXECUTION IN THE SERVICES

The budget process represents the terminal phase of a lengthy and continuous system to optimize the national defense effort. The system of which the budget process is a part is the DoD PPBS. This system substantively is an economic process designed to allocate scarce resources--the funds made available for defense through the political process--to alternative ends--the various segments of the national defense effort. In operation, this system includes numerous subsystems and countless decision points. The system is highly structured and strongly formal procedure oriented. The zero-base budgeting concepts introduced by the Carter administration have not been a replacement of PPBS; ZBB represents a new feature for consideration in

programming and budgeting and has, in fact, been absorbed within the PPBS.

In this section we will discuss Service budget formulation, justification, and execution within the framework of the total PPBS. An understanding of this process is important if we are to develop recommendations on better methods to achieve visibility and, perhaps, control so that implementation of SecDef decisions can be better ensured.

There is considerable uniformity in concepts and procedures used by the Services in conducting the budget process. This uniformity results from OSD's emphasis on formal procedures, mutuality of the basic problems that must be addressed by all of the Services, and the fairly long existence of the PPBS. Since PPBS's inception in DoD almost 20 years ago, the Services have consistently moved to refine their systems, adopting ideas from each other and from OSD. This refinement has led the Services to adopt fairly standard procedures.

Since the Services employ similar procedures, we will not attempt to discuss each Service but, instead, will treat the Army, Navy, and Air Force together, describing the basic approaches used and, when applicable, pointing out exceptions to the common procedures. The Marine Corps will be covered separately because of special characteristics of its budget process. We will refrain from providing lengthy descriptions of the PPBS since, generally, the overall concepts and milestones in the process are well known.

1. Budget Formulation

Publication of the Consolidated Guidance (CG) in February or March technically initiates the programming and budgeting process, leading to the submission of Service budgets to OSD in the latter part of September. However, the CG is merely one

element of a total system that operates continuously, and, furthermore, the Services are involved in activities directly associated with budget formulation before the process is formally initiated.

The Services already have a "target" Total Obligation Authority (TOA) figure for the Service budget for the budget year in the January FYDP. This TOA is associated with programs and force levels that represent an extension of the budget for the coming fiscal year being considered by the Congress at that time. Through the Joint Chiefs of Staff, the Services have been participating in planning studies under the Joint Strategic Planning System (JSPS). Internally the Services have been conducting force structure studies beginning in the fall prior to the issuance of the Consolidated Guidance. Products of these studies in the JCS and the Services influence the Consolidated Guidance and affect the programming and budgeting activities relating to the coming budget cycle as well as the out-years. Moreover, the Services have requested or are requesting budgets from their subordinate organizations to provide information for their overall Service budgets by the time the Consolidated Guidance is published.

a. Army, Navy and Air Force Procedures

The three Services maintain relatively large staffs to perform their planning studies. The staff chiefs of these activities are Deputy Chiefs of Staff and Deputy Chiefs of Naval Operations who are designated as chiefs of plans and operations. These staffs interact continuously with the staff of the JCS, especially with the J-5 (Plans and Policy) Division.

As operated in the Services, the PPBS ensures that most of the Service planning that directly affects resource requirements to be shown in the following September budget has been

accomplished by early spring. By springtime, plans are being translated into programs to determine specific time phasing of resource requirements and resource levels by activities and sub activities, and budgets from subordinate organizations are being analyzed not only for the content of the priced-out programs but also for the appropriateness of the prices used.

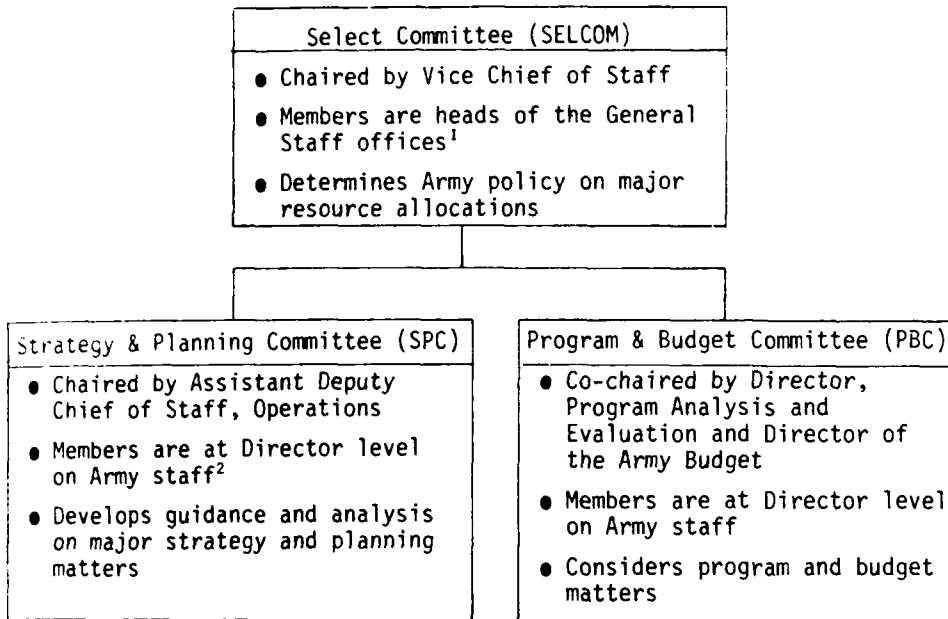
In the Navy, the programming phase of the PPBS process is under the cognizance of the Director of the Program Planning Office, an integral part of the Office of the Chief of Naval Operations; however, the operational direction of the programming process is performed by the Chief of the General Planning and Programming Division. The Directorate of Program Analysis and Evaluation leads the programming effort in the Army. This is a special staff office reporting to the Director of the Army staff, who is in the Office of the Army Chief of Staff. In the Air Force, the Directorate of Programs is a major component of the office of the Deputy Chief of Staff, Programs and Evaluation.

In the three Services, the program offices headed by officers at the two-star level are responsible for providing program guidance, direction, and instructions during the programming phase. These offices put together the Service POMs, develop Service positions on OSD issue papers, prepare responses to PDMs, and generally lead the Service programming processes until final APDMs are received and the emphasis shifts to budget preparation. When this shift occurs, the leadership of the overall program and budget effort goes to the head of the Service budget office--the Navy Director of Budget and Reports, the Director of the Army Budget, and the Air Force Director of Budget. All of these offices are in the offices of the Comptrollers of the respective Services, although the Navy Director of Budget and Reports and his staff are also identified as the Fiscal Management Division in the office of the Director of Program Planning.

The Services maintain staff committees that play important roles in formulating and reviewing programs and budgets. As Figure 3 shows, the structure and levels of these committees are similar in all three Services. The workhorse committees of the program and budget processes are the Army Program and Budget Committee (PBC), the Navy Program Development Review Committee (PDRC) plus the informal Navy Budget Review Group, and the Air Force Program Review Committee (PRC). These committees review in detail all program and budget submissions and issues, including responses to special OSD requirements. They present the results of their reviews with their recommendations, on an exception basis, to the senior committees.

In the Army, the operational chairmanship of the PBC shifts from the Director of Program Analysis and Evaluation to the Director of the Army Budget when the programming phase is completed. In the Navy and Air Force, the directors of the program offices continue to chair the PDRC and the PRC, respectively, but, operationally, the directors of the budget offices lead the review processes, conduct the necessary staff work with senior Service officials, and represent the Service in the OSD reviews. During the OSD budget review phase, the Service justification and review process is accelerated because most Service actions must be completed in a very few days and often in a matter of hours. At these times the directors of the budget activities normally have the leadership responsibility. Because time does not permit the normal functioning of official, formal review committees, Service responses are handled as accelerated staff actions with staff coordination and high level approval on an exceptional, as required, basis.

ARMY



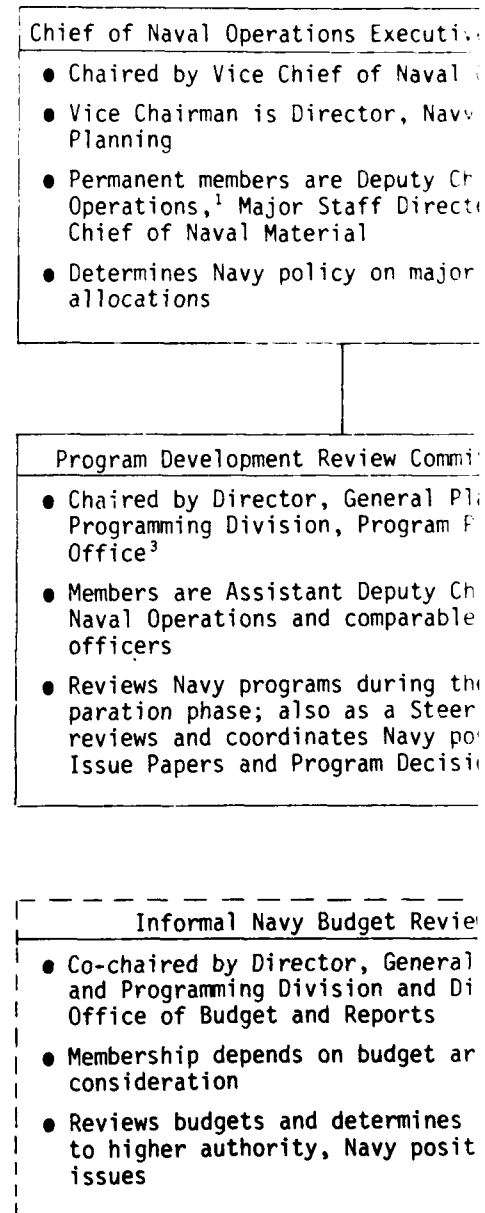
¹Heads of Army General Staff offices are at the Lt. General level as are the Navy Deputy Chiefs of Naval Operations (Vice Admiral) and Air Force Deputy Chiefs of Staff.

²Directors in the Army and Air Force are generally filling Major General positions. In the Navy, there is considerable variation in the grades of directors, depending on the nature of responsibilities of the offices.

³A Rear Admiral billet.

⁴The Extended Planning Annex

NAVY



NAVY

Naval Operations Executive Board (CEB)

- Vice Chief of Naval Operations
- man is Director, Navy Program
- members are Deputy Chiefs of Naval
- Major Staff Directors and the
- Naval Material
- Navy policy on major resource

Development Review Committee (PDRC)

- Director, General Planning and
- g Division, Program Planning
- Assistant Deputy Chiefs of
- ations and comparable level
- avy programs during the POM pre-
- nase; also as a Steering Group
- d coordinates Navy position on
- rs and Program Decision Memoranda

Naval Navy Budget Review Group

- by Director, General Planning
- mming Division and Director,
- Budget and Reports
- depends on budget area under
- ion
- dgets and determines or recommends
- authority, Navy position on budget

AIR FORCE

Air Force Council (AFC)

- Chaired by Vice Chief of Staff
- Members are Deputy Chiefs of Staff,¹ the Comptroller and the Inspector General
- Determines Air Force policy on major resource allocations

Air Staff Board (ASB)

- Chaired by Director of Programs
- Members are at Director level on Air Force staff²
- Serves as a junior Air Force Council in determining policy on resource allocations. Makes recommendations to Air Force Council on major policy issues

Force Structure Committee (FSC)

- Chaired by General Officer from DCS/Operations, Plans and Readiness
- Members are designated by key Air Staff Directorates
- Reviews and evaluates all plans and programs that affect force structure and force capabilities
- Recommends POM and EPA⁴ forces to ASB

Program Review Committee (PRC)

- Chaired by General Officer selected by DCS/Programs and Evaluation
- Reviews proposed programs and budgets and makes recommendations to the ASB
- Conducts continuing reviews of programs to ensure program balance within fiscal limits

Figure 3. MILITARY SERVICE COMMITTEE STRUCTURES FOR IMPLEMENTING SERVICE PLANNING, PROGRAMMING, AND BUDGETING SYSTEMS

b. Marine Corps Procedures

With respect to budget support provided to the Marine Corps by the Navy O&M appropriation, the Marine Corps functions like a major Navy claimant in annual budget formulation.¹ On the other hand, for its own O&M appropriation the Marine Corps carries out responsibilities similar to those of the other independent Services. The Marine Corps performs planning studies under the direction of a Deputy Chief of Staff for Plans and Policies. Program direction and guidance is provided by the Deputy Chief of Staff for Requirements and Programs (DCS/R&P), and budgeting is under the direction of the Fiscal Director. The internal Marine Corps planning, programming, and budgeting activities, including coordination and leadership responsibilities, are similar to those that have been described for the other Services.

The Marine Corps submits its annual budget to the Comptroller of the Navy, and it is incorporated into the total Department of Navy (DoN) budget forwarded to OSD in September. In fact, the Marine Corps currently submits its budget 6 weeks after the Navy forwards its POM to OSD in May. During the period from June through August, the Marine Corps DCS/R&P and the Fiscal Director work with the Chief of the Navy General Planning and Programming Division and the Director of Budget and Reports, as do major Navy claimants, to resolve the final DoN budget.

Like the other Services, the Marine Corps employs a senior committee, the Chief of Staff Committee, to review program and budget alternatives and to present its recommendations to the Commandant of the Marine Corps. In addition, the Marine Corps DCS/R&P serves as a member of the Navy Program Development Review Committee. The Commandant of the Marine Corps is an

¹In the Navy a claimant is an organization that has detailed planning, programming, budgeting, and financial management responsibilities for particular parts of the total Navy program. For example, the Chief of Naval Personnel is the claimant for military personnel.

associate member of the CNO Executive Board to ensure that Marine Corps views are properly considered in the final determination of the CNO position on Marine Corps support.

Although the Marine Corps-Navy budget support relationships are complex, the general concepts of planning, programming, and budgeting, including the various associated review and analysis activities, are the same in the Marine Corps as in the other Services.

2. Budget Justification

All of the Services have reasonably uniform procedures that require budget justification by their subordinate activities. Leadership in conducting reviews is a budget function but programmers play an active role in these reviews to ensure that budgets have been prepared in accordance with program guidance.

A similar concept is followed in the OSD review of the Service budgets. As stated earlier, the Service budget officers have the leadership responsibility in justifying their budgets. OASD/C has the responsibility to verify that the Services have complied with SecDef program and budget guidance, including the directions contained in the PDM and APDM, and that resource pricing is appropriate. OSD reviews are conducted in coordination with OSD functional staff program analysts.

In Chapter II we discuss an important program analysis operation that is conducted during the period of review and Service budget justification. This is the OSD "program ranking" process which really should be considered a budget formulation activity although it is conducted during the OSD budget review period.

Although there is extensive OSD participation, justification of Service budgets to the Congress is primarily a responsibility of the Services. Leadership during the Congressional reviews definitely resides with OASD/C, but staff officials who have

program responsibility for functional areas are actively involved in justifying their programs.

3. Budget Execution

Budget execution processes are also consistent among the Services. After funds have been made available through Congressional appropriations, they are apportioned to the Services by the Office of Management and Budget. The Services, in turn, allocate the funds to their subordinate activities through their operating budgets. Accounting offices establish the necessary records of fund authorizations, and the Services may obligate and spend the appropriated funds made available to them.

Very detailed records of expenditures are maintained at the lowest levels of command, but more summary level information is provided monthly to the higher levels of command within the Services. Nevertheless, the level of detail, particularly in the logistic support areas, is sufficient to permit functional area managers in the higher level of command organizations to understand in detail how program execution is proceeding. For example, the Naval Air Systems Command has comprehensive data available on a regular basis to understand the progress of programs such as airframe reworks, engine overhauls, and depot level component repair, whether performed in the Naval Air Rework Facilities or on contract.

The highest levels of command within the Services also review aggregated but meaningful monthly reports on O&M-financed program accomplishment through the O&M appropriation reports required by DoDI 7000.5. This directive requires that data be reported by element of expense and functional category so that considerable visibility is provided on the progress of programs at a level substantially below the budget activity level.

Chapter III discusses these reporting systems and data display capabilities in detail. Existing systems, with reasonably

minor adjustments probably can provide information at an appropriate level of detail to permit OASD/MRA&L functional staff analysts to acquire important visibility of planned versus actual obligations for programs of interest to them. These systems provide monthly data that are available about 30 to 45 days after the end of the reporting month. These data should be useful in permitting OASD/MRA&L to influence changes in resource allocations during the remainder of the execution year. Also, this knowledge of budget execution should aid OASD/MRA&L analysts in their reviews of the annual budget submissions. It is unlikely, however, that these data would be received in time to aid decisionmaking on reprogramming requests. For this reason, we are proposing in Chapter IV a reprogramming procedure that would provide advance notice of some Service-desired changes. Nevertheless, existing systems can be the basis for providing data for routine monitoring of budget execution.

I. RECOMMENDATIONS

Chapter IV contains short- and long-run recommendations on how to satisfy OASD/MRA&L requirements. Among our recommendations is the proposal that reporting systems be established to provide improved visibility of O&M resource usage and that changes in reprogramming procedures be made to permit SecDef review and participation in some O&M resource allocations. This chapter also discusses the long-run role that could be played by the FYDP Logistic Resource Annex in the total system for OASD/MRA&L.¹ We suggest that the LRA should be an important element in this system, but it is not essential for the LRA to be implemented in order to install a suitable O&M appropriation visibility and control system for OASD/MRA&L.

¹IDA Paper P-1334, *Guidelines for the Development and Implementation of a Logistic Resource Annex to the Five Year Defense Program*, November 1978, discusses how each Service could implement a requirement to produce an LRA with each updating of the FYDP.

Our research was not directed to an explicit assessment of the costs of implementing the recommendations presented. However, since both the short- and long-run recommendations are primarily adjustments and modifications to existing budgeting procedures and systems, the dollar cost impacts should not be as great as if entirely new procedures were called for.¹ Our research also was not directed to a consideration of the impacts of our recommendations on OSD and Service's management functions beyond the intended improvements in O&M budget formulation, justification, and execution.

¹The recommendation involving the largest commitment of resources is the long-run use of the logistic resource annex (LRA). An abbreviated LRA is currently included in the POM submission, and MRA&L intends to expand the concept to provide logistic function and weapon system details to accompany the FYDP. In a prior IDA Paper, P-1334, *Guidelines for the Development and Implementation of a Logistic Resource Annex to the Five Year Defense Program*, we concluded that the sizable LRA data base "is manageable within the existing OSD data management environment," and that it is not likely to be so large "that it will create unusual problems for the existing systems, procedures, and resources to be used for its establishment."

Chapter II BUDGET FORMULATION

Budget formulation, justification, and execution are the three sequential stages of the DoD budget process that result in a budget and subsequent expenditures for a given fiscal year. Extending over nearly 3 calendar years, this process involves the Services, OSD, OMB, the Congress, the Treasury Department and the President. In this chapter, we are interested in events in the budget formulation and justification stages of the budget process, particularly events from the issuance of the OSD Consolidated Guidance (CG) through the submission of the Service justification materials to the Congress.

A. OSD CONSOLIDATED GUIDANCE

The CG is a major OSD guidance document that contains

- (1) The rationale for the defense program.
- (2) Issues that are likely to be used in program evaluation during the POM and issue paper cycle leading to the PDM and APDM.
- (3) Planning and programming guidance.
- (4) Force levels.
- (5) Guidance for manpower, logistics, and TOA.

First issued in draft form in early February, the CG contains the TOA fiscal guidance that mandates the control totals for the Service POM submissions in May. The February draft is updated as required and, even as late as April still may be a draft in which the SedDef reserves the right to make additional changes. These control totals provide an initial

baseline against which changes in programs and resource levels potentially may be tracked as the budget process proceeds through formulation. The April 12, 1979 fiscal guidance provides a perspective of the kind of initial baseline against which the Services work budget formulation.

Each Service (and defense agency) receives three TOA control totals for each of the 5 years for which they develop programs for the May POM: basic, enhanced, and decremented. The FY 80 Presidential Budget submission TOA numbers, as recorded in the January 1979 FYDP, also are shown as the basic level for FY 80. The basic levels for FY 81 through FY 85 were developed by starting at 2 percent below the January FYDP numbers for each year and then adjusting for inflation rates (given in the CG), for rebalancing required by items of mandatory guidance that have fiscal impacts not yet reflected in the FYDP, and for the FY 81 budget review.¹ Once the basic level for each Service for each fiscal year is determined, the enhanced and decremented levels are set at given percentages above and below this basic level: 5 percent for FY 81, 6 percent for FY 82, 7 percent for FY 83, 8 percent for FY 84, and 9 percent for FY 85.

Even at this macro level of detail, it is possible for detailed resource category impacts to be visible. This applies to the CG "items of mandatory guidance that have fiscal impacts not yet reflected in the FYDP."² As an example, the CG could

¹We have not explored the precise nature of these adjustments and of the interaction between the Services and the OASD/C in arriving at the TOA controls since these adjustments are made at a level above that of the focus of this task.

²The terminology referring to "items of mandatory guidance" is taken from the CY 79 CG. In a broad sense, it is correct to view all of these items in the CG as mandatory guidance, since they represent SecDef direction to the Services. However, the items of mandatory guidance discussed above represent program issues that were not reflected in the President's January 1979 budget. The Services are nonetheless directed to incorporate these issues into the preparation of their May POMs.

direct that a special reaction force be created to respond to international contingencies and that for this purpose additional TOA be identified to the involved Services for equipment, forces, and support. These additional TOA dollars could be specified in the CG by fiscal years and by Services. It would even be possible to specify these additional dollars by appropriations, although the CG normally is concerned only with TOA as a lump sum for each Service and not with specific appropriations.

The line items for which additional TOA for a reaction force could be specified could be at any level of detail deemed appropriate. For example, at summary levels, additional TOA by fiscal year could be specified for the single line "total DoD," or it could be specified by Service totals such as "total Army" and "total Air Force." Dollars for detailed resource categories within a Service could be identified to the reaction force, such as Army base operating support (BOS), second destination transportation, RPMA, spares support, or aircraft fuel. The central point represented by these examples is that dollars can be visible in the CG at any level of detail required by the mandatory guidance subject at issue.

The mandatory guidance on an issue like a contingency reaction force also might direct each affected Service to include the designated additional TOA in a particular fiscal level. For example, if the TOA were directed to the basic level, then each Service would, at the least, be required to include its part of the reaction force program and TOA somewhere within its POM basic level submission.

It seems reasonable to assume that the Services would view an item of mandated guidance important enough to warrant careful internal Service monitoring and visibility throughout the POM and budget cycle. However, at the OSD level, CG mandated guidance issues and TOA increments are not routinely made visible or systematically monitored by any kind of formal data system.

Informally, of course, it is likely that selected topics are monitored by individual analysts for their own uses, but such actions do not represent comprehensive systems that can be made routinely available to various elements of the OSD staff.

It also is true that a CG item of mandatory guidance is likely to become a formal POM or budget issue. If this happens, the item becomes identifiable and acquires the same visibility as any other POM or budget issue. It is necessary to note, however, that CG items of mandatory guidance do not automatically become subjects of POM and budget issues. Although this development is likely to occur, the explicit visibility and trackability of items of mandatory guidance in the POM and budget are not routinely guaranteed.

The fact that CG items of mandated guidance can address TOA increments or decrements to specific resource categories introduces the possibility that OSD analysts might require or desire a routine, systematized capability for visibility and monitoring that includes the CG. In addition to this visibility and monitoring aspect of the mandated guidance, there is a management direction or control aspect, as well, in the form of OSD influence over which resource categories become subjects of POM and budget issues. Recognizing that the CG is a negotiated document reflecting coordination within and between OSD and Service staffs, it represents an opportunity for OSD analysts to introduce mandated guidance items that reflect OSD interests and priorities. Once introduced, these items could be monitored and visible in any system developed to record and make visible CG-mandated issues. These implications for visibility, monitoring, and control are discussed more extensively in Chapter IV. The existence of mandated guidance items in the CG provides evidence that detailed resource category identification at the OSD level sometimes begins quite early in the official budget cycle of any given fiscal year.

The CY 79 CG directs that POM FY 81-85 be prepared at the basic level of fiscal guidance with incremental packages to get to the decremented and enhanced levels. The process by which programs would be identified below and above this basic level, subject to the enhanced and decremented TOA controls, was left to the POM Preparation Instructions (PPIs). To understand the Service usages of the CG TOA controls in preparing the POM under the ZBB categories, the internal Service rankings of prioritized programs, and the subsequent interface between the POM and the budget, it is necessary to examine the directions of the current PPI with regard to program decision packages.

B. OSD POM PREPARATION INSTRUCTIONS

The current (March 1979) PPI contains the basis for explicit resource category trackability and visibility between the POM and the Service budget submissions to OSD. Whether this potential extends to the President's budget submission is a separate issue addressed later.

The basic interface above the budget minimum between the POM and the budget is provided by what are called program decision packages (PDPs) in the POM and consolidated decision package sets (CDPSSs) in the OSD budget submission. The PPI directs that the PDPs, "after being updated by the PDM and APDM, will be the Consolidated Decision Package Sets used for ranking the budget in the Fall."

Prior to the PPI, the Services issued operating budget guidance to their subordinate commands, requesting a minimum, basic, and enhanced level with CDPSSs as the incremental packages building from the minimum to the higher levels.¹

¹It should be noted that while the CG fiscal guidance refers to the three program levels as basic, enhanced, and decremented, the PPI refers to the same three levels as basic, enhanced, and minimum fiscal guidance levels. As far as we can determine, the different (continued on next page)

The appropriation guidance sent out with these operating budget calls is not exactly the same as the CG fiscal guidance constraining the POM minimum, basic, and enhanced program levels, but this variation is less a problem than it might seem in terms of monitoring PDPs in the POM to CDPSs in the budget. This subject will be explored in the next section.

C. SERVICE IMPLEMENTATION OF THE PDP AND CDPS INSTRUCTIONS

Both in the operating budget call from the Services to their major commands prior to January¹ and in the PPI in February and March, the PDP and CDPS structure is specified as a set of incremental program packages that serve to build up from lower levels to higher levels. This is true of both the POM and budget instructions.

The PDPs and CDPSs reported to OSD in the POM and the budget are only for the incremental steps above the minimum. However, we have learned that the Services are in various stages of structuring the entire POM in terms of DUs, the basic ZBB appropriation building blocks. Each PDP and CDPS is also structured in terms of DUs. To the extent that the Services are successful in these efforts, the potential for detailed monitoring at all levels, including the minimum, is strong. To see this potential in greater detail, we can examine an example of the PDPs in the POM and an example of the CDPSs in the budget development.

The Navy POM submission will contain a maximum of 100 PDPs categorized into prioritized lists that will build from the

(cont'd) terminology--decremented and minimum--for the fiscal guidance below the basic level is interchangeable. Unless otherwise indicated, we shall adopt the PPI term "minimum" to refer to the fiscal guidance TOA and the associated program below the basic level.

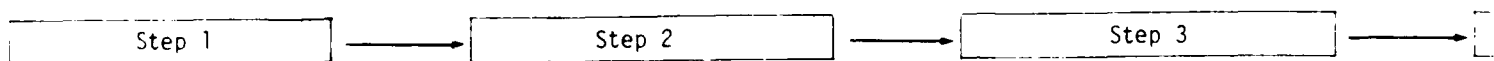
¹As an example, the Air Force Comptroller *Call for FY 81 Operations Operating Budget* was dated 12 December 1978.

minimum to the basic and enhanced levels. Thus, outside the minimum, all additional Navy POM resource requirements will appear in the PDPs. To understand how the Navy will internally handle the PDPs, it is necessary to examine the POM serials.

A Navy representation of the POM and budget interface is shown in Figure 4, suggested by the information in a 1979 CNO staff memorandum.¹ The figure shows some of the key details that concurrently are maintained in the Navy PPBS data base, beginning with the POM and extending through the October budget submission. The boxes shown in Step 1 in Figure 4 represent "serials," which are packages of resource requirements proposed in the POM by Navy staff offices and commands. These serials are the Navy's basic building blocks for incremental resource requirements above the minimum (decremented) POM program. Since they are simultaneously identified to DU budget categories and appropriations used later in the October budget submission to OSD, serials also provide the points of interface between the POM and the budget. To understand how the Navy serials can provide a POM-budget interface, it is necessary to develop and explain the implications of the relationships shown in Figure 4 and to examine some specific examples of serials and PDPs.

Figure 4 shows a temporal sequence of six basic steps in the development of POM PDPs and budget CDPs. The DU and appropriation information attached to some of the Navy's incremental POM resource requirements above the POM minimum (decremented) level are shown in the three sample serials in Step 1. The Navy combines these serials into POM PDSs in Steps 2 and 3. As shown in the steps in Figure 4, at the same time that the capability

¹Department of the Navy memorandum, Office of the Chief of Naval Operations, OP-901, *Consolidated Decision Package Sets*, March 21, 1979.



Serials Prepared by Navy Sponsors Prior to POM Submission

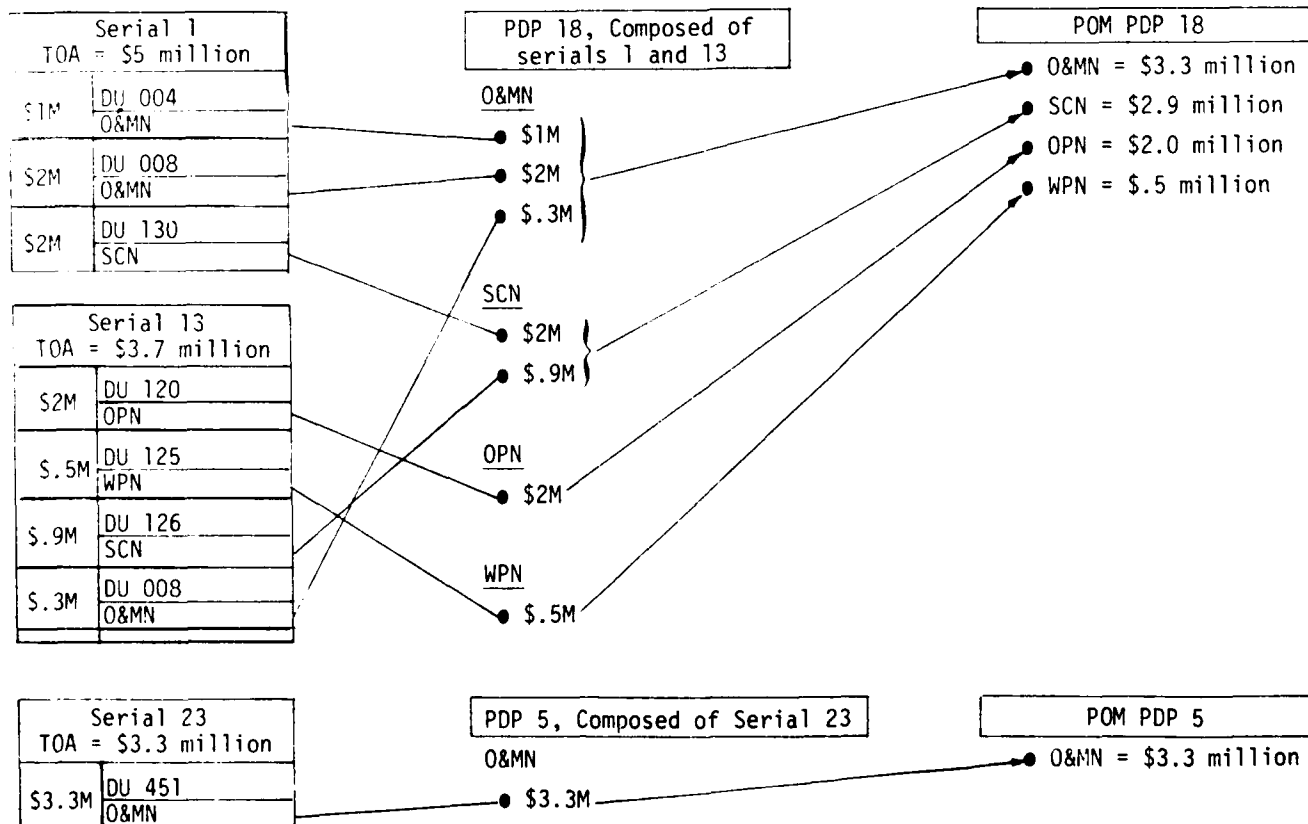
- Hundreds are prepared
- Contain program information in DU and appropriation detail

Navy Internally Combines Serials to Form PDPs

- Maximum of 100 PDPs
- PDPs are prepared by appropriation, not by DU, per OSD instructions
- Navy internally retains DU identification of serials and PDPs

PDPs Submitted to OSD in POM Submission

- OSD visibility is by appropriation within PDP
- Serial details are not visible to OSD



Step 4

PDPs Modified to Reflect
PDM-APDM Decisions

- POM Issue Paper alternatives are written to show appropriation impacts on PDPs

Step 5

Service Internally Adjusts
Serial Details to Reflect
PDM-APDM Decisions

- These adjustments are not visible to OSD

Step 6

Service Prepares Budget
Submission with PDPs
Becoming CDPSs Showing
DU, Appropriation, and
Serial Details

- At this point, the POM PDPs have been transformed into budget CDPSs

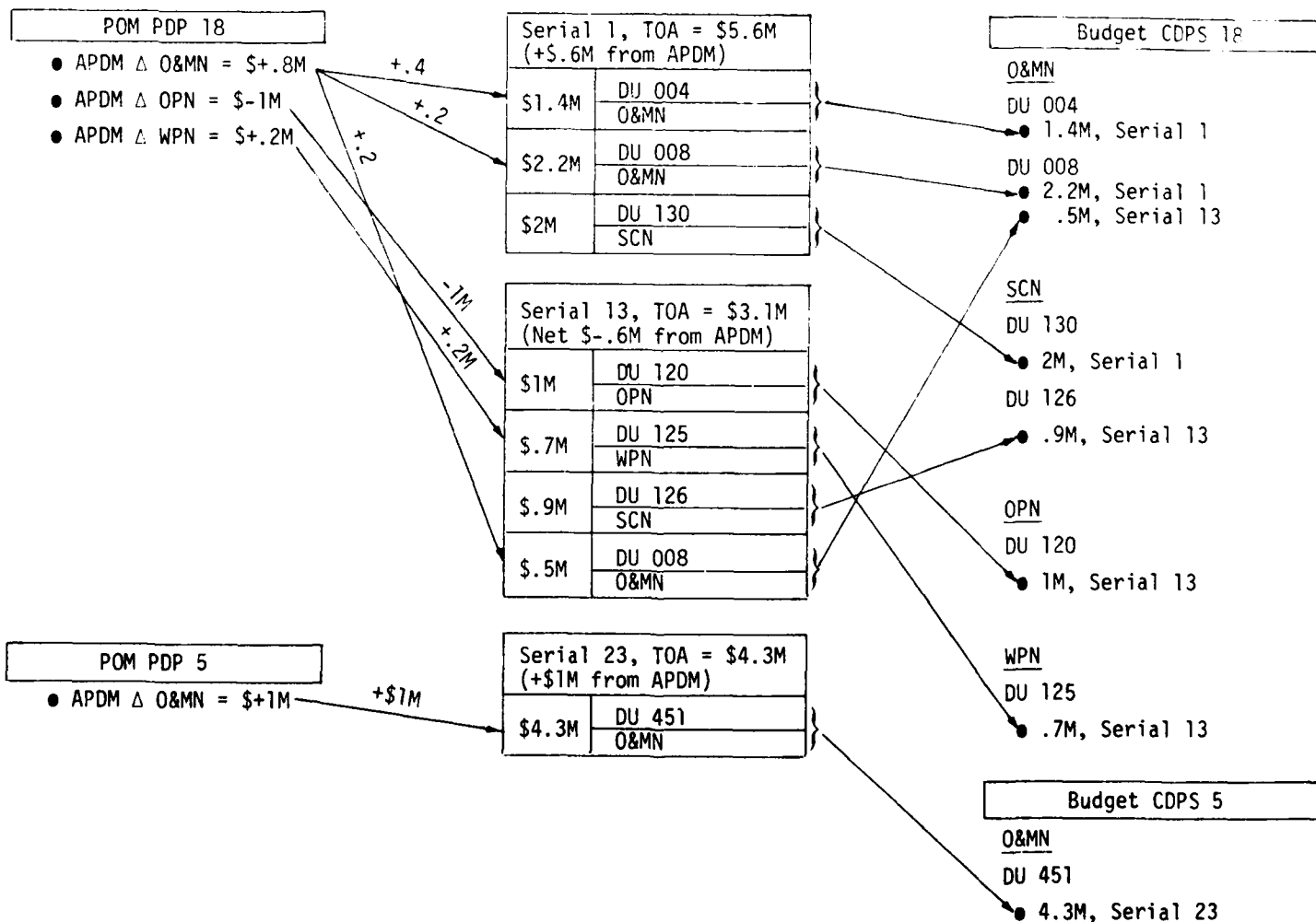


Figure 4. NAVY POM-BUDGET INTERFACE

exists to combine serials into POM PDPs, the capability also exists to combine the same serials into budget CDPSSs. *Because serials identified to DUs and appropriations are the common denominator for both PDPs and CDPSSs, the incremental resources arrayed in PDPs in the POM can be traced to the incremental resources arrayed in CDPSSs in the budget.* This is the fundamental message of Figure 4. There are several other implications to be drawn from the relationships among serials, DUs, packages, PDSs, and CDPSSs in Figure 4, and these are examined in the next sections along with some examples of serials and PDPs.

An example of a POM serial (Table 1) could be a requirement for a new antisubmarine rocket (ASROC) launcher guide. The serial contains resources in one or more appropriations and is identified to budget DUs in each of the affected POM years. Several such serials, each with one or more appropriations and DUs in various POM years, are combined by the Navy to form a single PDP for the POM, and hundreds of such serials are combined to form the 100 maximum PDPs permitted by OSD. Table 2 shows serial 6301 from Table 1 and four other serials combined to form an example PDP #20, Surface Ship Improvement; all of these serials and PDPs are identified to appropriations and DUs by fiscal year.

Table 3 does not contain any of the DU or serial detail available in the Navy data base. Because it is retained in the Navy data base, the Navy has the capability to produce budget CDPSSs with these data while the POM is reviewed by OSD. PDP information like that contained in Table 3 may be changed as a result of OSD PDMs and APDMs, but the changes introduced by OSD involve only the PDP appropriation totals. It is up to the Navy to translate the OSD decisions made at appropriation levels for PDPs into the appropriate impacts

Table 1. EXAMPLE: SERIAL 6301, NEW ANTISUBMARINE (ASROC) LAUNCHER GUIDE^a

Navy Appropriation	Budget Decision Unit	Dollars in Thousands by Fiscal Year				
		FY 81	FY 82	FY 83	FY 84	FY 85
Research, Development Test and Evaluation	DU 240 Sea Control	800	700	600	0	0
Weapons Procurement	DU 124 Torpedoes and Related Equipment	900	1,000	1,200	1,500	1,500
Other Procurement	DU 141 Ship Support Equipment	100	100	200	300	300
TOTAL TOA		1,800	1,800	2,000	1,800	1,800

^aNot actual data, example only.

Table 2. EXAMPLE: NAVY PROGRAM DECISION PACKAGE; PDP #20, SURFACE SHIP IMPROVEMENT^a

Serials, Appropriations, and DUs	Dollars in Thousands by Fiscal Year				
	FY 81	FY 82	FY 83	FY 84	FY 85
SERIAL 6301, New Anti-Submarine Launcher Guide RDT&E (DU 240, Sea Control) Weapons Procurement (DU 124, Torpedoes and Related Equipment) Other Procurement (DU 141, Ship Support Equipment)	800 900 100	700 1,000 100	600 1,200 200	0 1,500 300	0 1,500 300
SERIAL 6273, Surface Ship Silencing Additions (ASW) RDT&E (DU 240, Sea Control)	2,500	3,500	6,000	7,500	8,000
SERIAL 6275, Additional ASW SQR-19 TACTAS (Increment 1) OPN (DU 140, Other Communications and Electronic Equipment) RDT&E (DU 245, Combat Support)	10,000 500	12,000 500	20,000 0	22,000 0	29,000 0
SERIAL 6393, Area Air Defense Improvements RDT&E DU 240 Sea Control DU 245 Combat Support	8,000 1,000	7,000 1,500	3,000 3,000	0 6,000	0 5,000
SERIAL 8065, A-6E Landing Mods APN (DU 193, Aircraft Mods Air Warfare)	15,000	16,000	12,000	0	0
Total TOA	38,800	42,300	46,000	37,300	43,800

^aNot actual data, example only.

Table 3. EXAMPLE: NAVY PDP #20, SURFACE SHIP IMPROVEMENT DETAIL SUBMITTED TO OSD
IN POM SUBMISSION^a

Navy Appropriations	Dollars in Thousands by Fiscal Year				
	FY 81	FY 82	FY 83	FY 84	FY 85
Research, Development, Test and Evaluation	12,800	13,200	12,600	13,500	13,000
Weapons Procurement	900	1,000	1,200	1,500	1,500
Aircraft Procurement	15,000	16,000	12,000	0	0
Other Procurement	10,100	12,100	20,200	22,300	29,300
TOTAL TOA	38,800	42,300	46,000	37,300	43,800

^aNot actual data, example only

on the serials and DUs in the Navy data base. Once these impacts are recorded, the Navy can easily use the data base to produce budget CDPSSs that already incorporate changes to the serials and DUs that underlie them. However, because OSD does not request the DUs in the POM submission, the visibility of the impacts of PDMs and APDMs available to the Navy is not available to OSD.

The capability provided by the PDP-serial-DU-CDPS linkage in the Navy exists in other Services as well. Each Service has resource packages similar to Navy serials that are the basic building blocks of PDPs and CDPSSs. In the Army such packages are called program development increment packages (PDIPs), and in the Air Force they are called decision packages (DPs).

The entire discussion of POM-budget interface thus far has related explicitly to the incremental resources in PDPs and CDPSSs above the minimum in the POM and budget; there are two reasons for this. First, OSD has required a POM-budget interface only for resources above the minimum. Thus, the OSD guidance that POM PDPs will become budget CDPSSs, given changes due to modifications introduced by the PDM and APDM, applies only to the resources above the minimum. Second, the Services are in the process of developing their capabilities to display, for their own internal use in going from the POM to the budget, their POM minimum (decremented) program in budget DUs. The fact that the capability is being developed to track the POM minimum (decremented) into the budget minimum, however, provides another element of interface between the POM and budget. When this capability is fully developed in each of the Services, the entire POM, from the minimum through the enhanced, will be visible and traceable into the Service OSD budget submissions. The existence of Navy serials, Army PDIPs, and Air Force DPs, identified to DUs throughout the POM and budget,

makes such visibility and monitoring above the minimum feasible. Implications of this feasibility are discussed in Chapter IV.

Our discussion of the Navy serials and PDFs has focused on the POM-budget interface capability for incremental resources above the minimum in each of the Services. In addition to this interface capability that has developed as part of the introduction of ZBB categories and procedures into the PPBS process, there is another issue that is related to the visibility and trackability of resource decision impacts--the level of detail available. We often have heard in our discussions with program and budget analysts that POM data are not of budget "quality." One result of this assessment has been a general willingness during the OASD/C budget review for pricing and executability to make program changes to resource categories that earlier had been affirmed in the PDM and APDM following the POM.¹ The Rice report mentions this phenomenon as one of "nine concerns which, while neither unique or exhaustive, encompass the major difficulties most often articulated by participants (both past and present) regarding the current PPBS"--calling it "decisions revisited."²

It is beyond the scope of this study to assess the validity of the claim that POM data are less specific and reliable than budget data, or the degree to which such a condition has contributed or can contribute to program decisions being overturned in the budget review led by OASD/C. It is within the scope of this study, however, to examine the degree of resource visibility present in the POM and budget. What we find is that for the

¹"Program changes" as used here refers to changes in activity levels, such as number of engine overhauls, or other direct elements of specific activities financed by O&M appropriations.

²Donald B. Rice, *Defense Resource Management Study*, February 1979, pp. 6-8, 16-17.

incremental resources above the minimum (PDPs and CDPs) the resource visibility is very nearly similar. For examples of this similarity, we can review the development of Army PDIPs, the basic Army resource requirement building blocks analogous to Navy serials and Air Force DPs.

The development of PDIPs for the Army POM, PDIPs that will be combined to produce a maximum of 100 PDPs to be sent to OSD, is based on budgets submitted by the major commands in March prior to the May POM. For the operating appropriations, O&M in particular, these budgets are called the Program and Budget Estimates (PABEs). PABEs are extremely detailed. An example of this detail upon which POM PDIPs are based is provided by the United States Army Japan (USARJ) PABE for FY 81 through FY 85, dated 15 March 1979.

The USARJ PABE includes eight PDIPs. One of these is PDIP 7S16, "Military Construction Readiness," which provides \$3,629,000 for the four readiness-related construction projects shown in Table 4, below. The detailed information shown in Table 4 will not be visible in the POM submitted to OSD, but it will be maintained by the Army throughout the POM process as supporting detail to the POM. In the POM, the \$3.6 million TOA from PDIP 7S16 will be combined with the TOA from other associated PDIPs to form a single TOA total for a POM PDP. Only the single PDP TOA total will be visible in the POM.

In addition to the information shown in Table 4, the Army will maintain throughout the POM process DU information about each PDIP comprised in the POM PDPs. This information will be used for the October budget submission to OSD when the POM PDPs become budget CDPs that require DU resource identification.

One point here is that the PDIPs, worked up and substantiated at the Army major and subordinate command levels, provide the levels of detail to back up the summary PDPs submitted to the POM. In fact, these PDIPs will be used to back up the

Table 4. PDIP 7S16, MILITARY CONSTRUCTION READINESS, IN THE FY 81-85 US ARMY JAPAN PROGRAM AND BUDGET ESTIMATE, MARCH 1979

Construction Projects in Army PDIP 7S16	Project Data		Summary Narrative Justification
	FY 81 TOA (\$)	Physical Specifications	
Ammunition Facility Physical Security, Kawakami, Japan	2,292,000	14,500 linear feet	Fencing, patrol roads, and lighting for upgrading the security of sensitive ordnance items
POL Line Modification, Okinawa	667,000	-	Launcher and receiver traps required at various locations of the Okinawa petroleum distribution system pipeline, to permit insertion of electronic test equipment and scraper pigs for inspecting, gauging, and cleaning POL pipelines
Building Alteration at Sagami Depot, Japan	180,000	19,900 square feet	Construction of a security cage, a Class B vault, and heating unit for one bay in existing warehouse
Aviation Operations Building, Camp Zama, Japan	490,000	5,000 square feet	Replace two dilapidated 25-year old structures serving 1,400 passengers per month
Total TOA	3,629,000		

same PDIPs when they are submitted in the October budget in incremental CDPSSs. It would be entirely possible to show PDIP details like those in Table 4 in the POM. In addition, the DU identification of PDIP resources could be shown in the POM. Thus, budget level details currently exist for the incremental resources in the POM, but they are visible only at the Service level because OSD does not ask for their inclusion in the POM.

Once a PDIP has been proposed in an Army subordinate or major command PABE, it is assessed through the combined Army staff level program and budget process and ranked, modified, excluded, or included as part of the Army's POM resource requirements. If the PDIP survives the POM process and is included in the October budget submission to OSD, the various detailed information lines associated with the PDIP permit several alternative data summaries and displays to permit visibility and monitoring. For an example we can turn to the FY 80 Army budget submission to OSD and examine a specific PDIP, #322056, "Europe/Korea RPMA," noting its component resources and their various details included in the OSD submission and the visibility to OSD analysts. These are the same details that are visible to the Army during the POM process but not to OSD because OSD does not request their visibility in the POM.

PDIP 322056 contained \$33,200,000 in OMA for FY 80. It was identified to DU 56, Base Operations, and appeared in band 1, the highest priority band above the minimum level program. Bands are TOA ranges that facilitate arranging programs in order of priority above the minimum. They are discussed more fully in part D of this chapter. Table 5 shows the entire DU 56 Army submission, displayed according to 12 "activity groups" that represent the approved OSD definition of Base Operations. The \$33,200,000 in PDIP 322056 is identified to three of the DU 56 activity groups in the budget submission: \$24,970,000 to Maintenance and Repair of Real Property, \$5,090,000 for Minor Construction, and \$3,140,000 for Other Engineering Support.

Table 5. ARMY O&M BUDGET DECISION UNIT 56, BASE OPERATIONS: MINIMUM AND BANDS BY ACTIVITY GROUP IN THE FY 80 BUDGET SUBMISSION TO OSD

Base Operations (DU 56) Activity Groups	FY 80 Minimum	Band 1	Band 2	Band 3	Band 4	Band 5
Maintenance and Repair of Real Property ^a	\$ 530,367	\$31,899	0	\$ 644	\$4,770	\$53,100
Minor Construction	62,476	5,556	0	0	0	0
Operation of Utilities	449,465	5,654	0	0	0	0
Other Engineering Support	338,844	-1,685	0	0	0	0
Payments to GSA	97,989	0	0	0	0	0
Administration	484,612	2,828	0	2,796	595	0
Retail Supply Operations	160,443	2,119	0	0	0	0
Maintenance of Installation Equipment	292,602	4,547	0	0	0	0
Other Base Services	371,951	-3,172	0	3,745	535	0
Bachelor Housing	48,369	1,124	0	1,415	0	0
Morale, Welfare, and Recreation	112,687	933	0	0	0	0
Other Personnel Support	181,582	1,897	0	0	0	0
Total B05	\$3,131,387	\$51,700	0	\$8,600	\$5,900	\$53,100

^aThis activity group is shown in additional line item detail in Table 6. Each of the other activity groups listed here can be shown in additional line item detail.

Another level of detail is provided in that DU 56, broken down by activity group, also is identified to FYDP program. Table 6 takes one of the activity groups in DU 56, Maintenance and Repair of Real Property, and shows it by FYDP programs. Since PDIP 322056 is identified to General Purpose Forces, \$24,970,000 of the amount in General Purpose Forces band 1, is accounted for by this PDIP. This is shown in Table 7, where the \$29,568,000 in General Purpose Forces, band 1, is further disaggregated into the various PDIPs that compose it and PDIP 322056¹ is shown on the second line.

In addition to the detail shown in Tables 5, 6, and 7, the minimum program for each DU, activity group, and FYDP program can be shown by DoD expense elements. Table 8 shows the DoD expense elements making up the General Purpose Forces minimum for the activity group "Maintenance of Real Property" in DU 56.

The OSD budget submission minimum and PDIPs and CDPSs contain considerable detail that is visible to OSD. Table 9 summarizes data categories of interest for monitoring and visibility that are shown in the details of Figure 4 and Tables 1 through 8. Most of these same details currently are not visible to OSD. These statements apply to all of the Services, since all have complied with OSD directives to implement incremental resource packaging structures: serials, PDIPs, and DPs.²

¹The PDIP code number 322056 is made up of two elements. The last three digits identify the DU to which it belongs, and the 322 is the number assigned during the Army staff development of the OSD budget submission. To simplify reading PDP numbers in tables that contain PDPs in the same DU, the three DU digits are excluded and the PDIPs are identified only by their unique Army staff assigned digits.

²We have not shown analogous details for the other Services in this section because the presentation would be repetitive of the Army example. The only substantive difference would be that some Services present additional levels of detail for some line items, but none present less detail than the Army. Thus, the Army example provides, in a sense, a minimum standard that is met by all of the Services with regard to PDIP, PDP, and CDPS details. As seen in the example discussed in the text, this minimum level of detail is quite substantial.

Table 6. FYDP DETAIL IN THE MAINTENANCE OF REAL PROPERTY ACTIVITY GROUP
IN ARMY DU 56 FOR THE FY 80 ARMY BUDGET SUBMISSION TO OSD^a
(Dollars in Thousands)

DU 56 Activity Group Maintenance of Real Property by FYDP Programs	Minimum	Band 1	Band 2	Band 3	Band 4	Band 5
General Purpose Forces	\$316,494	\$29,568 ^b	0	\$ 644	\$4,770	\$36,875
Other Intelligence	8,440	0	0	0	0	0
Central Supply	29,653	0	0	0	0	1,340
Medical	10,891	0	0	0	0	105
Training	119,800	2,331	0	0	0	14,780
Total MRP Activity Group ^c	\$530,367	\$31,899	0	\$ 644	\$4,770	\$53,100

^aThe same FYDP program level of detail is available for each of the other eleven activity groups in DU 56.

^bThis Band 1 TOA is shown in greater line item detail in Table 7.

^cThe totals shown here reconcile to the MRP totals shown earlier in Table 5.

Table 7. ARMY PDIP DETAIL MAKING UP BAND 1, GENERAL PURPOSE FORCES IN THE MAINTENANCE OF REAL PROPERTY ACTIVITY GROUP IN DU 56 IN THE ARMY FY 80 BUDGET SUBMISSION TO OSD^a

PDIPs Making up Band 1, General Purpose Forces Maintenance of Real Property in DU 56	Band 1
PDIP 010, M 30 + 30 Force	\$ 2,823,000
PDIP 322, Europe/Korea RPMA	24,970,000
PDIP 005, D-Day Force	1,532,000
PDIP 002, Two Maneuver Battalions	243,000
Total Band 1 ^b	\$29,568,000

^aEach Band in the FY 80 Budget Submission to OSD in DU 56 can be shown by PDIPs within FYDP programs within activity groups.

^bThis total reconciles to the Band 1 General Purpose Forces total shown in Table 6.

Table 8. DoD ELEMENTS OF EXPENSE WITHIN FYDP, ACTIVITY GROUP,
AND DU 56 FOR THE FY 80 ARMY BUDGET SUBMISSION TO
OSD

(Dollars in Thousands)

DoD Elements of Expense in the FYDP Program General Purpose Forces Maintenance of Real Property Activity Group Minimum in DU 56	Minimum
Civilian Personnel	\$ 63,973
Travel of Personnel	235
Transportation of Things	39
Standard Level User Charges	0
Other Utilities and Rent	151
Communications	0
Printing and Reproduction	0
Foreign National Indirect Hire	75,359
Commercial Purchased Equipment Maintenance	200
Other DoD Purchased Equipment Maintenance	0
Industrial Fund Purchased Equipment Maintenance	0
Other Industrial Fund Purchases	0
Other Contracts	154,800
Aircraft POL	0
Other Supplies and Materials	57,978
Equipment	558
Other Expenses	8,201
Service Credits	0
Total General Purpose Forces MRP Minimum	\$ 361,494

Table 9. SUMMARY OF POM AND BUDGET DETAILS IN THE ARMY PPBS
DATA BASE

Information Details	Included in Minimum Program	Included in PDP Building Blocks
Decision Units	Yes	Yes
Appropriations	Yes	Yes
Activity Groups	Yes	Yes
DoD Expense Elements	Yes	No
Major Force Programs	Yes	Yes
PDIP Resource Packages	No	Yes

D. OSD BUDGET SUBMISSIONS

The Services prepare their budget submissions to OSD based on the decisions contained in the PDM and APDM, the budget guidance instructions issued by the OASD/C, and any additional OSD-level instructions issued before October. PDM and APDM decisions are quantified as increments or decrements to the minimum, basic, or enhanced fiscal levels in the POM. The CY 79 POM review process is designed to focus POM issues on PDPs to the extent possible and to identify issue alternatives in terms of specific appropriation increments and decrements. Such identifications will assist the Services in correctly identifying to DU impacts of subsequent PDM and APDM decisions that will facilitate the linkage between the POM issue decisions and the preparation of the Service budgets in terms of DUs.

The Service budget submissions to OSD are structured in terms of a minimum program that is identified in terms of DUs and in terms of CDPSS above the minimum that also are identified to DUs. Figure 5 shows the basic elements of the Service budget structure, emphasizing that DUs provide a comprehensive capability for visibility of the entire budget. The bands in Figure 5 represent TOA ranges that facilitate placing programs in order of priority above and below the point at which the President's final budget can reasonably be expected to fall. The number of bands is optional. For the FY 80 budget the submission was made in five bands and expanded into nine bands during the OSD budget review. The final FY 80 President's budget came in at band 3 or below for all but three Service appropriations.¹

¹The three appropriations were O&M Navy which included some resources from band 4; O&M Air Force which had some items from band 5; and aircraft procurement Navy, which included some band 7 resources.

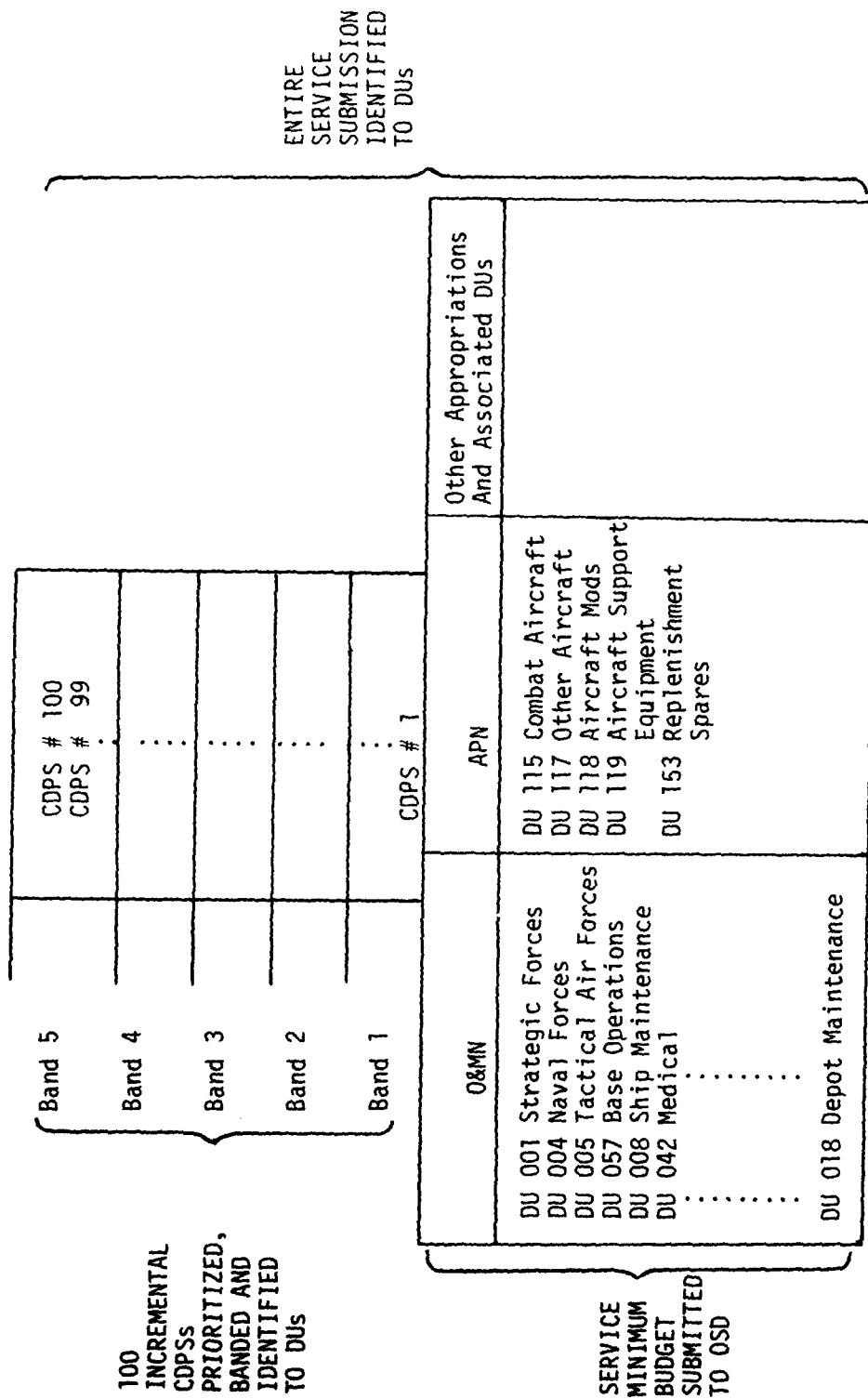


Figure 5. CONCEPTUAL VIEW OF A SERVICE (NAVY) BUDGET SUBMITTED TO OSD IN DECISION UNITS

We referred earlier to operating budget submissions from the Services' major commands. These budgets are submitted in terms of a minimum program and incremental packages above the minimum. An example was provided in our discussion of the USARJ PABE. These budgets, submitted to various Service combined program and budget staff committees, are reviewed; the minimums are combined into a Service-wide minimum program; and the incremental packages are ranked in a Service-wide order of priority ranking. The substantial detail behind these Service-developed budgets includes information at the subordinate command levels below the major commands.

Once the operating budgets are consolidated by the Service into the Service budget that will go to OSD, the level of detail is reduced to the lines seen in the OSD submission materials. For example, an Army PDIP that shows up as one of several PDIPs in the Army budget submission to OSD may itself be made up of several smaller PDIPs submitted originally by the Army's major commands to the Army staff. The Army retains the capability to relate the DUs and appropriations seen in a PDIP submitted to OSD to the various commands whose smaller PDIPs were combined to form the large PDIP.

The level of detail shown in the OSD budget submission is generally greater than the level of detail submitted by the Services in the POM. But, as was explained earlier, PDIP, DU, and appropriation by PDIP details are retained in the Service data bases that produced the POM data submitted to OSD even though they are not shown in the POM.

Following the submission of the OSD budget by the Services, analysts from OSD, led by appropriations analysts in the OASD/C organization, review the submissions and examine them for executability and pricing. Other OSD analysts participate in the budget examinations; however, changes to the Service budget submission, as recorded in the OASD/C computerized tracking system, must be processed through the OASD/C analysts.

To provide a substantive set of examples of the detailed visibility and monitoring capabilities in the Service budgets and the subsequent OSD budget reviews, we can examine the FY 80 budget material for one of the Services--the Army. The FY 80 President's Army budget submitted to Congress in January 1979 contained a TOA of \$33,160,900,000. The President's Army budget is shown in Table 10 in terms of minimums and bands by appropriation. Each of the appropriation totals in Table 10 can be tracked to various computer printouts provided by the OASD/C to OSD analysts and the Services, and to the appropriation totals in the Service Congressional Justification Books. For example, the \$9,907,400,000 O&M appropriation total in Table 10 is the same as in OASD/C Report 13-D, "FY 80 Budget Estimates Outyear Impact Status Report TOA Appropriation Detail..."; the "Department of the Army Justification of Estimates for Fiscal Year 1980," submitted to Congress; and testimony by Major General Ernest D. Peixotto, Director of the Army Budget, to the House Subcommittee on Appropriations, February 1979.¹ Although the appropriation total should be expected to be traceable through various sources, we have established it here as a baseline position from which to develop the potentials for detailed visibility and monitoring at lower indentures of detail.

Table 10 shows the President's appropriation totals divided into the final approved appropriation minimums and bands of incremental resources above the minimums. These details are not presented to the Congress, but they are tracked in the OASD/C computerized system and distributed to OSD analysts

¹There are three separate sources for this information. The first source is, OASD/C Report 13-D, *FY 1980 Budget Estimates Outyear Impact Status Report, TOA Appropriation Detail Cum Thru Band 9: Submit Minus Adjustment in Thousands of Dollars*, January 3, 1979, p. 23. The second source is, *Department of the Army Justification of Estimates for Fiscal Year 1980*, submitted to Congress January 1979, Volume 1-Justification, (Continued next page)

Table 10. FY 80 PRESIDENT'S ARMY BUDGET

Appropriation	President's FY 80 Army Budget (Dollars in Thousands)					Minimum and Bands as Percent of Appropriation Total ^a			
	Appropriation Total	Minimum	Band 1	Band 2	Band 3	Minimum %	Band 1 %	Band 2 %	Band 3 %
Military Personnel	9,754,500	9,680,603	72,700	1,197	0	99.24	.75	.01	0
Reserve Personnel	597,600	592,200	5,400	0	0	99.10	.90	0	0
National Guard Personnel	874,200	852,600	16,100	5,500	0	97.53	1.84	.63	0
Operations and Maintenance Army	9,907,400	9,724,049	182,700	651	0	98.15	1.84	.01	0
Operations and Maintenance Army Reserve	418,100	409,600	8,500	0	0	97.97	2.03	0	0
Operations and Maintenance Army National Guard	791,400	789,872	1,528	0	0	99.81	.19	0	0
Aircraft Procurement	946,400	938,000	0	8,400	0	99.11	0	.89	0
Missile Procurement	1,250,500	847,400	57,500	0	345,600	67.76	4.60	0	27.64
Weapons and Tracked Combat Vehicles	1,888,900	1,631,100	0	10,500	247,300	86.35	0	.56	13.09
Procurement of Ammunition	1,343,400	1,160,700	15,000	115,900	51,800	86.40	1.12	8.63	3.85
Other Procurement	1,694,200	1,674,000	0	20,200	0	98.81	0	1.19	0
Research, Development, Test and Evaluation	2,927,000	2,870,900	19,100	8,000	29,000	98.08	.65	.27	.99
Military Construction Army	722,300	722,300	0	0	0	100.00	0	0	0
Military Construction Army Reserve	25,000	25,000	0	0	0	100.00	0	0	0
Military Construction Army National Guard	20,000	20,000	0	0	0	100.00	0	0	0
TOTAL ALL APPROPRIATIONS	33,160,900	31,938,324	378,528	170,348	673,700	96.31	1.14	.51	2.03

^a Figures may not add to 100.00% due to rounding.

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INSTITUTE FOR DEFENSE ANALYSES ARLINGTON VA COST ANAL--ETC F/B IS/B
IMPROVED PROCEDURES FOR FORMULATION AND EXECUTION OF OPERATIONS--ETC(U)
SEP 79 J O MORGAN, N B DAVIS, A B FULLER NDA903-79-C-8380

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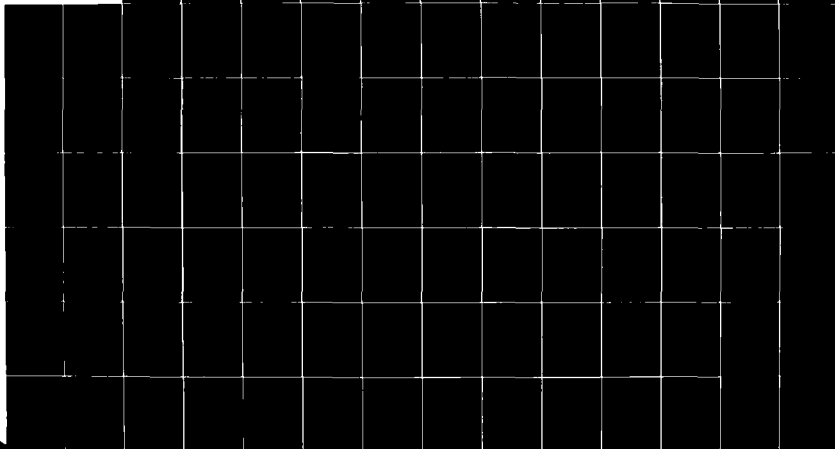
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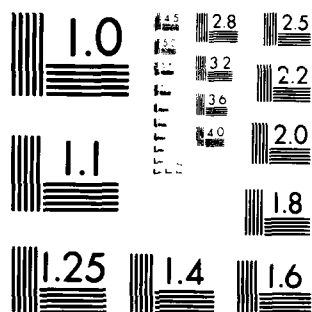
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and the Services. The far right columns of Table 10 show that minimum level programs accounted for around 98 percent of the final approved totals for 12 of the 15 Army appropriations and that 98.15 percent of the final O&M program was in the minimum. This suggests that for the FY 80 Army budget, the incremental programs above the minimum--the PDIPs collected into CDFSs--accounted for less than 4 percent of the final approved Army TOA. The other Services show similar percentages, with incremental bands accounting for very small parts of the total O&M programs. For example, for Air Force O&M the minimum is 98.37 percent of the President's O&MAF budget total; for the Navy, 98.20 percent of the President's O&MN total; and for the Marine Corps, 99.89 percent of the O&MMC total.

The changes in the minimum and bands can be traced through the budget review process. Table 11 compares the Army O&M budget submission minimum and five bands with the scrubbed, rebanded, and reranked O&M budget minimum and nine bands in January. The comparisons are made on both an incremental and a cumulative basis. The table shows that the minimum was reduced by \$431,167,000, from \$10,155,216,000 in September to \$9,724,049,000 in January. Before this reduction, the October minimum was larger than the final President's O&M total for the minimum and three bands. This is undoubtedly part of the explanation for why the budget was rebanded from five to nine and why money was moved out of the minimum and into higher bands. As will be shown later these changes in the minimum and bands are visible and traceable at lower levels of detail.

To move to lower levels of budget detail, it is necessary to examine budget decision units within the OMA appropriation.

(cont'd) pp. II-1 - II-4. The third source is, Hearings Before the Subcommittee on the Department of Defense of the Committee on Appropriations of the House of Representatives, *Department of Defense Appropriations for 1980*, Part 2, February 22, 1979, p. 600.

Table 11. ARMY FY 80 O&M BUDGET MINIMUM AND BANDS

Level	Army O&M Budget As Submitted to OSD September 1978	Army O&M Budget Following OSD-OMB Scrub and Reranking Process 3 Jan 1979	Cumulative September 1978	Cumulative January 1979
MINIMUM	\$10,155,216,000	\$ 9,724,049,000	\$10,155,216,000	\$ 9,724,049,000
Band 1	287,400,000	182,700,000	10,442,616,000	9,906,749,000
Band 2	52,300,000	651,000	10,494,916,000	9,907,400,000**
Band 3	130,800,000	0	10,625,716,000	9,907,400,000
Band 4	137,900,000	90,955,000	10,763,616,000	9,998,355,000
Band 5	58,100,000	49,400,000	10,821,716,000	10,047,755,000
Band 6	*	31,100,000	*	10,078,855,000
Band 7	*	77,600,000	*	10,156,455,000
Band 8	*	148,301,000	*	10,304,756,000
Band 9	*	97,751,000	*	10,402,507,000
TOTAL	\$10,821,716,000	\$10,402,507,000	\$10,821,716,000	\$10,402,507,000

* September submission was in minimum plus 5 bands only

** President's Army O&M Budget Submission to the Congress

Table 12 shows the 16 Army O&M DUs and their associated FYDP programs in the FY 80 Army budget submission. For each of these DUs a budget decision package set is written by the OMA analysts in OASD/C for SecDef approval.

Table 13 shows the OMA budget submission by FYDP program and DU. The OMA minimum contains resources in all 16 DUs. Each band is shown with the PDIPs that compose it, and each PDIP is shown by DU. The visibility offered here suggests that it is possible to see the ripple effects of force structure changes throughout the OMA appropriation. For example, PDIP 002 in band 1 adds two maneuver battalions. OMA resources are identified not only in program 2, General Purpose Forces, but also in programs 7 and 8 for central supply and logistical support, training, recruiting and examining, medical, and other personnel support. This capability of showing program packages of resources (PDIPs in the Army) by DU offers an opportunity for considerable visibility. In addition, these visible details can be monitored from the inception of PDIPs at the subordinate and major command levels; through the POM submission, where upon PDIPs make PDPs (although the PDIPs are visible only at the Service levels); and throughout the budget review process to the formulation of the President's budget.

A current example of the tracking and visibility potential that exists is Army PDP DOR1 in Annex X, "Minimum to Enhanced Programs," of the Army POM dated 15 May 1979. This PDP comprises two PDIPs whose contents, arranged by DU, the Army has in its data base. PDP DOR1, titled "Maintenance Readiness," provides resources to reduce the unfinanced maintenance backlog to the maintenance management level by the end of FY 85; provides total life cycle maintenance management, engineering, and training for all Army weapons systems; and partially funds the

Table 12. O&M DECISION UNITS AND ASSOCIATED ARMY FYDP PROGRAMS
IN THE FY 80 ARMY BUDGET

O&M Decision Units		Associated Army FYDP Programs (O&M Budget Activities)	
Number	Title	Program No.	Title
003	Land Forces	2	General Purpose Forces
013	Service-wide Activities	30	Other Intelligence and Comm. Support
450	Consolidated Cryptologic Program	3I	Intelligence
451	General Defense Intelligence Program		
009	Telecommunications CMD Control	3C	Communications
017	Depot Maintenance	7M	Depot Maintenance
020	Industrial Preparedness	7S	Central Supply and Logistical Support
021	Logistical Support		
024	Central Supply Activities		
029	Training	8T	Training
033	Recruiting and Examining	80	Recruiting
037	Other Personnel Support		
041	Medical	8M	Medical
044	Administration	9	Administration
052	Support to Other Nations	10	Support to Other Nations
056	Base Operations	*	Base Operations

*The Army examines Base Operations as a program total as well as by the individual O&M BAs in which BOS appears.

Table 13. FY 80 ARMY BUDGET SUBMISSION MINIMUM AND BANDS SHOWING VISIBILITY OF PDIPS, DUs, AND ARMY FYDP PROGRAMS

Army FYDP Programs and Associated Decision Units																
FYDP Program	2	30	31	3C	7M	7S	8T	80	8M	9	10	*				
DU	003	013	450	451	009	017	020	021	024	029	033	037	041	044	052	056
MINIMUM PROGRAM																
Band 1																
P01P 002 2 Maneuver Battalions																
P01P 005 Active Component D-Day Force	X															
P01P 010 Active Component M to M + 30 Force	X															
P01P 132 Reserve Component M to M + 30 Force	X															
P01P 263 Maintenance Backlog 1																
P01P 272 Prepositioned War Reserve Stock																
P01P 322 Europe/Korea RMA																
P01P 363 Maintenance Backlog 2																
P01P 618 Contract Defense Language Institute	X															
P01P 619 APDM Civilian Manpower																
P01P 623 Contract Miscellaneous Base Operations																
P01P 624 Contract Custodial Services																
P01P 625 Contract Laundry/Dry Cleaning																
P01P 626 Contract Ammunition Plant																
P01P 627 In-house Proving Ground																
Band 2																
P01P 364 Maintenance Backlog 3																
Band 3																
P01P 082 Program Wide Support																
P01P 089 Command and Control Communications	X	X														
P01P 228 Soldier Support																
P01P 332 Soldier Skills																
P01P 510 Training Readiness																
P01P 800 Army Wide Support	X															
P01P 801 Industrial Preparedness Operations																
Band 4																
P01P 229 Morale and General Support	X															
P01P 269 Logistics Readiness	X															
P01P 334 Combat Systems Support	X															
P01P 365 Maintenance Backlog 4																
P01P 802 Ammunition Single Manager																
P01P 815 Intelligence																
P01P 913 First Destination Transportation																
Band 5																
P01P 072 3 x 8 Field Artillery	X															
P01P 072 7th Infantry Division ALO	X															
P01P 321 World-wide RMA																

*The Army examines base operations as a program total as well as by the individual O&M BAs in which BOS appears.

remaining unfinanced Reliability Centered Maintenance (RCM) effort.¹ Although OSD will not see in the POM any of the DU identification or the separate PDIPs that make up PDP DOR1, these data are available in the Army data base.

Given the changes made to PDP DOR1 during the POM issue paper cycle and any subsequent PDM and APDM changes, the PDIPs and DUs in DOR1 will become visible to OSD in the Army budget submission to OSD in October 1979.

Changes to the Service budget submissions are recorded in the OASD/C tracking system by appropriation and by DU for every PDIP and CDPS. The OASD/C reports that show these changes provide substantial visibility of budget details. In turn, the Services receive the OASD/C reports and use them to make changes to their own data bases that go below the OSD budget submission PDIP level of detail.

Table 14 shows the Army FY 80 O&M budget minimum by DU as it appeared in its final form in the OASD/C tracking system in January 1979, and as it initially appeared in the October 1978 submission. Some interesting characteristics should be noted in the final January form (final as far as the OASD/C tracking system is concerned). Perhaps the most important is DU 622, a \$307,816,000 reduction in the O&M minimum. This reduction was not spread to DU in the OASD/C monitoring system; instead, it was spread by the Army internally in preparation for submission of the justification materials to the Congress. Although the spread of this reduction to DUs is not recorded in the OASD/C system, the OASD/C budget analysts in contact with the Army know how the Army made the spread, and essentially approved the spread for the Army's Congressional

¹The maintenance management level refers to a sufficient volume of work to keep the facilities efficiently employed.

Table 14. ARMY FY 80 O&M BUDGET MINIMUM IN DUs
(Dollars in Thousands)

Decision Units		Minimum O&M Budget Approved By OSD, Jan. 1979	Minimum O&M Budget Submitted to OSD, Sept. 1978	Δ, September to January
DU NO.	Title			
003	Land Forces	1,294,278	1,317,972	-36,194
003	Land Forces (OMS016 P-2 Oper. Suppt.)	-12,500		
009	Telecom C and C	382,392	396,892	-14,500
013	Service-wide Activities	36,234	46,777	-10,543
017	Depot Maintenance	995,138	1,018,134	+ 4,504
017	Depot Maint. (OMS011 UH 1)	15,000		
017	Depot Maint. (OMS041 AIF SEC GRDS.)	12,500		
020	Industrial Preparedness	88,434	88,460	- 26
021	Other Logistic Support	1,054,068	1,078,724	-21,456
021	Other Log. Suppt. (OMS042 Proj. Mgrs.)	3,200		
024	Central Supply Activities	690,088	715,175	-25,087
029	Training and Education	552,325	579,281	-16,956
029	Train. and Ed. (OMS012 Train. Dev.)	10,000		
033	Recruiting	140,666	141,122	- 456
037	Other Personnel Support	182,183	181,519	+ 664
041	Medical	721,290	709,762	+11,528
044	Administration	536,190	547,153	-10,963
052	Support to Other Nations	88,157	91,869	- 3,712
056	Base Operations	3,095,383	3,131,587	-36,204
099	Panama Canal ^a	19,300	(19,400) ^b	+19,300
450	Consolidated Cryptologic Program	46,504	46,504	No Change
451	General Defense Intelligence Program	60,756	64,285	- 3,529
455	Foreign Counterintelligence	5,379		+ 5,379
612	Capitation Budget ^a	14,900		+14,900
622	FY79-80 Finance ^a	-307,816		-307,816
TOTAL MINIMUM		9,724,049	10,155,216	-431,167

^aThese DUs are not regular recurring DUs. They were added during the budget review to fulfill a specific need for visibility.

^bThis was shown as a non-add item in the September submission but subsequently became an add item.

Justification Books. Analysts outside the Army-OASD/C consultation loop could determine how the reduction was spread by DU by checking with the Army or the involved OASD/C analysts. If regular visibility of such end-of-the-budget-scrub spreads is desirable, it is merely a procedural step to have the responsible OASD/C analysts insert information into the computerized tracking system that provides the details of these Army spreads of final actions.¹ It is not done routinely now.

Because all final action changes to the minimum are not recorded by DU detail in the OASD/C tracking system, it is possible to lose some of the continuous tracing capability from the OSD budget submission to the Congressional Justification Books. For example, DU 17, Depot Maintenance, minimum plus bands approved in the final Presidential action, should track to the Depot Maintenance total in the Congressional Justification Books. The OASD/C tracking system shows \$1,094,338,000 in the DU 17 minimum and bands as approved in the President's Budget. But the Army O&M Depot Maintenance figure in the Justification Books for FY 80 is \$1,052,499,000. The difference of \$41,839,000 was part of the \$307,816,000-reduction to the O&M minimum that was not recorded in the OASD/C tracking system as spread by DU by the Army. If the Army spread had been recorded, the DU 17 minimum plus bands in the OASD/C tracking system would have matched exactly with the Congressional Justification Depot Maintenance figure.

Another interesting feature of the January budget minimum by DU in Table 14 is that portions of some DUs were singled out for

¹In each Service, the claimant or major commands are involved in preparing the Congressional justification materials. They spread DPS impacts and make realignments as required to ensure that the current year and budget year submissions are consistent with prior year Congressional actions and real world field experience.

special visibility. For example, DU 021, Other Logistic Support, is shown in two lines. It could have been shown in a single line, as it was in the October budget submission, but someone was interested in highlighting the \$3,200,000 in the final approved budget for project managers. DUs 003, 017, and 029 also have line items of special interest singled out. It is clear that the capability exists to make selected subelements of DUs visible in the OASD/C budget tracking system. In fact, a special item of policy interest like Panama Canal O&M financing, is given its own DU (099) and is monitored separately.

The final column in Table 14 shows the magnitude of the changes, by DU, introduced into the Army O&M minimum as a result of the OSD examination. Additions and subtractions to DUs result in a net change of minus \$431,167,000, about 4.43 percent, to the Army's O&M minimum as submitted in October. The absolute size of this net change to the minimum is larger than the entire set of incremental CDPSs above the minimum in the final approved O&M budget.

Table 15 shows the Army incremental program above the O&M minimum in band 1. This band is examined in detail because in the final President's Budget 99.97 percent of the resources included above the minimum were in band 1. The OASD/C tracking system permits us to follow the changes in band 1 from the initial October submission through final approval for the President's Budget to go to the Congress. This information is visible by CDPS and by PDIP within CDPS. Here we will focus on PDIPS since they are the building blocks for CDPSs. If PDIPS can be visible in a tracking system, the CDPSs can as well. CDPSs are addressed later.

As seen in Table 15, it is possible to determine by DU and PDIP exactly how the PDIP changed from October to January. Exhibit 1 presents an overall summary of these changes. Three PDIPS in band 1 in the October submission were moved to higher

Table 15. ARMY O&M BAND 1 DUs AND PDIPs IN THE ARMY OSD BUDGET SUBMISSION AND THE FINALIZED OSD BUDGET

Army O&M Band 1 DUs and PDIPs	OSD Budget Submission By Army, Sept. 1978 (\$000)	President's Budget, January 1979 (\$000)	Remarks
DU 003 Land Forces			
PDIP 002, 2 Maneuver Battalions	6,000	6,000	No Change
PDIP 005, Active Component D-Day Force	11,800	11,800	No Change
PDIP 263, Maintenance Backlog 1	11,600	11,600	No Change
PDIP 010, Active Component, M to M + 30 Force	9,200	9,200	No Change
PDIP 0M5150, Force Structure Offset	0	-13,000	Added during OSD Review
DU 017 Depot Maintenance			
PDIP 619, APDM Civilian Manpower	24,500	24,500	No Change
PDIP 263, Maintenance Backlog 1	62,200	47,200	Reduced 15,000
PDIP 363, Maintenance Backlog 2	41,200	Band 4	Moved to Band 4
DU 021 Other Logistic Support			
PDIP 002, 2 Maneuver Battalions	1,851	1,851	No Change
PDIP 005, Active Component D-Day Force	3,238	3,238	No Change
PDIP 010, Active Component M to M + 30 Force	2,136	2,136	No Change
PDIP 263, Maintenance Backlog 1	7,200	7,200	No Change
PDIP 272, Prepositioned War Reserve Stock, Europe	25,458	Band 4	Moved to Band 4
PDIP 363, Maintenance Backlog 2	8,667	Band 4	Moved to Band 4
DU 024 Central Supply Activities			
PDIP 002, 2 Maneuver Battalions	249	249	No Change
PDIP 005, Active Component D-Day Force	462	462	No Change
PDIP 010, Active Component M to M + 30 Force	1,564	1,564	No Change
PDIP 619, APDM Civilian Manpower	2,000	2,000	No Change
PDIP 626, Contract Ammunition Plant	-6,204	0	Not included in OSD Budget
PDIP 627, In-house Proving Ground	-3,500	0	Not included in OSD Budget
PDIP 272, Prepositioned War Reserve Stock	1,446	Band 4	Moved to Band 4 and reduced to 1442
PDIP 363, Maintenance Backlog 2	3,233	Band 4	Moved to Band 4
DU 029 Training and Education			
PDIP 002, 2 Maneuver Battalions	1,800	1,800	No Change
PDIP 005, Active Component D-Day Force	3,500	3,500	No Change
PDIP 010, Active Component M to M + 30 Force	1,700	1,700	No Change
PDIP 132, Reserve Component M to M + 30 Force	1,100	1,100	No Change
PDIP 618, Contract Defense Language Institute	-7,000	0	Not included in OSD Budget
DU 033 Recruiting			
PDIP 002, 2 Maneuver Battalions	24	24	No Change
PDIP 005, Active Component D-Day Force	200	200	No Change
PDIP 010, Active Component M to M + 30 Force	385	2,485	Increased by 2,100
DU 037 Other Personnel Support			
PDIP 002, 2 Maneuver Battalions	76	76	No Change
PDIP 010, Active Component M to M + 30 Force	415	415	No Change
DU 041 Medical			
PDIP 002, 2 Maneuver Battalions	200	200	No Change
PDIP 005, Active Component D-Day Force	6,200	6,200	No Change
PDIP 010, Active Component M to M + 30 Force	5,800	5,800	No Change
PDIP 132, Reserve Component M to M + 30 Force	2,400	2,400	No Change
DU 044 Administration			
PDIP 005, Active Component D-Day Force	100	100	No Change
PDIP 010, Active Component M to M + 30 Force	400	400	No Change
PDIP 132, Reserve Component M to M + 30 Force	6,500	6,500	No Change
DU 056 Base Operations			
PDIP 002, 2 Maneuver Battalions	1,200	1,200	No Change
PDIP 005, Active Component D-Day Force	12,900	12,900	No Change
PDIP 010, Active Component M to M + 30 Force	17,200	17,200	No Change
PDIP 132, Reserve Component M to M + 30 Force	2,500	2,500	No Change
PDIP 322, Europe/Korea RPMA	33,200	Band 8	Moved to Band 8
PDIP 623, Contract Miscellaneous Base Operations	-1,600	0	Not included in OSD Budget
PDIP 624, Contract Custodial Services	-7,300	0	Not included in OSD Budget
PDIP 625, Contract Laundry/Dry Cleaning	-8,800	0	Not included in OSD Budget
TOTALS - ALL DUs and PDIPs			
Band 1 Pluses	+321,804	+195,700	
Band 1 Minuses	- 34,404	- 13,000	
Net Impact of Band 1 (+ or -)	+287,400	+182,700	

Exhibit 1. SUMMARY OF FY 80 ARMY O&M BAND 1 CHANGES FROM OSD
BUDGET SUBMISSION TO PRESIDENT'S BUDGET

PDIPs Moved to Higher Bands (\$80 million)

- PDIP 263, Maintenance Backlog 2, Moved to Band 4
- PDIP 272, Prepositioned War Reserve Stock Europe, Moved to Band 4
- PDIP 322, Europe/Korea RPMA, Moved to Band 8

PDIPs Eliminated from Army Budget (- \$27.8 million)

These six PDIPs, if adopted, would have eliminated money included in the O&M Minimum for contracting out. Their elimination represents approval for contracting out for the indicated activities.

- PDIP 618, Defense Language Institute Contracting
- PDIP 623, Miscellaneous Base OPS Contracting
- PDIP 624, Custodial Services Contracting
- PDIP 625, Laundry and Dry Cleaning Contracting
- PDIP 626, Ammunition Plant Contracting
- PDIP 627, In-house Proving Ground

PDIPs Retained in Band 1 but Increased (\$2.1 million)

- PDIP 010, Active Component M to M + 30 Force (For DU 033, Recruiting)

PDIPs Retained in Band 1 but Reduced (- \$15 million)

- PDIP 263, Maintenance Backlog 1 (For DU 017, Depot Maintenance)

bands during the reranking process. The ranking and reranking process during the budget examination period introduces opportunities for OSD analysts to exercise final judgments on the Service budgets after they have been adjusted for executability and pricing. These movements of PDIPs to higher bands are examples of those judgments. Since each Service is asking subordinate commands to prepare their March preliminary budget submissions to the Services in terms of the CDPS structure, there is a thread that ties the Service major command budgets directly through to the final ranking and reranking before preparation of the Justification Books. This thread offers a substantive potential tracing and visibility means for exercising additional management coordination in the O&M budgeting process.

Six PDIPs were removed not only from band 1, but from the budget entirely; that is, they were taken from band 1 and placed neither in the minimum nor other bands. Each of these PDIPs originally was placed in the October budget submission to take care of the possibility that the Army's request for contracting out services in six categories would be disapproved during the budget review. O&M money was included in the October minimum program to cover contracting out the designated services. PDIPs with minus O&M dollars were placed in band 1 so that, in the event the contracting requests were disapproved, the PDIPs could be approved and the O&M money in the minimum for contracting out would be offset. Since the contracting requests were approved, the PDIPs became unnecessary and were dropped. Finally, one band 1 PDIP had its funds increased by \$2.1 million and another had its funds decreased by \$15 million.

As mentioned earlier, the CDPSs can be monitored since the PDIPs are their components. Exhibit 2 shows the final four CDPSs approved in the President's Budget, and contains a

Exhibit 2. ARMY CONSOLIDATED DECISION PACKAGE SETS IN BAND 1
OF THE BUDGET FOLLOWING THE BUDGET SCRUB AND
RERANKING

CDPS 1-002A: Adjustment to accommodate civilian manpower realignment - Composed of PDIP 619 - \$27 million OMA, \$2 million MILPERS
CDPS 1-003A: Increases to forward deployed (D-Day) combat forces - Composed of PDIPs 002, 005 - \$50 million OMA, \$14 million MILPERS
CDPS 1-004A: Improvement of near term readiness: Maintenance backlog - Composed of PDIP 263 - \$66 million OMA
CDPS 1-007A: Force structure improvement to active/reserve components for M to M + 30 forces - Composed of PDIPs 010, 132, and a force structure offset of \$13 million - \$51 million OMA, \$60 million MILPERS

summary of their contents. By examining in Table 15 the PDIP details shown for each PDIP contained in a CDPS in Exhibit 2, the details behind the CDPSs can be seen.

E. CONGRESSIONAL JUSTIFICATION

The OSD budget review and reranking process is followed by the President's budget decision, which determines the official DoD TOA to be presented to the Congress in the President's Budget. The Services take their reviewed and reranked budgets and prepare their Congressional justification materials.

The justification materials submitted to Congress by the Services are in three major forms: formal Justification Books submitted each year as a routine procedure; formal materials submitted "for the record" in Congressional hearings that subsequently may appear in Congressional committee hearings publications; formal and informal materials submitted to Congressional committees and their staff aids that do not regularly appear in print. For the purposes of monitoring and visibility through existing OSD-level systems, the formal Justification Books are the most comprehensive, systematized, routinized, and useful of the three major forms of Congressional justification materials. For this reason, our primary focus is directed at their contents. Before beginning our examination of the linkages between the OSD budget and the Congressional Justification Books, it is necessary to put the other two categories of justification materials in perspective.

The "for the record" materials submitted during testimony before Congressional committees fall into two broad classes. The first is high level summary material that represents a prepackaged set of data, charts, graphs, and other displays that accompany official "statements of position" by Service and DoD representatives. For the last 5 years, the materials that we have examined in this category have contained no information

that has not been in the formal Congressional Justification Books and, in most cases, have represented aggregative summaries of detailed data in the books.

The second class of "for the record" materials submitted during testimony before Congressional committees covers responses to ad hoc requests by specific Congressmen for specific data about items that interest them. There is no systematic pattern to these requests. Data on a particular topic requested, provided, and published in the hearings in one year will not necessarily ever be requested and published again.

For the purposes of a systematic monitoring and visibility system, these "for the record" materials are of limited value. The prepackaged materials are merely summaries of data available in both summary and detail in the formal books, and the ad hoc requests cannot be counted on until they occur; they may never recur.¹

The formal and informal materials submitted "off-the-record" to Congressional committees and their staffs represent a largely unknown quantity beyond the scope of this study. Much of this material is transmitted through informal professional and personal contacts. Although in theory it should be available to an interested OSD analyst who was outside the particular information loop, it would be difficult to integrate such material into a systematic procedure for visibility and monitoring of specific issues and decisions.

Returning to our primary interest, the Congressional Justification Books, we can examine the linkages between this element of the budget cycle and the POM, PDM-APDM, OSD budget submission, OSD budget review and reranking, and the President's Budget discussed earlier as vehicles for visibility and tracking. Table 16

¹Ad hoc requests that become items of Congressional adjustment to the budget are important in execution and are made visible on the DD Forms 1414 used for monitoring budget execution. This subject is discussed in Chapter III.

Table 16. COMPARISON OF POM, PDM, AND APDM FISCAL LEVELS WITH PRESIDENT'S FY 80 BUDGET SUBMISSION TO CONGRESS

(Dollars in Millions)

Services and Fiscal Levels	POM, May 1978	PDM, July 1978	APDM, August 1978	President's Budget January 1979	Δ, January Budget Less APDM Fiscal Levels	Δ, as % of January Budget
Army				33,161		
Decrement (POM)	32,832	32,911	33,288		- 127	- .38
Basic (POM)	34,554	34,643	34,990		-1,829	- 5.52
Enhanced (POM)	36,260	36,950	37,110		-3,949	-11.91
Air Force				39,007		
Decrement (POM)	35,888	36,986	36,983		+2,024	+ 5.19
Basic (POM)	37,812	39,263	39,247		- 240	- .62
Enhanced (POM)	39,609	40,383	40,632		- 1,625	- 4.17
Department of Navy				43,003		
Decrement (POM)	41,998	42,546	42,733		+ 270	+ .62
Basic (POM)	44,188	44,824	44,976		- 1,673	- 3.86
Enhanced (POM)	46,388	47,000	46,998		- 3,695	- 8.53

shows the progression of FY 80 fiscal budget levels from their first appearance in the May 1978 POM through their Presidential budget submission levels. The third column from the right shows the total President's Budget for each Service (Department of Navy includes both the Navy and the Marine Corps), and this is the number that appears in the official Congressional Justification Books. As seen in the second column from the right in the table, the final President's Budget fiscal level for the Navy and the Air Force fell somewhere between the APDM decremented and basic levels, but for the Army it was below even the APDM decremented level.

Table 17 shows the capability of existing OSD-level systems to make visible the impacts of such a last minute cut in Army O&M. Table 17 shows DU line items in the OSD Army O&M budget. These DUs were discussed earlier as one level of item detail in O&M that can be monitored and visible throughout the budget cycle, and this includes that part of the cycle extending into the Congressional Justification Books. The DUs in the OSD budget correspond to O&M budget activities in the Congressional Justification Books, and this is shown in Table 17, column one where the equivalent DU and BA line items are matched.¹

The last minute reduction in Army O&M of \$308 million is shown in the second line from the bottom in the table as a single lump sum that was not spread to DUs in the OASD/C reports that record the progress of the budget scrub and reranking. By examining the DU-BA line items as they appeared in the subsequently prepared Congressional Justification Books, however, it is possible to see the results of the Army's spread of the reduction.

¹All O&M BAs have DUs to which they are equivalent. However, for any one BA there may be more than one DU.

Table 17. RECONCILING THE ARMY FY 80 O&M BUDGET FROM ITS LAST APPEARANCE IN THE OASD/C TRACKING SYSTEM (3 JAN 79), INCLUDING AN UNSPREAD REDUCTION OF \$308 MILLION, WITH THE CONGRESSIONAL JUSTIFICATION BOOKS SHOWING THE REDUCTION DISTRIBUTED BY THE ARMY TO O&M BAs AND EQUIVALENT BUDGET DUs

(Dollars in Thousands)

O&M Budget Activities (BAs) in the Congressional Justification Books and Equivalent Decision Units (DUs) in the Service Budget Submission to OSD	OASD/C Last Recorded President's Budget By DU - 3 Jan 1979, Report 13D (\$000)	Congressional Justification Books Submitted by Army (\$000)	- From Last Recorded OASD/C Position to Congressional Justification (\$000)	%
BA 2: General Purpose Forces DU 3: Land Forces	\$1,307,378	\$1,301,719	\$ - 5,659	- .4
BA 3C: Communications DU 9: Telecommunications Command and Control	382,392	377,599	- 4,793	-1.3
BA 30: Other Intelligence and Communications Support DU 13: Service-wide Activities	36,234	40,996	+ 4,762	+13.14 ^d
BA 7M: Depot Maintenance DU 17: Depot Maintenance	1,094,338	1,052,499	-41,839	-3.82
BA 7S: Central Supply Activities - Industrial Preparedness DU 20: Industrial Preparedness	88,434	89,079	+ 645	+ .73 ^d
BA 7S: Central Supply Activities - Supply Activities DU 24: Central Supply Activities	694,363	659,976	-34,387	-4.95
BA 7S: Central Supply Activities - Other Activities DU 21: Other Logistical Support Activities	1,071,693	1,075,590	+ 3,897	+ .36 ^d
BA 8T: Training DU 29: Training and Education	570,425	569,371	- 1,054	- .18
BA 80: Other General Personnel Activities DU 33: Recruiting	140,666	140,317	- 349	- .25
BA 80: Other General Personnel Activities - Other Support DU 37: Other Personnel Support	185,383	179,439	- 5,944	-3.21
BA 8M: Medical DU 41: Medical	735,890	735,363	- 527	- .07
BA 9: Administration and Associated Activities DU 44: Administration	543,190	534,740	- 8,450	-1.56
BA 10: Support to Other Nations DU 52: Support to Other Nations	88,157	88,068	- 89	- .10
BA 31: Intelligence ^a DU 450: Consolidated Cryptologic Program DU 451: General Defense Intelligence Program DU 455: Foreign Counterintelligence	113,290	110,819	- 2,471	-2.18
BA : ^b DU 56: Base Operations	3,129,183	2,951,825	-177,358	-5.67
BA : Not Included ^c DU : Panama Canal DU : Capitation Budget	19,300 14,900	0 0	-19,300 -14,900	-
Budget Total Prior to \$308 Million Cut	10,215,216	-	-	-
BA : Reduction to Budget to be Distributed by Army ^d DU 99: FY 79, 80 Reduction	-307,816	-	-307,816	-3.01
TOTAL President's Army O&M Budget	\$ 9,907,400	\$ 9,907,400	-	-

^aBA Dollars to match each DU are available in classified intelligence budget materials.

^bBOS is shown separately in each O&M BA in the Congressional Justification Books as memo entries.

^cThese items were excluded from the Congressional justification materials.

^dThe \$307,816,000 reduction recorded in the OASD/C tracking system on 3 Jan 79 was spread to DU by the Army. The Army spread the reduction and produced the numbers shown above for the Congressional justification. The As show how the \$307,816,000 was spread to DU (O&M BA) in the Congressional justification. Not only was the reduction spread to DU, but this is also one of three DUs (BAs) to have increases.

The fourth column in the table shows how each line item at the DU-BA level was affected by the \$308 million reduction. For example, depot maintenance and base operations accounted for more than two-thirds of the reduction--BOS alone accounted for more than half of the reduction. Thus, at the DU-BA level an analyst could readily observe and track the progress of each DU from the OSD budget into the Congressional Justification Books, even when last minute changes in the O&M total that are unrecorded in the OASD/C tracking system are introduced. It should be stressed that this translation of final changes into the Justification Books presents an opportunity for the Services to adjust selected resource categories, perhaps reversing previous decisions. This is a process in which OASD/MRA&L may need to play a larger role.

Table 18 shows the same kind of track for the Air Force. The last minute cut that was unspread to DU in the OASD/C tracking system amounted to \$80 million and, in fact, was shown in some detail in the OASD/C system as seen in column three of Table 18. However, details such as a \$24,250,000-cut in civilian personnel end-strength still would have to be spread to DU by the Air Force before the Congressional Justification Books were submitted. The fifth column in the table shows the net impact of the \$80 million reduction, by DU. The Air Force increased some DUs and decreased others in an attempt to balance the program.

Table 19 shows the same kind of information for the Marine Corps, but in this case there were no last minute O&M reductions to be spread. As a result, the DU line items in the final OSD budget exactly equal their equivalent BA line items in the Congressional Justification Books.

As Tables 17, 18, and 19 show, the linkage between the OSD budget DUs and the Congressional Justification Books BAs is direct, permitting both visibility and monitoring of O&M categories.

Table 18. RECONCILING THE AIR FORCE FY 80 O&M BUDGET FROM ITS LAST APPEARANCE IN THE OASD/C TRACKING SYSTEM (3 JAN 79), INCLUDING AN UNDISTRIBUTED NET REDUCTION OF \$80 MILLION, TO THE CONGRESSIONAL JUSTIFICATION BOOKS SHOWING THE REDUCTION AS DISTRIBUTED BY THE AIR FORCE TO O&M BAS AND EQUIVALENT DUS

(Dollars in Thousands)

O&M Budget Activities (BAs) in the Congressional Justification Books and Equivalent Decision Units (DUs) in the Service Budget	DUs and Unspread Items in OASD/C Last Recorded President's Budget - 3 Jan 1979 Report 13D	Items Not Spread To DU in OASD/C - 3 Jan 1979 Report 13D	BAs (DUs) in Congressional Justification Books Submitted By Air Force	%s From Last Recorded OASD/C Position to Congressional Justification	Δ%
BA 1: Strategic Forces DU 2: Strategic Forces	1,118,944		1,069,733	-49,211	-4.40
BA 2: General Purpose Forces DU 6: Tactical Forces	1,042,780		1,019,672	-23,108	-2.22
BA 3: Intelligence and Communications - Command and Control ^a DU 12: Telecommunications and Command and Control	560,603		556,813	- 3,790	- .68
BA 3: Intelligence and Communications - Service Wide Activities DU 15: Service Wide Activities	162,806		173,527	+10,721	+6.59
BA 4: Airlift and Sealift DU 16: Airlift	352,874		348,789	- 4,085	-1.16
BA 7: Central Supply and Maintenance - Depot Maintenance DU 19: Depot Maintenance	1,750,342		1,718,867	-31,475	-1.80
BA 7: Central Supply and Maintenance - Other Logistic Support DU 23: Other Logistic Support Activities	874,271		845,295	-28,976	-3.31
BA 7: Central Supply and Maintenance - Central Supply DU 27: Central Supply Activities	624,850		625,124	+ 274	+ .04
BA 8: Training, Medical, and General Personnel - Training and Education DU 32: Training and Education	320,150		342,274	+22,124	+6.91
BA 8: Training, Medical, and General Personnel - Recruiting DU 36: Recruiting	32,752		33,779	+ 1,027	+3.15
BA 8: Training, Medical, and General Personnel - General Personnel DU 40: Other Personnel Support	56,455		59,103	+2,648	+4.69
BA 8: Training, Medical and General Personnel - Medical DU 43: Medical	335,014		306,891	-28,123	-8.39
BA 9: Administration and Associated Activities DU 47: Administration	283,480		293,108	+ 9,628	+3.40
BA 10: Support to Other Nations DU 55: Support to Other Nations	1,145		1,145	No Change	-
BA ^b DU 59: Base Operations	2,395,468		2,437,734	+42,266	+1.76
BA 3: Intelligence and Communications - Intelligence DU 450: Consolidated Cryptologic Program	88,418		88,418	No Change	-
BA 3: Intelligence and Communications - Intelligence DU 451: General Defense Intelligence Program	162,246		162,246	No Change	-
BA 3: Intelligence and Communications - Intelligence DU 455: Foreign Counterintelligence	1,530		1,530	No Change	-
BA 3: Intelligence and Communications - Intelligence	7,548				

DU 455: Foreign Counterintelligence	7,548	7,562	4	NO Change
BA: C DU 3: Intelligence and Communications - Intelligence DU 480: Communications Security	2,600	2,600		
BA: C DU 165: Aircraft Mods Strategic Offensive	6,400	6,400		
BA: C DU 169: Aircraft Support Equipment and Facilities	2,200	2,200		
BA: C DU 180: Other Communications and Electronics	3,621	3,621		
BA: C DU 459: Classified	- 17,472	-17,472		
BA: C DU 601: Contingencies	- 61,800	-61,800		
BA: C DU 603: Inflation Rates	- 24,250	-24,250		
BA: C DU 605: Civilian Personnel End Strength	- 2,227	- 2,227		
BA: C DU 608: Overtime	- 4,600	- 4,600		
BA: C DU 609: General Schedule Civilian Pay	- 6,750	- 6,750		
BA: C DU 612: Capitation Budget	- 7,524	- 7,524		
BA: C DU 613: Administrative Travel	-22,200	-22,200		
BA: C DU 639: Foreign Pay Adjustments	13,000	13,000		
BA: C DU 638: Wage Board Rate Adjustments	6,000	6,000		
BA: C DU 640: FY 79 Prop Sup	32,926	32,926		
BA: C Band 5 ^d President's Line Fell Part-Way into Band 5		-80,076 ^e		
Total of Initially Unspread Reduction	10,091,600	10,091,600		
TOTAL President's Air Force O&M Budget				

^aTelecommunications Command and Control is shown separately by BA in the Congressional Justification Books, and includes 3 line items in Program 3, Other Communications, Station Operations Communications, and Space Support.

^bBase Operations is shown separately in each O&M BA in the Congressional Justification Books.

^cThese items were shown in the last OASD/C 13-D Report but were not spread to standard DUs. Subsequently, the Air Force spread these items to DUs (O&M BAs) for the Congressional Justification Books.

^dThe President's budget line did not cleanly fall at the end of a band; instead, it broke about half-way into band 5. However, there is no way to determine from this OASD/C report how the Air Force would decide which items in band 5 would be included and which excluded. The Air Force made this determination before submitting the Congressional Justification Books, and the results of their judgments are seen in the congressional submission column.

^eThis is the unspread-to-DU portion of the President's Air Force O&M budget as it appeared in the final OASD/C 13-D Report. This amount was spread to standard DUs (O&M BAs) by the Air Force, and the net impact on DUs (BAs) can be seen in the AS column (column 5).

Table 19. RECONCILING THE MARINE CORPS O&M BUDGET FROM ITS
LAST APPEARANCE IN THE OASD/C TRACKING SYSTEM
(3 JAN 79) WITH THE CONGRESSIONAL JUSTIFICATION
BOOKS

(Dollars in Thousands)

O&M Budget Activities (BAs) in the Congressional Justification Books and Equivalent Decision Units (DUs) in the Service Budget	DUs in the OASD/C Last Recorded President's Budget 3 Jan 1979, Report 13D	BAs (DUs) in Congressional Justification Books Submitted By Marine Corps
BA 2: General Purpose Forces DU 7: General Purpose Forces	123,996	123,996
BA 2: General Purpose Forces DU 11: Telecommunications Command and Control ^a	9,391	9,391
BA 7: Central Supply and Maintenance DU 26: Supply and Maintenance	137,467	137,467
BA 8: Training, Medical, and General Personnel - Training and Education DU 31: Training and Education	21,324	21,324
BA 8: Training, Medical, and General Personnel - Recruiting DU 35: Recruiting	32,694	32,694
BA 8: Training, Medical, and General Personnel - Other Personnel Support DU 39: Other Personnel Support	6,045	6,045
BA 9: Administration and Associated Activities DU 46: Administration	43,387	43,387
BA: ^b DU 58: Base Operations	361,496	361,496
Total President's Marine Corps O&M Budget	735,800	735,800

^aIn the Marine Corps the Telecommunications DU is identified to BA 2, while in the other Services it is in BA 3.

^bBase Operations is separately identifiable to each BA.

The tracing and visibility linkages between the OSD budget and the Congressional justification materials extend below the DU-BA level discussed above. The next level of resource indenture below DUs and BAs is called activity groups. Table 20 shows the Army BA 7S, Central Supply and Maintenance Activities, and the three DUs that compose it: Industrial Preparedness, Other Logistic Support Activities, and Central Supply Activities. We already have seen that the DU level of detail is visible and traceable throughout the formulation and justification portions of the budget cycle. This is reaffirmed in Table 20, where the O&M funds are shown by DU in the Congressional Justification Book column, by DU minimum and bands in the final OSD budget and the President's Budget line (through band 3 for Army O&M) in the middle columns, and by DU minimum and bands for the Army OSD budget submission in the final columns.

Table 20 also shows that the activity group level of detail below each DU is also traceable and visible from the Service OSD budget submission to the Justification Books. The minimum and bands for each activity group are shown in the far right columns of the table for the OSD budget submission by the Army. Activity group details are not contained in the OASD/C tracking system, although the details are maintained by the Services. The data exist to fill in the middle columns of Table 20 for activity group detail during the budget review and reranking processes, but these details are not visible at the OSD level. These activity group details become visible once again in the Congressional Justification Books, as seen in the second column of Table 20.

For some DUs there is even trackability and visibility below the activity group level. For example, Table 21 shows Army DU 17, Depot Maintenance, and its three activity groups: Depot Maintenance Activities, Maintenance Technical Administrative and New Equipment Training, and Maintenance Support Activities. In the Army budget submission, each activity group is

Army Program 7S Central Supply Activities, DUs 20, 21, 24, and Activity Groups within BA and DU	Congressional Justification Books, January 1979	OASD/C Report 13D by DU, Dated January 3, 1979 Activity Group Detail Not Recorded					
		Minimum ^a	Band 1 ^b (CUM)	Band 2 (CUM)	Band 3 (CUM)	Band 4 (CUM)	Band 5 (CUM)
BA7S: Central Supply Activities, Industrial Preparedness Operations Budget Decision Unit 20: Industrial Preparedness	89,079	89,079	0	0	0	0	
Activity Groups							
Reserve Industrial Equipment	17,558						
Industrial Preparedness Planning	20,377						
Reserve Industrial Plants	51,144						
BA 7S: Central Supply Activities, other Logistic Support Activities Budget Decision Unit 21: Other Logistic Support Activities	1,075,590	1,061,165	14,425	0	0	34,125	11,5
Activity Groups							
Logistical Administrative Support	84,954						
Commissaries	153,783						
Management Headquarters	92,108						
First Destination Transportation	53,100						
Second Destination Transportation	474,214						
Logistic Support Activities	119,431						
Overseas Port Operations	46,969						
Real Estate Admin. and Construction Supervision	51,031						
BA 7S: Central Supply Activities, Supply Activities Budget Decision Unit 24: Central Supply Activities	659,976	655,701	4,275	0	0	4,675	0
Activity Groups							
Supply Depot Operations	391,359						
Supply Management Operations	132,018						
Central Procurement Activities	136,599						
Total, Central Supply Activities (BA 7S, DUs 20,21,24)	1,824,645	1,805,945	18,700	0	0	38,800	11,5

^aThese minimums include \$29,845,000 that was cut from the Army minimum but not yet spread to DU at the time of the January 3, 1979 13 D Report publication. The cut was subsequently spread to DU by the Army before the Congressional Justification materials submitted. The cuts have been included here to make the Justification numbers directly comparable to the OASD/C 13-D numbers to ensure clear DU visibility and tracking.

^bThe minimum and band 1 were included in the President's budget submitted to the Congress.

Table 20. OSD-LEVEL DECISION UNIT AND ACTIVITY
GROUP VISIBILITY FROM ARMY OSD BUDGET
SUBMISSION THROUGH THE BUDGET SCRUB
AND RERANKING TO CONGRESSIONAL JUSTI-
FICATION - PROGRAM 7S, CENTRAL SUPPLY
ACTIVITIES

(Dollars in Thousands)

ed January 3, 1979 Following the Budget Scrub and Reranking Group Detail Not Recorded at OSD Level							Army Budget Submission to OSD, September 1978					
Band 3 (CUM)	Band 4 (CUM)	Band 5 (CUM)	Band 6 (CUM)	Band 7 (CUM)	Band 8 (CUM)	Band 9 (CUM)	Minimum	Band 1	Band 2	Band 3	Band 4	Band 5
0	0	0	13,300	0	0	0	88,450	0	0	14,900	0	0
							17,281	0	0	1,600	0	0
							27,493	0	0	0	0	0
							43,676	0	0	13,300	0	0
0	34,125	11,500	0	12,500	3,200	0	1,078,734	38,493	11,500	23,200	16,000	0
							89,828	0	0	0	0	0
							154,969	0	400	8,500	0	0
							96,297	318	0	0	0	0
							77,800	0	0	3,400	12,800	0
							433,172	36,184	6,997	11,300	700	0
							125,930	0	0	0	2,500	0
							48,213	1,991	0	0	0	0
							52,525	0	4,103	0	0	0
0	4,675	0	17,000	0	29,300	0	715,175	11,507	0	17,000	38,100	0
							428,457	13,407	0	17,000	32,100	0
							140,708	0	0	0	300	0
							146,010	-1,900	0	0	5,700	0
0	38,800	11,500	30,300	12,500	32,500	0	1,882,359	50,000	11,500	55,100	54,100	0

at the time of the January 3, 1979,
Justification materials were
submitted to the OASD/C 13-D numbers to

Table 21. OSD
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Army Program 7M Depot Maintenance, DU 17, Activity Groups and Equipment Categories	Congressional Justification Books, January 1979	OASD/C Report 13D by DU, Dated January 3, 1979 Following the Budget Scrub and Reranking - Activity Group Detail Not Recorded at OSC Level								
		Minimum ^b	Band 1	Band 2	Band 3	Band 4	Band 5	Band 6	Band 7	Band 8
BA 7M: Depot Maintenance	1,052,499	980,799	71,700	0	0	41,200	37,900	0	0	27,100
DU 17: Depot Maintenance										
Activity Group: Depot Maintenance Activities	756,083 ^a									
Equipment Categories										
Aircraft	192,208									
Automotive	26,806									
Combat Vehicles	277,657									
Construction	6,777									
Comm/Electronics	59,048									
Missiles	124,283									
Ships	5,471									
Munitions	28,684									
Weapons	22,227									
Rail	2,475									
General Equipment	23,683									
Commodity Groups	15,001									
Activity Group: Maintenance Technical Administrative and New Equipment Training	11,818									
Equipment Categories										
Aircraft										
Automotive										
Combat Vehicles										
Construction										
Comm/Electronics										
Missiles										
Ships										
Munitions										
Weapons										
Rail										
General Equipment										
Commodity Groups										
Activity Group: Maintenance Support Activities	284,598									
Equipment Categories										
Aircraft										
Automotive										
Combat Vehicles										
Construction										
Comm/Electronics										
Missiles										
Ships										
Munitions										
Weapons										
Rail										
General Equipment										
Commodity Groups										

^aThis total excludes \$28,237,000 anticipated for the FY80 Army Industrial Fund Civilian Pay Increase which will be requested in an FY80 Supplemental Appropriation.

^bThe minimum includes \$41,839,000 that was cut from the Army O&MA minimum but was not yet spread to DU at the time of the January 3 13 D Report publication. The cut was subsequently spread to DU by the Army before the Congressional Justification materials were submitted. The cuts have been included here to make the justification numbers directly comparable to the OASD/C 13-D numbers to insure clear DU visibility and tracking.

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Table 21. OSD-LEVEL DECISION UNIT AND ACTIVITY
GROUP VISIBILITY FROM ARMY OSD BUDGET
SUBMISSION THROUGH THE BUDGET SCRUB
AND RERANKING TO CONGRESSIONAL JUSTI-
FICATION - PROGRAM 7M, DEPOT MAINTENANCE
(Dollars in Thousands)

OASD/C Report 13D by DU, Dated January 3, 1979 Following the Budget Scrub and Reranking - Activity Group Detail Not Recorded at OSD Level											Army Budget Submission to OSD, September 1978					
Minimum ^b	Band 1	Band 2	Band 3	Band 4	Band 5	Band 6	Band 7	Band 8	Band 9		Minimum	Band 1	Band 2	Band 3	Band 4	Band 5
980,799	71,700	0	0	41,200	37,900	0	0	27,100	0		726,512	99,647	20,138	0	11,500	0
											162,965	47,966	0	0	0	0
											26,806	0	0	0	4,211	0
											277,657	0	0	0	0	0
											6,777	0	0	0	0	0
											17,723	0	0	0	0	0
											45,325	17,723	0	0	0	0
											110,102	16,876	11,143	0	7,289	0
											7,671	0	8,995	0	0	0
											21,423	17,082	0	0	0	0
											22,227	0	0	0	0	0
											2,475	0	0	0	0	0
											23,683	0	0	0	0	0
											19,401	0	0	0	0	0
											17,218	0	0	0	0	0
											1,700	0	0	0	0	0
											578	0	0	0	0	0
											1,445	0	0	0	0	0
											96	0	0	0	0	0
											2,172	0	0	0	0	0
											8,315	0	0	0	0	0
											14	0	0	0	0	0
											706	0	0	0	0	0
											850	0	0	0	0	0
											61	0	0	0	0	0
											516	0	0	0	0	0
											765	0	0	0	0	0
											276,404	28,253	20,762	0	15,600	0
											54,791	5,939	0	0	0	0
											14,670	2,243	1,364	0	0	0
											30,353	213	5,570	0	3,084	0
											6,183	232	12	0	0	0
											34,083	1,701	6,101	0	1,630	0
											84,467	11,142	4,208	0	9,387	0
											3,154	1,136	0	0	0	0
											13,114	3,930	0	0	0	0
											15,471	0	1,936	0	1,499	0
											656	0	0	0	0	0
											14,993	62	1,462	0	0	0
											4,469	1,655	0	0	0	0

Industrial Fund Civilian Pay Increase which will be requested in an FY80

OSD minimum but was not yet spread to DU at the time of the January 3 13 D
the Army before the Congressional Justification materials were submitted.
Numbers directly comparable to the OASD/C 13-D numbers to insure clear DU

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further shown by equipment category details as seen in the far right columns of Table 21. The funds in the O&M minimum and bands for each equipment category shown in these columns provide a substantial level of detail.

As with activity groups, the equipment category details are not displayed in the OASD/C tracking system, although it is important to stress that these details are maintained by the Services. These activity group and equipment category details surface once again in the Congressional Justification Books. In the case of Army DU 17, the three activity groups and the equipment categories under one of the activity groups are visible in the Justification Books. Although the data are available within the Army for the equipment categories under the other two activity groups, Congress has not asked the Army to show those details.

Tables 20 and 21 are examples of DU, activity group, and below activity group visibility and tracking for Army O&M. The same visibility and tracking are available for the other Services, but we are not providing repetitive examples for each Service. Exhibit 3, however, introduces another element of the monitoring and visibility capability at the OSD-level that should be addressed--the varying number of items that are visible at the OSD level among the Services. Exhibit 3 lists 41 activity groups within Navy DU 22, Logistics Support, which is one of the DUs in Navy BA 7S, Central Supply and Maintenance Activities. The comparable Army DU 21, shown earlier in Table 20, contains eight activity groups visible at the OSD level. In fact, these Army activity groups are themselves composed of line items that are very similar to the 41 Navy DU 22 activity groups; consequently, both Services monitor similar items internally.

Exhibit 3. ACTIVITY GROUPS IN NAVY BUDGET DECISION UNIT 22,
LOGISTICS SUPPORT, AND IN NAVY O&M CONGRESSIONAL
JUSTIFICATION MATERIALS

Command
Operational Support
Industrial Preparedness
Inactive Aircraft Storage and Disposal
Field Operations
Logistic Support Services
Maintenance Engineering and Support Services
Ship and Ordnance Activities
Improvement of Operational Equipment Systems
Operational Equipment Systems Testing
Salvage
Material Management and Information System
ASW Technical Support
Inactive Ship Maintenance Facilities (ISMF)
Major Equipment Support
Surface Ordnance Rework and Maintenance (Non-depot)
Nuclear Propulsion Technical Logistics
Maintenance Systems
Air Station Electronic Systems Installation
Shipboard Electronic Systems
Maintenance Activities
Tactical Electromagnetic Program (TEMP)
Undersea Surveillance
Shore Surveillance
Shipboard Surveillance
Electronic Support
Installation of Electronic Equipment
Omega Navigation System
Other Logistics Support
Engineering Field Divisions
Second Destination Transportation
Employee Compensation Fund
Navy Regional Automation Data Centers
MOTU/CETS
Direct Fleet Support
Ship Technical Support
Commissary Operations
Coast Guard Support
Technical Operations
ADP Security
Surface Missile System (SMS) Logistics and Maintenance

However, at the OSD level, only 8 activity groups in Army DU 21 are visible, while the 41 in Navy DU 22 are visible. Such similarities in underlying details at the Service level and differences in details visible and traceable at the OSD level are characteristic of the OSD-level visibility and trackability among the Services.

Table 22 permits us to pursue this characteristic even further. It shows 1 of the 41 activity groups within Navy DU 22 (shown in Exhibit 3), Other Logistics Support, and further disaggregated into subactivity group line items. The table shows that these items all are visible and traceable in both the October Navy OSD budget submission and the Congressional Justification Books. None of this detail, not even the activity group itself, is visible in the OASD/C tracking system during the budget review and reranking, but these items are all monitored and updated by the Navy.

It is important to gain a perspective of this difference in the level of detail visible and monitored at the OSD level for the same DU category in the Army and the Navy. Recalling Table 20, Army DU 21 has eight activity group line items that are visible at the OSD-level and traceable from the OSD budget to the Congressional Justification Books. The Navy not only has 41 activity groups visible and traceable at the OSD level for its DU 22, but it also has literally hundreds of subactivity group line items under the 41 activity groups that are all visible and traceable into the Justification Books. It is not an exaggeration to conclude that there are order-of-magnitude differences among the Services between the existing OSD-level line items that are visible and traceable from budgets to Congressional Justification Books. It should be stressed that most of the levels of detail available in one Service are also available in the other Services, but the same details are not visible at the OSD level.

Table 22. SUBACTIVITY GROUP VISIBILITY IN THE NAVY BUDGET FROM SEPTEMBER THROUGH THE JANUARY CONGRESSIONAL JUSTIFICATION MATERIALS FOR THE OTHER LOGISTICS SUPPORT ACTIVITY GROUP WITHIN BUDGET DECISION UNIT 22

(Dollars in Thousands)

Subactivity Groups Within The "Other Logistics Support" Activity Group of Navy DU 22	Navy Budget Submission to OSD, September 1978						September Totals For Minimum And Bands (\$000)	Navy Congressional Justification Materials, January 1979 (\$000)	Δ From September To January (\$000)
	Minimum	Band 1	Band 2	Band 3	Band 4	Band 5			
Collateral Equipment	15,569	0	0	0	0	0	15,569	15,898	+ 329
Engineering Investigations	1,233	1,155 ^a	0	0	0	0	2,388	2,383	- 5
Inspection of Radio Towers	135	0	0	0	0	0	135	136	+ 1
Soil Conservation	268	0	0	0	0	0	268	269	+ 1
Planning Studies	1,203	0	0	0	0	0	1,203	1,031	- 172
Pollution Abatement	13,313	0	0	0	2,095 ^b	0	15,408	13,164	-2,244 ^c
Nuclear and Radiological Program	603	0	0	0	0	0	603	599	- 4
Defense Standardization and Data Management	1,005	0	0	0	0	0	1,005	1,006	+ 1
Fleet Moorings	1,823	0	0	0	0	0	1,823	1,768	- 55
Ocean Facilities	499	0	0	0	0	0	499	501	+ 2
Totals	35,651	1,155 ^a	0	0	2,095 ^b	0	38,901	36,755	-2,146 ^d

^aProgram package 210031, Seismic Safety Engineering Investigations. This package survived the OSD budget examination and reranking process and was included in the President's budget.

^bProgram package 210054, Pollution Abatement. This package survived the OSD budget examination and the reranking process, but it was not included in the President's budget.

^cThis relatively large change primarily reflects the exclusion of the \$2,095,000 pollution abatement package in Band 4 from the President's budget. The rest of the change represents other adjustments made during the OSD and Presidential budget reviews.

^dThe net difference of \$2,146,000 is made up of the \$2,095,000 from the Band 4 program package excluded from the President's budget and another \$51,000 net reduction in this activity group.

Thus far, our discussion of Congressional justification materials has stressed the structural linkage of O&M line items and categories. In the next section, we take this structural linkage and offer some specific examples of how it might be used to trace not only the line items and categories in the structure, but also specific issues and decisions that affect the fiscal levels of those line items and categories. To accomplish this, we examine some typical POM issues and resulting decisions, as well as the categories of special Congressional interest items.

The capabilities of existing OSD systems for providing visibility and tracking of POM issues and PDM-APDM decisions can be illustrated by three examples showing three prominent categories of issues: nonlogistic issues that have logistic impacts, logistic issues, and special interest items.

An example of a nonlogistic issue with logistic impacts would be a force structure change, such as a requirement for the Army to provide nine additional active forces maneuver battalions. This is a real requirement that surfaced in the CY 78 CG. The Army included the nine additional battalions in its May 1978 POM, and the issue was discussed in the 1978 force structure issue paper; it was not considered in the logistics issue paper. Subsequently, the July 1978 PDM specified that seven of the nine new battalions were to be included in the Army's minimum budget and that the remaining two battalions were to be left to the Army's discretion as long as they were not included in the minimum. The August APDM upheld this decision.

In its October 1978 OSD budget submission, the Army complied with both the PDM-APDM and with the CG. In the minimum for BA 2, General Purpose Forces (equivalent to DU 3, Land Forces), the Army included \$7,854,000 of O&M money to activate three armored battalions and one mechanized infantry battalion and to convert three infantry battalions to mechanized infantry. This

appropriation satisfied the PDM-APDM requirement and was visible in the O&M materials submitted to OSD as part of the routine submission.

The CG requirement for an additional two battalions was met by including resources above the minimum in a band 1 PDIP, number 002003, in the budget submission. Table 23 shows some of the PDIP details contained in the budget submission materials for FY 80. One battalion was to be added in FY 80 and the second in FY 81. The details showed information relevant to identifying the logistic impacts of the new battalions. For example, in Table 23, \$249,000 of OMA funds are included for Central Supply Activities for the FY 80 battalion, providing for the costs of moving the battalion to designated locations and for normal resupply activities. Another \$1,851,000 of OMA funds are included for Central Supply Activities to pay for one-time transportation costs associated with activating the battalion and recurring transportation support costs for resupply activities. These and the other details shown in Table 23 are all part of the current routine budget submission by the Army to OSD. The Army could provide additional details on request, but the details shown in Table 23 are evidence of the existing OSD-level capability for making visible in O&M the logistics impacts of adding a battalion to the force structure in FY 80.

Table 23 shows how each DU is affected by the battalion addition for FY 80. The O&M impacts, including effects on civilian end-strength, are shown by DU and the impacts on the Military Personnel, Army (MPA) appropriation are shown both in terms of dollars and the officer and enlisted personnel end-strengths financed by that appropriation. Even greater detail is available in the routine OSD submission for Base Operations, in which OMA, MPA, and end-strengths are shown by Base Operations activity groups, which are the DoD-prescribed BOS categories. For example, it can be seen that \$283,000 of the Base Operations money is designated for Installation Equipment

Table 23. DETAIL VISIBILITY FOR PDIP 002, TWO ADDITIONAL
MANEUVER BATTALIONS, CONTAINED IN THE ARMY FY 80
O&M BUDGET SUBMISSION TO OSD

BAs and Equivalent DUs in which PDIP 002 Resources Appear in the FY80 Army Budget Submit to OSD	FY 80 OMA (\$)	FY 80 MPA (\$)	FY 80 End Strengths Numbers	Remarks Contained in the Budget Submission
DU 3, Land Forces BA 2, General Purpose Forces	6,000,000	4,122,000	40 Officers 778 Enlisted	Complies with APDM Guidance of budgeting for two heavy battalions in the base case and completes the CG requirement of adding a total of nine heavy battalions to existing active divisions. These battalions increase NATO and non-NATO contingency combat power and provide more fully structured existing active divisions.
DU 21, Logistical Support Activities BA 7, Central Supply and Maintenance	1,851,000	0	0	Funds one-time transportation costs associated with activating two battalions and recurring transportation support for normal resupply activities.
DU 24, Central Supply Activities BA 7, Central Supply and Maintenance	249,000	0	0	Funds movement and associated costs of two battalions to designated location and recurring support for normal resupply activities.
DU 29, Training and Education BA BT, Training	1,800,000	0	0	Funds increased training support loads associated with the addition of one mechanized infantry battalion to the force in FY 80 and one in FY 81.
DU 41, Medical BA BM, Medical	200,000	0	0	Funds the medical workload to support two new maneuver battalions.
DU 33, Recruiting and Examining BA BT, Training	24,000	0	0	Provides meals, lodging, and travel for applicant processing and examining activities required to support two additional maneuver battalions.
DU 37, Other Personnel Support BA 80, Other Personnel Support	76,000	0	0	Provides off-duty and voluntary education opportunities to support the change in Army end strength.
DU 56, Base Operations	1,200,000	0	1 Officer 17 Enlisted 90 Civilian	All of these base operations resources for PDIP 002 are identified to BA 2.
Maintenance and Repair	(243,000)	0	14 Civilian	
Minor Construction	(12,000)	0	0	
Operation of Utilities	(129,000)	0	1 Civilian	
Other Engineering Support	(77,000)	0	1 Military 10 Civilian	
Retail Supply	(81,000)	0	1 Military 9 Civilian	
Maintenance of Installation Equipment	(283,000)	0	11 Civilians	
Other Base Services	(87,000)	0	4 Military 10 Civilians	
Bachelor Housing	(27,000)	0	0	
Morale, Welfare, and Recreation	(11,000)	0	0	
Other Personnel Support	(49,000)	0	5 Military 4 Civilians	
Administration	(201,000)	0	7 Military 31 Civilians	
Total for all DUs	11,400,000	4,122,000	41 Officers 795 Enlisted 90 Civilian	

Maintenance, one of many categories of logistics whose details have been difficult to extract from aggregative data in prior program and budget cycles. This has been especially true for force structure changes, like the new battalion example here, which usually are not examined explicitly in the logistic issue paper procedures.

Table 23 contains only budget year data, but as shown in Table 24, out-year data also are routinely available in the DU categories. An analyst interested in the O&M central supply impacts of two new maneuver battalions in FY 84 can easily find the data in PDIP 002 budget submission materials for DUs 21 and 24. As with the budget year data, the out-year impacts of the two battalions also are shown for MPA and for personnel end-strengths.

During the OSD budget review, the seven battalions in the minimum and the two battalions in PDIP 002 were retained in the program with their resources intact--none of the DPSs approved at the conclusion of the budget review added or deleted resources from the battalions. This was readily visible in OASD/C Report 13-D, where the minimum and PDIPs are shown in January as the components of the President's Army O&M budget. Before the Army prepared the Congressional justification materials, however, \$307,816,000 was eliminated from the approved OSD Army O&M total by the President's budget figure of \$9,907,400,000 in Army O&M. (This was discussed earlier in connection with Table 17.) One of the ways in which the Army reduced its budget from its OSD-approved O&M total to the President's figure was to eliminate PDIP 002 and its resources. Thus, the two maneuver battalions designated by the 1978 CG are not to be found in the Congressional justification materials, even though they were argued through the POM issue papers, identified in the PDM-APDM, and included in PDIP 002. The seven battalions included in the O&M minimum were retained and are visible in the Congressional justification materials in the BA 2 section under FORSCOM

Table 24. BUDGET AND OUT-YEAR DETAIL VISIBILITY FOR PDIP 002, TWO ADDITIONAL MANEUVER BATTALIONS, CONTAINED IN THE ARMY FY 80 O&M BUDGET SUB-MISSION TO OSD

DUs in PDIP 002	OMA - \$000					MPA - \$000					End Strengths ^a				
	FY 80	FY 81	FY 82	FY 83	FY 84	FY 80	FY 81	FY 82	FY 83	FY 84	FY 80	FY 81	FY 82	FY 83	FY 84
DU 3, Land Forces	6,000	5,500	4,800	4,700	5,000	4,122	9,043	12,367	12,829	15,620	40 Off 778 Enl	80 Off 1556 Enl	80 Off 1556 Enl	80 Off 1556 Enl	80 Off 1556 Enl
DU 21, Logistical Support Acts.	1,851	3,039	1,313	1,506	1,706	0	0	0	0	0	0	0	0	0	0
DU 24, Central Supply Activities	249	161	87	94	94	0	0	0	0	0	0	0	0	0	0
DU 29, Training and Education	1,800	2,800	1,300	1,900	2,000	0	0	0	0	0	0	0	0	0	0
DU 41, Medical	200	300	200	200	200	0	0	0	0	0	0	0	0	0	0
DU 33, Recruiting and Examin.	24	180	120	120	120	0	0	0	0	0	0	0	0	0	0
DU 37, Other Personnel Support	76	120	80	80	80	0	0	0	0	0	0	0	0	0	0
DU 56, Base Operations	1,200	1,300	900	1,000	800	0	0	0	0	0	1 Off 17 Enl 90 Civ	2 Off 34 Enl 90 Civ	2 Off 34 Enl 90 Civ	2 Off 34 Enl 90 Civ	2 Off 34 Enl 90 Civ
Total All DUs	11,400	13,400	8,800	9,600	10,000	4,122	9,043	12,367	12,829	15,620	41 Off 795 Enl 90 Civ	82 Off 1590 Enl 90 Civ	82 Off 1590 Enl 90 Civ	82 Off 1590 Enl 90 Civ	82 Off 1590 Enl 90 Civ

^aOff = Officers, Enl = Enlisted, Civ = Civilian

General Purpose Forces. Specifically, three additional armored battalions and four additional mechanized infantry battalions are shown as required in the POM, PDM-APDM, and budget. Had the additional battalion in FY 80 from PDIP 002 been retained and included in the Congressional Justification, it too would have been visible.

This example of a force structure change, visible and traceable from its initiation in the CG to the Congressional justification materials with DU and activity group detail along the way, suggests that nonlogistics issues that have logistics impacts can be made visible and traceable in the existing OSD-level systems. The full implications of this capability are discussed in Chapter IV.

Logistic issues that are mentioned explicitly in the POM issue papers also can be monitored and made visible by the OSD-level systems discussed in this study. As an example, during FY 78, conventional ammunition shipping, receiving, storage, inventory, and supporting facilities at Hawthorne, McAllister, and Crane ammunition depots were transferred from the Navy to the Army, with the Army becoming the DoD single manager for conventional ammunition. The CY 78 POM logistics issue paper contained a specific issue concerning inventory and accounting controls at the three facilities transferred to the Army in its single manager for conventional ammunition role. According to the discussion in the issue paper, the inventory accounting and security controls at these three facilities were seriously deficient. Although this view was confirmed by a Defense Audit Service survey, the problem was not identified in time for resources sufficient to solve it to be included in the May 1978 Army POM. The Army programmed resources at the basic level for the continued operation of the facilities, but the resources required to correct the inventory accounting and security problems were not included anywhere in the POM. In the first row

of Table 25, the basic level POM funding for operating the three depots is shown for FY 80 and the out-years. Each succeeding row in the table shows increments or decrements to these POM funding levels.

The June 1978 logistics issue paper offered the alternatives of doing nothing or adding enough O&M funding to solve the problems over a 5-year period. Row two in table 25 shows the 5-year solution, which would require \$10.3 million in FY 80 and another \$34.9 million in the out-years, representing increments to the POM funding levels.

The July PDM modified the issue paper alternative. The basic program increment would solve the problem in 5 years, and the enhanced program increment would front-end load the additional funding in FY 80 and FY 81 to solve the problem in 3 years.

The August APDM did not change the enhanced program increment profile, but it did add \$13 million and \$15 million to the basic program profile for FY 80 and FY 81.

Based on the guidance contained in the PDM and APDM and additional guidance received before the submission of the budget, the Army included funding in the O&M budget minimum in DUs 21 and 24 to correspond to the POM funding for continuing facility operations. The Army also proposed two PDIPs to satisfy the PDM-APDM issue decision alternatives for solving the inventory accounting and security problems in 3 to 5 years.

PDIP 800 in band 1 included the O&M funds to solve the problem in 5 years, and PDIP 802 in band 4 included additional funding to solve the problem in 3 years. Thus, if the final Army O&M budget submitted to the Congress were large enough to include PDIP 800 in band 1, the funding profile of \$15.8 million in FY 80, \$17.2 million in FY 81, and so on, would provide sufficient funds, if approved, to solve the conventional ammunition

Table 25. OSD-LEVEL BUDGET AND OUT-YEAR VISIBILITY OF O&M FUNDING FOR A LOGISTICS ISSUE - SINGLE MANAGER CONVENTIONAL AMMUNITION, ARMY

OSD-Level Documents and Decisions Providing Visibility of O&M Funding For Army, Single Manager Conventional Ammunition	Army O&M Funding (\$000,000)				
	FY 80	FY 81	FY 82	FY 83	FY 84
POM Funding ^a	24.6	20.9	20.9	20.9	20.9
Issue Paper 5-year Program ^b Increment to POM Funding	10.3	13.8	7.9	7.9	5.3
PDM Funding ^c					
Basic Program (5 Year Solution)	0	0	9.0	7.0	7.0
Enhanced Program (3 Year Solution)	18.0	20.0	7.0	7.0	7.0
APDM Funding ^d (Basic Program)	13.0	15.0	0	0	0
PDIP 800, Band 1 (Budget) ^e	15.8	17.2	11.3	11.3	9.0
PDIP 802, Band 4 (Budget) ^e	4.9	5.9	-1.4	- .9	1.9
PDIP 800, Band 6 (Scrubbed Budget) ^f	17.0	20.4	15.4	16.0	13.5
PDIP 802, Band 8 (Scrubbed Budget) ^f	4.9	5.2	-1.4	- .9	1.9
Congressional Justification ^g	-3.8	_h	_h	_h	_h

^aArmy POM, May 1978. The dollars represent the funding at the basic level; none were in the enhanced level.

^bOSD Logistics Issue Paper, June 1978.

^cPDM, July 1978.

^dAPDM, August 1978.

^eArmy Budget Submission to OSD, September 1978.

^fOASD/C Report 13-D, 3 January 1979.

^gCongressional Justification Book, January 1978.

^hOut-year data not presented in Congressional Justification Books.

inventory problems at the three depots now managed by the Army. If the final Army O&M budget were approved at a high enough level to include PDIP 802 in band 4, then the PDIP 802 money, combined with the PDIP 800 money, would be sufficient to solve the problem in 3 years with the front-end loading originally recommended in the PDM.

During the budget review and reranking process, the two PDIPs were affected. For the entire budget, the original five incremental bands above the minimum were increased to nine; PDIP 800 was lowered from its relatively high priority in band 1 to a lower priority in band 6; and PDIP 802 retained its relatively low priority status, moving from band 4 to band 8. In addition, the funding profiles of each PDIP were adjusted; funds were added to each of the 5 fiscal years in PDIP 800 and deleted from FY 81 in PDIP 802.

When the President's Budget was finally determined, the Army's O&M line was drawn at band 3, so that both PDIPs were excluded and a solution to the conventional ammunition inventory problem was not included in the FY 80 budget submitted to the Congress. If the PDIPs had been included, they would have been visible as explanatory items under Program 7S in the Army's Congressional Justification Book. Instead, because of a requirement to spread a last-minute cut to Army O&M, the Army's Justification Book showed a \$3.8 million-reduction to the minimum level funding in the budget for operating the three conventional ammunition depots.

As Table 25 and the preceding narrative show, it is possible to obtain visibility and traceability of a logistic issue from existing OSD-level systems. Additional line items of information and visibility, such as personnel end-strengths, also are available, but these have not been included here since the focus is on O&M visibility and tracking. Another element of detail not explicitly mentioned is that each PDIP's

resources also are shown in the budget and in the CASD/C tracking system by DUs, so that the single O&M values shown for each FY in a PDIP in Table 25 also are available by DU and activity group.

Selected items and issues are of particular Congressional interest and are identified as such in the Service Congressional Justification Books. Table 26 lists the special interest items in the FY 80 budget sent to the Congress and identifies the Services to which they apply.

In addition to the detailed line item linkages, often on a one-to-one basis, between OSD budget DUs and the President's Congressional Budget BAs, and subcategories under the DUs and BAs, the special interest items indicate that any resource categories of interest can be made visible and traced throughout the budget cycle. Some of these items have been the subject of POM issue papers, and, when this has happened, the line item has been visible and traceable from the PDM-APDM decisions; the budget submission to OSD; through the budget scrub and reranking; and, if retained in the program, into the President's Budget. Such line items also have appeared in the special interest section of the Congressional Justification Books.

We have not offered specific examples that trace a particular special interest line item through the budget cycle because the mechanisms are identical to those already presented for the nonlogistic issue with logistic impacts and the pure logistic issue. In some cases, it may be true that the information concerning a special interest item duplicates information already visible in the BA details of the Congressional Justification Books. But when the line item detail in the special interest items is supplementary to the DU-BA detail, the special interest items clearly represent additional tracing and visibility possibilities within the existing OSD-level systems.

Table 26. CONGRESSIONAL SPECIAL INTEREST ITEMS IN THE FY 80 JUSTIFICATION BOOKS, BY SERVICE

Special Interest Item	Army	Navy	Marine Corps	Air Force
Headquarters Operations and Administration	X	X	X	X
Service Support Contracts	X	X	X	X
Public Affairs Activities	X	X	X	X
Computer Systems Programs-Automation	X	X	X	X
Maintenance and Repair of Real Property	X	X	X	X
Depot Maintenance, Aircraft	X	X		X
Depot Maintenance, Ships		X		
Depot Maintenance, Total	X	X	X	X
Aircraft Operations, Flying Hours and Costs	X	X	X	X
Aircraft Operations, Active Aircraft Inventory	X	X	X	X
Ship Operations, Steaming Hours		X		
Ship Operations, Inventory		X		
Military Bands	X	X	X	X
Military Academy	X			X
Reimbursable Activities	X			X
Foreign Military Sales Administrative Budget	X	X	X	X
Schedule of Military and Civilian Strengths and Costs by Manpower Category	X	X	X	X
Manpower Changes in End Strength	X	X	X	X
Civilian Personnel Budget Calculation	X	X	X	X
Audiovisual Activities	X	X	X	X
Travel and Transportation of Persons				X
Travel and Transportation of Things				X
Appropriated Funds Support of Nonappropriated Fund Activities	X	X	X	X

F. CONTROL PROCEDURES IN THE BUDGET FORMULATION PHASE

The preceding sections of this chapter have dealt extensively with the forms and procedures employed in the budget formulation phase of the PPB cycle. Emphasis has been placed on the program visibility that is currently available or could be provided to OASD/MRA&L throughout this phase of the cycle. At this point it is appropriate to consider current or new control procedures that OASD/MRA&L could employ in the formulation phase.

As discussed in Chapter I, past PDMs and APDMs have included provisions that attempt to impose controls on particular resource areas in addition to the normal program direction provided in the PDMs and APDMs. For example, SecDef PDMs for the Air Force and the Navy, dated August 16, 1977, provided funding floors for several categories of logistic resources encompassing the entire FYDP time period. The PDMs further stated that these funding floors, "as adjusted during the OSD/OMB and Congressional budget reviews, will not be reduced during FY 79 budget execution without prior OSD approval."

An initial step in the OSD review of Service budget submissions is to verify that budgets have been prepared consistent with the PDMs, APDMs and other OSD guidance. If inconsistencies are found, they become subjects for analysis and review with the Services giving OSD officials the opportunity to take constructive action in DPSS.

We appreciate the legitimacy of the OASD/MRA&L objective to have procedures in the budget formulation phase to ensure that OSD priorities are recognized and adhered to throughout that phase. However, we believe that in this very dynamic phase of the PPBS, OASD/MRA&L objectives can best be achieved by having in operation suitable program and budget visibility systems. These systems should provide timely information in proper logistic resource categories at the required levels of detail.

With this information, OASD/MRA&L can perform its legitimate staff functions within the structure of the regular PPBS to influence resource allocations during budget formulation so that logistic support objectives can be achieved.

If formal O&M fund control procedures are to be employed, they should be used in the budget execution phase. We believe it is insufficient to attempt to install these procedures in the formulation phase when even the strongest of directives can be rendered inoperative by Presidential or Congressional actions.

In Chapter IV we present our recommendations on suitable visibility and control methods that OASD/MRA&L could employ to ensure compliance with SecDef decisions relating to logistic resources.

G. CONCLUSIONS

Based on the preceding examples of O&M information visible at the OSD level during budget formulation and justification, it is clear that there is an abundance of O&M details available to OSD analysts throughout these phases of the budget cycle. Besides the O&M details visible in our examples, there are additional details visible at the OSD level that we have not discussed explicitly, such as program data on the number of buildings to be repaired under the MRP program or the number of ships to be overhauled in a Navy maintenance program. In addition to these data, there are O&M details visible and available within the Services but that are not visible to OSD, (e.g., data at the subordinate command level and even to individual bases and activities at bases). We have not presented a comprehensive discussion of all of these details because such a discussion is unnecessary to understanding the capabilities of existing systems for providing visibility of decision impacts on O&M resources, and because such a discussion would require a near duplication of masses of budget cycle information.

Instead of duplicating the detailed O&M information warehoused in OSD and the Services, we have examined representative examples of the available information to determine whether a common unifying structure exists that could be used to organize existing masses of O&M information into categories and relationships that would permit meaningful visibility and monitoring. *Our conclusion is that budget decision units (DUs) and their associated subcategories (activity groups, subactivity groups, equipment categories, and so on) provide a structure within which it is possible to provide meaningful OSD-level visibility and tracing of the logistic impacts of O&M decisions during the formulation and justification segments of the budget cycle. Not all relevant logistics categories, however, are currently identified as discrete DUs or DU subcategories. Thus, while the existing system provides a visibility structure, additional resource categories may have to be defined and included within the structure to meet OASD/MRA&L needs. This subject is addressed in Chapter IV.*

Decision units have been introduced into the budget formulation process as part of the implementation of zero-base budgeting (ZBB) procedures. As we saw earlier in several examples, for incremental resources above the minimum, it is possible to trace decision impacts from the POM, through the POM issue papers, into the PDM-APDM, into the OSD budget submission, through the OSD-OMB budget review, and finally to the President's budget decision and its translation into the Congressional justification materials.

At the OSD level, the traceability and visibility of decision impacts within these incremental resources above the minimum can be comprehensive for the three broad categories of decisions of interest to MRA&L: nonlogistic decisions with logistic impacts; pure logistic decisions; and items of special Congressional interest. Currently, several circumstances prevent

the existing potential for incremental resource visibility and monitoring from being fulfilled in an OSD-level system with outputs that are routinely available to interested analysts.

The first circumstance is that the incremental PDP packages in the POM submissions by the Services are reported at too high a level of aggregation, and in addition they are not reported in terms of DUs. As we saw in our examples, both the lower levels of detail behind the aggregated PDP TOAs and the DU identifications are existing data within the Services. These data simply are not reported to OSD; if they were, it is clear that DU and DU subcategory visibility and monitoring at the OSD level could begin with the POM submission in May.

The second circumstance is that the POM issue papers are not written to show DU and DU subcategory alternative decision impacts. It is true that the CY 79 POM issue papers were directed by OASD/PA&E to be written showing appropriation impacts on PDPs, but these impacts are for the convenience of the Services in translating the impacts into DUs. The subsequent Service translations are not routinely visible at the OSD level.

The third circumstance is that CDPSSs are submitted to OSD in the Service budget submission in varying degrees of detail. CDPSSs in one Service in a given DU may be submitted at the activity group level, while CDPSSs in another Service in the equivalent DU may be submitted at the subactivity group, the sub-subactivity group, or the equipment category level of detail. These varying degrees of detail in the OSD submission may permit tracing and visibility, at the OSD level, of a line item of interest for one Service but prevent it for another Service.

All of these circumstances are not due to a lack of existing data--the data all exist in DU and DU subcategories within the Services, but they are not all reported to OSD. *Our conclusion is that for incremental resources above the minimum, existing DU and DU subcategory data provide the Services with the*

capability to trace internally the impacts of decisions on O&M resources from budget formulation to budget justification. This capability has been extended only partially to OSD, and it has not been extended to a like degree of detail for each Service. It is again necessary to note, however, that existing DUs and subcategories do not include all relevant logistic categories as separate lines.

For resources contained in the minimum, DU and DU subcategory visibility and tracking does not begin at the OSD level until the Service budget submissions in October. The Services are developing the capability to identify their POM minimum programs to DU and DU subcategories as early as the May POM submission, and, in fact, much of this identification already occurs as early as the Service major command operating budget submissions to Service headquarters in March.

Although the Service OSD budget submissions identify the minimum programs in extensive DU and DU subcategory detail and the Services internally identify the minimum program by DU and DU subcategory in the March to May period, there are currently several circumstances that prevent the existing potential for suitable minimum budget level program resource visibility and tracking from being fulfilled in a routinely available OSD-level system. The first circumstance is that the POM minimum is not presented to OSD in DU and DU subcategory detail.¹ The second is that the OASD/C tracking system does not record final Service spreads of reductions or additions to the minimum by DU once the President's budget decision is made. The third circumstance is that the DU and DU subcategory detail reported in the Congressional justification materials varies considerably by Service.

¹However, it should be noted that some information that can be related to DU categories is presented in the backup materials that accompany each Service's POM submission. This applies particularly to ship and aircraft depot maintenance.

As in the case of incremental resources above the minimum, these circumstances are not due to a lack of existing detail in DU and DU subcategories for the minimum. The necessary data all exist within the Services but are not reported to OSD or to the Congress. *Our conclusion is that for resources in the minimum, existing DU and DU subcategory data provide the Services with the capability to trace internally the impacts of decisions on O&M resources during budget formulation and justification. This capability has been extended only partially to OSD, and it has not been extended to a like degree of detail for each Service. The qualification must be added again that all relevant logistics categories are not represented by separate DUs and subcategories.*

CHAPTER III BUDGET EXECUTION

Chapter II discussed the budget formulation phase of the PPBS terminating with coverage of the materials presented to the Congress to justify the budget request. This chapter discusses the budget execution phase of the PPBS--the period from Congressional enactment of the appropriation acts to close-out of obligations. Current budget execution procedures and reports are discussed in terms of their relationship to OASD/MRA&L's indicated requirement for improved visibility of and control over O&M-financed logistic resources.

As a transition from budget formulation to budget execution, we will discuss OSD's capability to relate Congressional adjustments to the various categories of resources in the DoD budget submissions leading to the appropriation acts. This capability is critical to OSD's ability to ensure that its approved programs at the beginning of the execution year properly reflect the intent of the Congress.

Chapter I pointed out that there is considerable uniformity in procedures and data reporting systems used by the Services to implement the PPBS. This uniformity is especially characteristic of budget execution since the Services receive common guidance from OSD and must respond to the same general budget execution constraints and data reporting requirements. For this reason, this chapter generally presents data from a single Service to illustrate specific points applicable to each of the Services. Most of the data presented are from the

FY 78 budget because they reflect the entire execution process from appropriation enactment through obligation closeout.

A. CONGRESSIONAL REVIEW OF THE BUDGET REQUEST AND BUDGET ENACTMENT

For the O&M appropriations, the Congressional Justification Books, submitted by the Services in accordance with OASD/C direction, comprise the primary data base used by the Congressional Committees during their review. These data are supplemented by written and verbal responses to questions raised during various hearings. As each adjustment to the budget request is considered, DoD and Congressional staffs work together to ensure that all adjustments are evaluated against the proper baseline (i.e., the amount in the budget request), that each is well-defined, and that the correct value is shown in the material supporting the appropriation acts. Close coordination is essential since the majority of the adjustments made by the Congress do not appear as discrete lines in the budget request and, therefore, cannot be readily identified in the justification material.¹

In our research, we found that OASD/C uses a computerized system almost daily to record and monitor each item formally considered for adjustment by the Congress. FAD 728 Reports from this system are published by the OASD/C, Director for Program and Financial Control (DP&FC).² The DP&FC staff

¹Congressional adjustments can be identified as belonging to visible resource categories in the budget request, but these adjustments sometimes are made to specific parts or subcomponents of visible categories, and these portions or subcomponents are not visible in the budget request.

²*Congressional Action on DoD Appropriations by Appropriation Account and Item*, FAD 728/(FY). A series of reports is published during each annual Congressional review.

was unavailable to discuss either the reports we obtained or the data base, systems, and procedures that produced them. Thus, our estimate of the potential usefulness of this monitoring system is based on the information available to us and not on a comprehensive review of system capabilities.

Adjustment data are entered into the OSD monitoring system by members of the CASD/C staff based on information from the committee hearings. The system contains a unique identifying number for each item formally considered for adjustment by any of the Congressional Committees. The unique identifier permits an audit trail of the amount in the budget request; the amounts in the House, Senate, and Conference Reports; and the amount provided in the applicable appropriation act for each adjustment item. Selected data from the final FY 78 OMA report are displayed in Table 27 as a basis for describing the usefulness of this report in our research.

Table 27 displays 5 of the 53 adjustment lines in the report to illustrate the different levels at which adjustments are made by the Congress.¹ The columns that display information about the actions of the individual committees are omitted since they are not pertinent to this discussion.

The five adjustment items displayed in Table 27 were selected to show that the level at which adjustments are made varies from adjustments to specific programs in a single BA, such as ROTC, to general adjustments, such as an adjustment for inflation, which impact nearly every program and BA in the budget request. The individual adjustment items are developed by the Congressional staffs, working with the DoD staffs, at the level of detail necessary to reflect Congressional intent.

¹OASD/C lists all items considered by Congress for adjustment even though, ultimately, the Congress may make no adjustment to the budget request for some of the items. For example, 10 of the 53 adjustment items in the cited report were considered for adjustment but finally were left unadjusted.

Table 27. ILLUSTRATION OF INFORMATION IN FAD 728 REPORT ON
CONGRESSIONAL ACTION ON THE FY 78 OMA PROGRAM^a
(Dollars in Millions)

Appropriation Account And Item ^b	Budget Request 17 Jan 77	Amended Budget Request	Final Conference Report	Enacted PL 95-111 21 Sep 77
Price Growth	148.0	148.0	-98.0	50.0
MRP	527.2	527.2	+10.0	537.2
Depot Maint	604.1	719.1	+56.0	775.1
ROTC	37.0	37.0	-4.7	32.3
NIKE Retirement	5.7	5.7	-3.0	2.7
Other Items	4,479.1	4,479.1	-311.8	4,167.3
Other Programs	2,574.7	2,574.8	-	2,574.8
TOTAL OMA	8,375.8	8,490.9	-351.5	8,139.4

^aSource: FAD 728/78, September 27, 1977, page 4. This is the final report for the FY 78 program.

^bOnly 5 of 53 adjustment items are displayed. The "Other Items" line is added to summarize all of the other adjustment items listed in the report. The report also includes an "Other Programs" line, the sum of all items not adjusted, so that the columns will add to the totals shown.

The columns in Table 27 show that for each adjustment considered by the Congress the recipients of the FAD 728 reports can compare the amount requested with the current status of Congressional action. Since the data in Table 27 are from the final FY 78 report, the amount in the appropriation act is shown. Earlier reports traced the status of each line as the various committees conducted their reviews.

Of interest to this study is the fact that the current OASD/C FAD 728 data system provides the basis for OASD/MRA&L to monitor the impact of Congressional actions on any logistic program during the Congressional review period. For adjustment items that address resources that are totally logistic, such as those shown for the depot maintenance program, OASD/MRA&L probably already has adequate visibility. For adjustment items that impact a wide range of logistic and nonlogistic programs, such as price growth, OASD/MRA&L cannot rely solely on the FAD 728 Reports.

Although the OASD/C does not enter data about the spread of general adjustments into the FAD 728 data base, these data are available. For example, of the 43 Congressional adjustments to the final FY 78 OMA program, 29 affected a single BA.¹ Because the remaining adjustments were spread by the Services in close coordination with the OASD/C and Congressional staffs, there was general agreement as to the proper distribution of all adjustments, at least to the BA level, when the appropriation act was passed. Thus, if OASD/MRA&L is concerned about the impact of general Congressional adjustments on specific resource categories, it should be possible to work with OASD/C

¹Based on data in the Army's FY 80 Justification Book, which displays the impact of each Congressional adjustment by BA. Comparable exhibits in the Navy and Air Force Justification Books show only the total adjustment by BA although, clearly, detail similar to the Army display is available.

during this time to monitor the Services' spread of each adjustment and, perhaps, to influence the distributions.

By the time the appropriation acts are passed, OASD/C and the Congressional staffs have agreed to the impact of each adjustment item on the resource levels in the budget request. As discussed later in this chapter, when OASD/C issues the Service Operating Budgets, supporting information is provided to show the impact of each adjustment item on the budget activity totals in the President's Budget. The resulting budget activity totals become the baseline for the Service's budget execution. Thus, OASD/MRA&L can obtain visibility about the impact of all Congressional adjustments from the Service Operating Budgets at the same time the Services receive their budgets.

Information on the impact of Congressional adjustments to the President's Budget also is published in the October and January Justification Books prepared to support the budget for the next fiscal year (i.e., the October 1978 and January 1979 Justification Books prepared to support the FY 80 budget both included information about Congressional action on the FY 79 budget). Depending on when the appropriation acts are passed, the October data reflect either DoD's best estimate of expected resource levels or the amounts included in the act. The January data reflect the amounts that were appropriated.

In our research, we also considered the size of the Congressional adjustments during the budget review. We wished to determine whether these adjustments generally were of sufficient magnitude to require special consideration in our design of a system of improved visibility for OASD/MRA&L. For example, if the adjustments to specific logistic programs usually are small relative to the size of the programs, we could conclude that the impact of these Congressional adjustments on the content

of the programs is not a major factor to be considered in a visibility system. Since small adjustments to large programs probably are within the estimating accuracy of the program, they most likely can be accommodated within the total resources available.

Table 28 displays data about the FY 78 and FY 79 OMA, O&MN and O&MAF budgets to indicate the magnitude of Congressional adjustments. These data show that net Congressional adjustments to these appropriations for these years averaged about -2 percent. For each year, there were between 40 and 50 Congressional adjustment items for each Service. Most of these items were small relative to the amount requested, except for one or two small programs that were eliminated from the budget. Most of the adjustments were reductions, although a few programs, such as MRP and depot maintenance, were increased slightly in every year. There was a small number of large reductions, the largest of which was the reduction to the request for funds to cover projected inflation. Finally, the DoD and Congressional staffs were able to identify the adjustments to specific programs, except for one or two general reductions such as the one for inflation.

Also shown in Table 28 are data about adjustments to the budget requests proposed by the DoD subsequent to budget enactment (i.e., revised estimates for the fiscal year just starting). These data are presented to permit a comparison with the size of the adjustments made by the Congress for the same years. This adjustment process will be discussed further later in this chapter in conjunction with the discussion of the OSD budget review.

The data show that the total budget increases proposed by DoD range from two to five percent. In most cases, pay supplementals are the largest of the three proposed adjustments. In addition, the adjustments made in the program supplementals for the FY 78 program involved funds for foreign national pay

Table 28. ILLUSTRATION OF CONGRESSIONAL AND DoD ADJUSTMENTS TO THE FY 78 AND FY 79
PRESIDENT'S BUDGET REQUEST^a
(Dollars in Millions)

Service And Budget Request	Army		Navy		Air Force	
	FY 78	FY 79	FY 78	FY 79	FY 78	FY 79
President's Budget Request	8491	9233	10892	11843	8586	9415
A. Congressional Adjustments						
Net Adjustment (% of Request)	-351 (-4%)	-118 (-1%)	-149 (-1%)	-152 (-1%)	-251 (-3%)	-172 (-2%)
Illustrative Adjustment Items, (Adjustment/Request)						
Price Growth	-98/148	-59/245	-79/589	-83/482	-38/218	-100/388
Depot Maintenance Activities	+56/719		+17/999	+118/905	+15/1298	+73/1446
MRP	+10/527	+40/575	+10/291	+40/378	+10/80	+23/635
Civilian Personnel Reductions	-28/2607		-22/1654		-16/2393	
Crude Oil Tax		-27/27		-64/64		-75/75
Stock Fund Activities		-30/1458		-30/380		-30/2193
Appropriation Enacted	8139	9115	10743	11691	8335	9243
B. DoD Adjustments						
Proposed Pay Supplementals	275	174	256	128	178	98
Proposed Program Supplementals	181	92	55	68	47	58
Proposed Transfers	95	5	37	5	207	7
Total DoD Adjustment (% of Request)	551 (+6%)	271 (+3%)	348 (+3%)	201 (+2%)	432 (+5%)	163 (+2%)
Revised Estimate for Budget Execution	8690	9386	11091	11892	8768	9406

^aSource: Derived from information in the January 1978 and January 1979 Congressional Justification Books.

raises and for currency revaluation. Since both the pay supplementals and the FY 78 program supplementals probably require only recalculation of rates, they do not affect the content of the programs justified to the Congress. The FY 79 program supplementals involve changes in program content, but these changes are identified to specific programs in the material supporting the request. Finally, the proposed transfers represent the net funds transferred across appropriations as explicitly directed by OASD/C. These transfers of funds also are visible in the material supporting the revised budget request.

Based on our brief examination of both Congressional and DoD adjustments to the President's Budget requests, we concluded that current systems and procedures probably afford OASD/MRA&L sufficient visibility to monitor and, if desired, to participate in the determination of all adjustments that could alter logistic programs. Most of the Congressional adjustments are made to specific programs as directed by Congress. For Congressional adjustments of a more general nature that impact a broad range of programs, OASD/MRA&L can work with the OASD/C, prior to OASD/C approval of final budget levels, to influence the Services' distribution of these adjustments to specific programs. Finally, OASD/MRA&L can review the proposed DoD adjustments during the OSD review of the Service budget submitted for the next fiscal year. The magnitudes of the various adjustments do not appear to require special consideration in our efforts to develop an improved visibility and control system for OASD/MRA&L.

B. THE O&M BUDGET EXECUTION PROCESS

Figure 6 is a simplified model of the O&M budget execution process that provides the framework for the discussion in the remainder of this chapter. In this section, we provide an overview of the mechanics of this budget execution process to emphasize the relationships of key steps. The entire process is

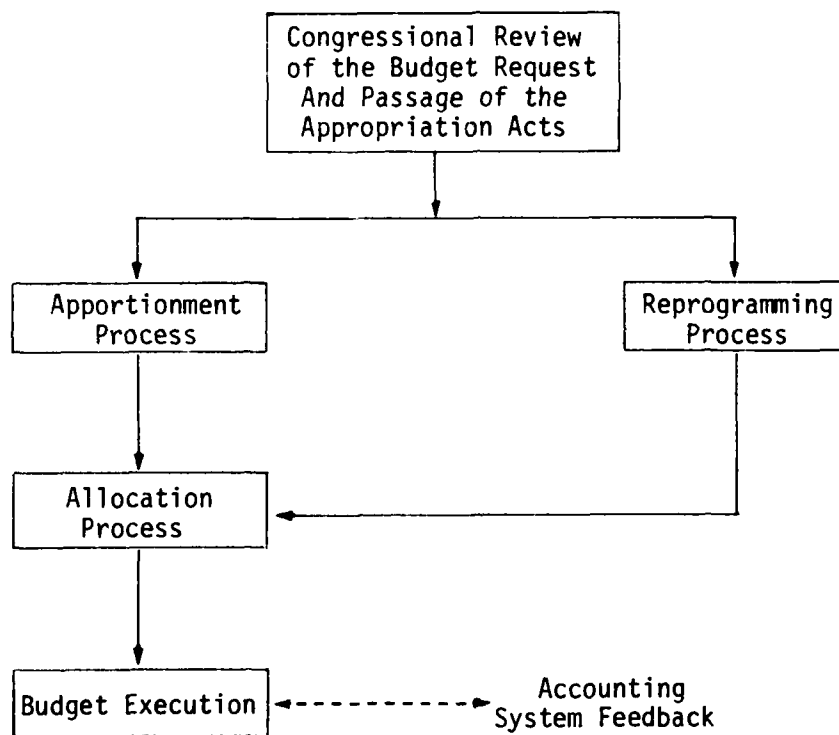


Figure 6. SIMPLIFIED MODEL OF THE BUDGET EXECUTION PROCESS

addressed from the standpoint of potential opportunities for OASD/MRA&L to improve its ability to ensure that SecDef O&M logistic decisions are implemented. Of equal interest is the identification of opportunities for OASD/MRA&L to influence OSD decisions during budget execution that have the potential to alter the "intent or program content" of earlier decisions. Later in this chapter, we will discuss more thoroughly key aspects of these considerations.

As illustrated in Figure 6, two processes are initiated once Congress passes the appropriation acts. In the apportionment process, OMB distributes funds to the Services based on the appropriation acts. An apportionment makes funds available to the Services for obligation. At the same time, a base for reprogramming is established to reflect the flexibility to be permitted the Services in the execution of programs that were estimated up to 1 year prior to the beginning of execution.

Once OMB apportions funds to the Services, OSD issues operating budgets to allocate funds to the Services. These allocations authorize the Services to execute programs within the amounts apportioned subject to limitations imposed by the Congress and additional constraints that might be imposed by OSD. Operating budgets also are used by the Services to allot funds to their operating agencies which, in turn, use operating budgets to allot funds to their subordinate agencies. In general, these operating budgets authorize users to incur obligations based on the level of funds approved in the budget. Also, operating budgets are used to pass on budget execution limitations to the users of funds. Finally, the dashed line in the figure indicates the accounting system reports used to monitor the obligation and expenditure of funds during the budget execution.

1. The Apportionment Process

Figure 7 provides an overview of the flow of documents in the apportionment process. This figure provides a basis for discussing the various activities, relationships, and documents involved in distributing funds to the Services.

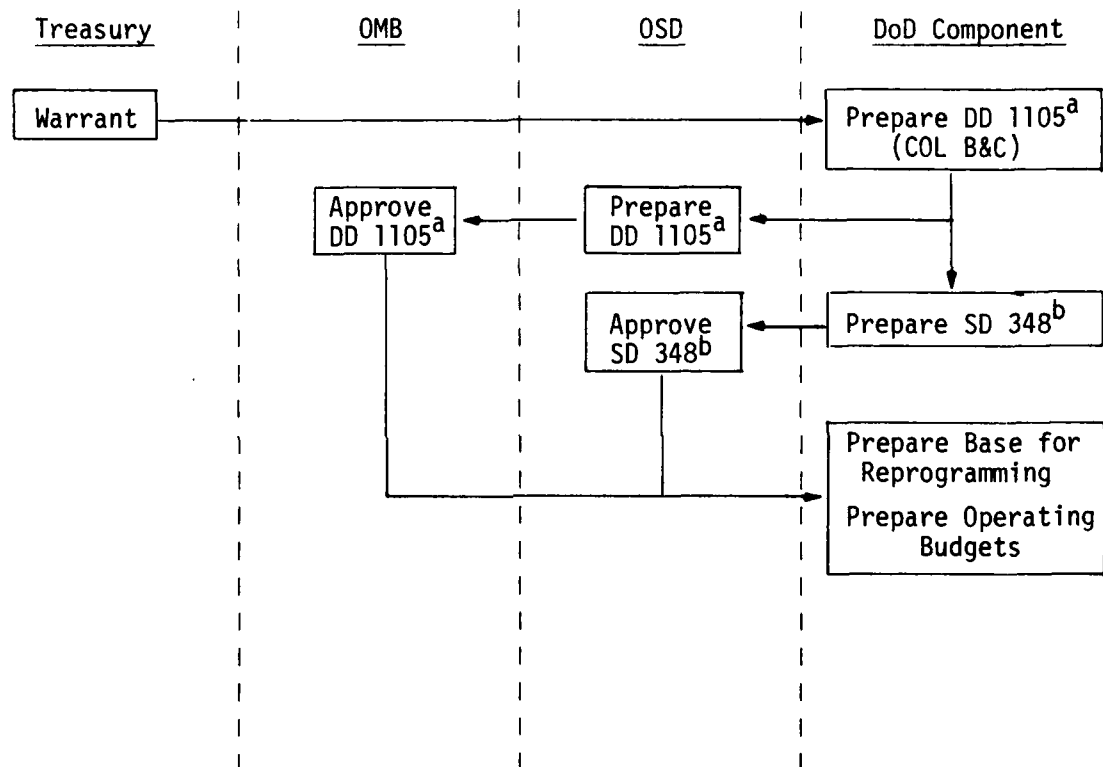
Immediately after enactment of the appropriation acts, the Treasury issues warrants to the Services for the amount in each appropriation. These warrants form the basis for recording appropriations on the books of the Treasury and the user. A warrant does not allow the user to obligate any funds; an apportionment does.

When the warrant is received, the DoD component initiates the "Apportionment and Reapportionment Schedule," DD Form 1105. This document is the request for distribution of funds based on the budget submission as adjusted and approved by the Congress. When approved, this document authorizes the DoD Component to incur obligations. The DD Form 1105 must be submitted through OSD to OMB within 10 calendar days after the passage of the appropriation act.

The DD Form 1105 displays information at the total appropriation level (i.e., the budget authority for the direct program approved by Congress) plus anticipated reimbursements. In addition to annual totals, quarterly phasing is shown.¹

The DoD Component initiates the DD 1105 by completing the column indicating the total resources requested. For the initial DD 1105, the direct program data agree with the enactment by the Congress, and the reimbursement data are the Component's current best estimate of anticipated reimbursements. The sum of these two entries comprises the total budgetary resources required to execute the O&M program. Theoretically, OSD

¹See Appendix A, Exhibit A-1, for a sample of an actual form.



^aThe title of the DD Form 1105 is "Apportionment Request."

^bThe title of the SD Form 348 is "Fund Authorization Document."

Figure 7. THE APPORTIONMENT PROCESS

indicates approval of the DD 1105 by completing the columns indicating its resource request. In practice, OSD and the Components work together to agree on their resource requests before the form is prepared. Once OSD and the Component agree, the Component normally completes both columns since the data are the same. OMB indicates its approval by designating the resources to be apportioned and signing the completed forms.

When the DoD Component prepares the DD 1105, the fund authorization document, SD Form 348, is prepared.¹ This form, the "Operating Budget--Schedule of Cumulative Obligation and Expense Authority," is used by OSD to establish operating budgets at the Service level. For direct obligation authority, the SD 348 shows quarterly phasing by budget activity and total appropriation. Total reimbursements are phased by quarter without identification to budget activity. Finally, the SD 348 displays any general reprogramming or funding limitations imposed by the budget.² OSD approval of the SD 348 permits the Services to allocate funds to their operating agencies.

2. The Reprogramming Process

Both the Congress and the Executive Branch recognize that rigid adherence to budget estimates developed as much as 1 year prior to Congressional approval may jeopardize the effective accomplishment of planned programs. As a result, the DoD, in consultation with OMB and the Congressional Committees, has developed a "reprogramming" system that provides a timely

¹See Appendix A, Exhibit A-2, for a sample of an actual form.

²In addition to these O&M data, quarterly phasing for the Military Personnel Appropriation also is shown; so the SD Form 348, when it is approved, becomes an operating budget for all operating resources.

device to revise and update Congressionally approved budgets and to permit flexibility in the execution of DoD programs.¹ At the same time, the system provides the basis for retention of Congressional control over the utilization of appropriations by ensuring that the Congressional intent expressed in the appropriation acts as well as in the hearings is carried out. Specifically, as expressed in DoDI 7250.10, the system is designed "to assure that the responsible (DoD) officials keep faith with the Committees and the Congress by (1) respecting the integrity of the justifications presented in support of fund authorizations and budget requests, and (2) providing timely information on any significant deviations from approved programs."²

The reprogramming system:

- (1) Establishes the baseline from which all reprogramming actions are made.
- (2) Specifies three types of reprogramming actions--prior approval, notification, and internal--and the level of approval required.
- (3) Establishes administrative procedures for processing reprogramming actions.
- (4) Prescribes semiannual status reports of all reprogramming actions.

a. Base for Reprogramming. Once OSD approves the SD Form 348, DoD Components prepare the "Base for Reprogramming Actions," DD Form 1414. A separate form is prepared for the basic appropriation act and for each supplemental.

¹See *Reprogramming of Appropriated Funds*, DoDD 7250.5, January 14, 1975 and *Implementation of Reprogramming of Appropriated Funds*, DoDD 7250.10, January 14, 1975.

²DoDI 7250.10, op. cit., para IB.

In general, the DD Form 1414 serves two very important functions. First, it displays the budget request by budget activity, shows each Congressional adjustment by line item within each budget activity, and displays the resultant final approved budget activity totals. Thus, the last column of the DD 1414 shows the appropriation total, as enacted by Congress, by budget activity.¹ Second, the DD Form 1414 uses footnotes to identify the line item adjustments that are designated by the Congress to be additional limitations on the use of the appropriated funds. It is the combination of the budget activity subtotals within each appropriation and the footnoted line item adjustments that comprises the baseline for all subsequent changes in the application of funds. Thus, reprogramming actions are not measured from the budget requests but from a "Base for Reprogramming" that is established immediately after final Congressional action on each budget request. This base is revised during the year as the SecDef and the Congress approve subsequent reprogramming actions.

Table 29 illustrates data in the DD Form 1414 that established the reprogramming base for the FY 78 Air Force O&MAF appropriation. The adjustment items shown are examples of the items described earlier in the discussion of the OSD FAD 728 report of Congressional adjustments. Examples of the use of footnotes to identify reprogramming limitations for selected lines also are shown.

Note that the limitations identified on the DD Form 1414 are those negotiated with the Congressional staffs. Therefore, these limitations reflect the intent of the Congress rather than the SecDef. Note, also, that the DD Form 1414 does not

¹See Appendix A, Exhibit A-3, for a sample of an actual form.

Table 29. ILLUSTRATION OF INFORMATION IN THE BASE FOR
REPROGRAMMING (DD FORM 1414) FOR THE AIR FORCE
FY 78 O&M APPROPRIATION

(Dollars in Thousands)

Line Item	Program Base Presented to Congress in Printed Justi- fication	Changes Reflecting Congressional Action/Intent	Revised Base for Reprogramming
<u>Strategic Forces</u>	1,625,389	- 41,558	1,563,831
Inflation		(- 8,106)	
MRP		(+ 2,800)	
Air Defense Enhancement		(- 1,664)	
<u>General Purpose Forces</u>	1,541,954	- 20,614	1,521,340
Inflation		(- 3,836)	
MRP		(+ 3,000)	
<u>Intelligence and Communications</u>	676,933	- 19,756	657,177
Inflation		(- 4,722)	
<u>Airlift and Sealift</u>	567,520	- 24,122	543,398
Inflation		(- 833)	
MRP		(+ 700)	
<u>Central Supply and Maintenance</u>	2,991,549	-104,024	2,887,525
Inflation		(- 8,745)	
MRP		(+ 2,000)	
Aircraft Depot Maintenance ¹		(+ 15,500)	
Second Destination Transportation ²	(269.1)	(- 59,800)	(209.3)
Project MAX ³	(700)	(-)	(700)
<u>Training, Medical & Other Personnel Activities</u>	948,536	- 28,934	919,602
Inflation		(- 7,146)	
MRP		(+ 1,500)	
High School Completion Program*		(- 350)	
Defense Institute for FMS**	(757)	(-)	(-)
ROTC Scholarships***		(-)	
<u>Administration and Associated Activities</u>	233,436	- 11,827	221,609
Inflation		(- 4,862)	
<u>Support of Other Nations</u>	797		797
Subtotal, Direct Program	8,586,114	-250,835	8,335,279
Reimbursable Program	876,500		876,500
TOTAL PROGRAM	9,462,614	-250,835	9,211,779

^aFootnote numbers and asterisks indicate line items for which Congressional limitations were imposed. The specific forms of the limitations are not included in this exhibit. See Exhibit A-3 for full content of each footnote.

identify limitations imposed by the Congress that are explicitly identified in the appropriation acts. For example, the Maintenance of Real Property (MRP) lines in Table 29 show no limitation, even though the appropriation act directed that not less than \$509 million be obligated for this purpose. As will be discussed later, legal limitations such as this are passed on to the users of funds in the operating budgets.

b. Reprogramming Action. The "Request for Reprogramming Action," DD Form 1415, is used during budget execution to request approval of changes to the approved baseline. DoDI 7250.10 provides for three types of reprogramming actions as summarized in Exhibit 4. The appropriate type of reprogramming action is initiated by the Services on an as-required basis. Each request shows:

- (1) The amount in the Congressionally approved base for reprogramming.
- (2) The amount in the most recently approved reprogramming request to the extent authorized for implementation.
- (3) The amount of the proposed reprogramming.
- (4) The revised program if the request is approved.
- (5) The source of funds.¹

In our research, we found that the OASD/C uses a computerized system to record and monitor the status of all requests for reprogrammings submitted to OSD. FAD 757 Reports from this system are published by OASD/C (DP&FC).² In this system, OASD/C assigns a DoD serial number to each request for reprogramming

¹See Appendix A, Exhibit A-4, for a sample of an actual form.

²*Status of FY___ Reprogramming Actions, FAD 757/(FY).* The DP&FC staff was unavailable to discuss either the reports we obtained or the data base, systems, and procedures that produced them. Thus, our discussion of the system is based solely on our appraisal of the reports we obtained.

Exhibit 4. TYPES OF GENERAL REPROGRAMMING ACTIONS^a

Prior Approval

Prior approval of the Congress is required for a reprogramming request, regardless of the amount, if it is for an item specifically reduced by the Congress or is known to be or has been designated as a matter of special interest to one or more committees.

SecDef approval is required prior to submission to the Congress.

Proposed reprogramming cannot be implemented until after Congressional approval.

Notification

Prompt notification of the Congress is required if a reprogramming action is an increase of \$5 million or more in a BA or is below this threshold but will result in "significant follow-on costs" or when combined with amounts already programmed would cause the cumulative amount for the BA to exceed the threshold.

SecDef approval is required prior to submission to the Congress.

Proposed reprogramming cannot be implemented until OASD/C advises the Service of approval action. OASD/C will not authorize implementation until the committees have had the opportunity to review the proposed action.

Internal

Routine notification to OSD is required for reprogramming actions not otherwise constrained by law or by the applicable Base for Reprogramming (DD Form 1414). The primary purpose of this requirement is to permit OSD to provide audit trail information to the Congressional Committees if requested.

Routine notification to OSD is required if the reprogramming action does not involve any changes from the purposes justified in the budget submission but is merely a change to achieve alignment with Congressional action on the approved amount for the appropriation, BA or line item involved.

OASD/C approval is required although these requests are processed within the DoD.

^aDerived from information in DoDD 7250.5 and DoDI 7250.10.

and records information about funds and dates of key DoD and Congressional actions.¹

Table 30 displays information derived from the FAD 757 system to illustrate the visibility provided. The number of elapsed days required by OSD and the Congress to process the 17 Reprogramming Actions submitted by the Services for the FY 78 O&MAF, O&MN, and OMA appropriations are displayed.² These data indicate that approximately three-quarters of the requests were processed by the OASD/C within 1 month of receipt, some as quickly as 1 to 2 weeks. The times required for Congressional processing were considerably longer, however; only one request was completed within 1 month. Action on approximately one-half of the requests was completed by the Congress within 3 months of receipt; however, approximately one-third were completed in August and September, generally 6 months after receipt; the request that had the longest processing time (DoD #78-33 P/A) was approved just 2 weeks prior to the end of the fiscal year.

Because Table 30 displays data for only 1 year (the only year for which we could obtain complete information from OASD/C), it is not possible to reach general conclusions on the effect of reprogramming action processing times on the overall efficiency with which the Services are able to execute O&M funded

¹DoD serial numbers consist of the fiscal year, a numerical sequence number; and the suffix P/A, N, or IR. The suffix identifies the type of reprogramming action as prior approval, notification, or internal, as described earlier. P/A and N actions are numbered within a single numerical series. IR actions are numbered within a separate series (e.g., 77-1 P/A; 77-2 N; 77-1 IR).

²Days shown are DoD working days net of weekends and scheduled holidays. No effort was made to adjust the number of Congressional work days to reflect House and Senate schedules. The number of days shown for the Congress are the times required for both the House and Senate Appropriations Committees to complete action.

Table 30. SUMMARY OF OSD AND CONGRESSIONAL PROCESSING TIMES
FOR REPROGRAMMING ACTIONS FOR THE FY 78 O&M
APPROPRIATION^a

Service and Short Title of Reprogramming Request	DoD Serial Number 78-	Elapsed Days From Receipt by OSD to Delivery to Congress	Elapsed Days From Receipt by Congress To Final Action
<u>Army</u>			
Division Restructuring Study	7 P/A	12	17
Civilian Personnel Reduction	20 P/A	30	96
War Reserves	21 P/A	30	96
Logistic Support Base	27 P/A	9	90
Readiness	28 N	12	119
High School Completion Program	35 P/A	20	53
Foreign Currency Rates	40 P/A	11	61
Air Line Communication	43 P/A	18	55
<u>Navy</u>			
Second Destination Transportation	15 N	13	60
Postal Service Rates	17 N	8	138
Readiness	29 N	26	119
Coral Sea Repair	34 N	21	93
Defense Resources Management Center	38 P/A	20	62
<u>Air Force</u>			
AFLC ADP Operations	6 P/A	12	41
Readiness	31 N	41	119
Aviation Fuel Consumption	32 N	17	43
Contract Services	33 P/A	16	141

^aDerived from data in the *Status of FY 1978 Reprogramming Actions*, FAD 757/78, April 23, 1979, and in OASD/C (DP&FC) letter, March 29, 1979.

programs.¹ There can be no doubt, however, that both extended processing times and approval late in the fiscal year create uncertainty in the budget execution process that could be avoided if all requests were processed expeditiously.

c. Report of Programs. The "Report of Programs," prepared on DD Form 1416, performs several key functions. First, it displays the Congressionally approved base on a semiannual basis. Since separate DD 1414 are prepared for the basic and supplemental appropriation acts, the DD Form 1416 is a useful source of information about approved resource levels that result from the consolidation of the resources approved in the separate acts. Second, these semiannual reports display the impact of all reprogramming actions that have occurred since the last report.

Table 31 uses data from the 31 March 1978 report for the FY 78 O&MAF program to illustrate coverage provided by the DD Form 1416.² Although data are displayed only for BA 7 (Central Supply and Maintenance) and the appropriation total, the actual report displays information by budget activity for every Congressional line that appeared on the DD Form 1414. The data in the "Congressionally Approved Base" column in Table 31 correspond to data in the initial appropriation act for FY 78. These data comprise the Congressional base because supplemental appropriation requests submitted after the initial Form 1414 was submitted had not yet been approved by the Congress. The "SecDef Approved Program" columns include adjustments for reprogramming actions that were approved by the SecDef but were pending approval of one or more of the Congressional Committees. The final column

¹Partial data about 10 reprogramming requests submitted to Congress for the the FY 77 programs showed that action was completed within 4 months on all requests. Of the 10 requests, 4 were approved on September 30, but all 4 were submitted by OSD less than 6 weeks prior to the end of the fiscal year.

²See Appendix A, Exhibit A-5, for a sample of an actual form.

Table 31. ILLUSTRATION OF COVERAGE OF AN AIR FORCE DD FORM 1416,
REPORT OF PROGRAMS^a

(Dollars in Thousands)

Line Item	Congressionally Approved Base	SecDef Approved Program		Changes Not Requiring SecDef Approval	Current Program
		Last Report	This Report		
Central Supply ^b and Maintenance					
Project MAX	2,887,525 (700)		2,937,864 (700)		2,937,864 (700)
Military Bands					
Second Destination Transportation	(209.3)		(269.1)		(269.1)
Aircraft Depot Maintenance					
Total, Direct Program	8,335,279		8,548,074		8,548,074

^aBased on the March 1978 O&M Air Force Report.

^bWithin each BA, the DD Form 1416 displays only the line items from the applicable DD Form 1414 for which limitations exist, even if no dollar adjustments were made by Congress. See Exhibits A-3 and A-5 for the specific forms of the limitations.

shows the revised base for reprogramming from which all subsequent requests for reprogramming will be evaluated until the base is changed by subsequent Congressional action. Although not shown in the figure, the actual report includes all of the foot-noted line item adjustments shown in the applicable DD Form 1414.

Table 32 uses data from the FY 78 O&MAF program to illustrate the information contained in the semiannual reports and to provide a basis for a discussion of the relationship of the two reports to each other and to the information in the applicable DD Form 1414. According to DoDI 7250.10, as amended, reports are prepared as of 31 March and 30 September and must be submitted to OSD not later than 20 days after the end of the applicable reporting period. After approval by OASD/C, reports are forwarded to the Congress.¹

As in the preceding table, Table 32 does not list all of the data displayed on the reports since the direct program totals are sufficient to illustrate the relationship of the two reports. As described earlier, the entries for the "Congressionally Approved Base" column (\$8,335 million and \$8,575 million) reflect the funds provided by the Congress. The first value is the amount provided in the basic act; the second is the sum of the amounts provided in the basic and supplemental acts (i.e., the 10 August supplement of \$240 million is added to the original base). A separate DD Form 1414 was submitted and approved for each report to record the change in the base for reprogramming.

¹Because of our inability to meet with OASD/C, DP&FC, we could not ascertain the date the reports are due to Congress. There appears to be considerable lag, however, based on the FY 78 reports that we were able to obtain. Letters of transmittal for the March and September reports were dated 9 Jun 78 and 7 Feb 79, respectively. This lag probably is not a reason for concern since the OASD/C and Service staffs work closely with the Congressional staffs, and informal and advance copies probably are available to and discussed with members of the Congressional staffs shortly after receipt by OASD/C.

Table 32. ILLUSTRATION OF THE INFORMATION IN THE FY 78 O&MAF SEMIANNUAL
DD FORM 1416

(Dollars in Thousands)

Line Item	Congressionally Approved Base	SecDef Approved Program		Changes Not Requiring SecDef Approval	Current Program
		Last Report	This Report		
<u>Mar 78 Report</u>					
Total Direct	8,335,000		8,548,000		8,548,000
<u>Sept 78 Report</u>					
Total Direct	8,575,000	8,548,000	8,697,000	a	8,697,000

^aEight listed changes sum to zero for the direct program.

In the "SecDef Approved Program, Last Report" column, the entry of \$8,548 million for the September report merely picks up the amount shown in the "SecDef Approved Program" column in the preceding semiannual report. (Thus, this column is not used in the March reports.) In the September report, this value becomes the baseline for tracking SecDef approved changes in the last half of the fiscal year.

The entries in the next column reflect the value in the first column plus all SecDef approved reprogramming actions. The entries in the fourth column reflect changes to the direct program that do not require advance approval of the SecDef. In general, these are the below-threshold, internal reprogramming actions described earlier. Finally, the values in the last column are the sums of the preceding two columns, which for the September report correspond to the values in the October 1978 FYDP. These values are the Air Force's best estimates of the final obligations for the fiscal year just completed.

Figure 8 illustrates how information available from the reprogramming system can be used to trace the impact of reprogramming actions on appropriation totals. In this example, specific reprogramming actions are related to the program base to which they applied, as was shown previously in Table 31.

Table 33 displays information about the impact of reprogramming actions at the BA level. Data in this table were derived from information in backup data made available to us by the Air Force, although it would have been possible to derive them from the individual DD Form 1415 for each reprogramming request. We were unable to learn from OASD/C the extent to which these data are or could be included in the FAD 757 system.

<table><tr><td>Program Base October 1977</td><td>\$8,335.3</td></tr></table> Basic Appropriation Act, P.L. 95-111, September 1977 Program Base Column of the "Report of Programs," DD Form 1414, October 1977 Congressional Program Base Column of the "Report of Programs," DD Form 1416, March 1978	Program Base October 1977	\$8,335.3	<table><tr><td>Reprogramming Actions, October 1977 to March 1978</td><td>+ \$212.8</td></tr></table> Number AF-1/DoD 78-6 - Request +\$6.0 - Approved by the SecDef - Approved by the Congress Number AF-3/DoD 78-31 - Request +\$33.4 - Approved by the SecDef - Congressional Action Pending Number AF-4/DoD 78-33 - Request +\$164.3 - Approved by the SecDef - Congressional Action Pending Number DA-1/DoD 78-5 - Request +\$9.1 - Approved by the SecDef - Approved by the Congress	Reprogramming Actions, October 1977 to March 1978	+ \$212.8	<table><tr><td>Approved Program March 1978</td><td>\$8,548.1</td></tr></table> SecDef Approved Program This Report Column of the "Report of Programs," DD Form 1416, March 1978 SecDef Approved Program Last Report Column of the "Report of Programs," DD Form 1416, September 1978	Approved Program March 1978	\$8,548.1	<table><tr><td>Reprogramming Actions, March to September 1978</td><td>+ \$148.7</td></tr></table> Supplemental Appropriation Act, P.L. 95-355, Septem- ber 1978 +\$239.4 Number AF-3/DoD 78-31 - Denied by the Congress - Adjustment -\$33.4 Number AF-4/DoD 78-33 - Partially Approved by the Congress - Ultimately, \$107 was Applied Against the Request - Adjustment -\$57.3	Reprogramming Actions, March to September 1978	+ \$148.7	<table><tr><td>Approved Program September 1978</td><td>\$8,696.8</td></tr></table> SecDef Approved Program This Report Column of the "Report of Programs," DD Form 1416, September 1978 Total Appropriation October 1978 FYDP	Approved Program September 1978	\$8,696.8
Program Base October 1977	\$8,335.3													
Reprogramming Actions, October 1977 to March 1978	+ \$212.8													
Approved Program March 1978	\$8,548.1													
Reprogramming Actions, March to September 1978	+ \$148.7													
Approved Program September 1978	\$8,696.8													

Figure 8. THE EFFECT OF REPROGRAMMING ACTIONS ON THE AIR FORCE FY 78 O&M
APPROPRIATION FROM OCTOBER 1977 TO SEPTEMBER 1978

(Dollars in Millions)

Table 33. THE IMPACT OF REPROGRAMMING ACTIONS AT THE BA LEVEL
FY 78 O&MAF APPROPRIATIONS

(Dollars in Millions)

Budget Activity	Amount Enacted ^a	Reprogramming Actions Reflected in the March 1978 Report				SecDef Approved Mar 78 ^c	Supplemental Appropriation	Reprogramming Actions Reflected in the September 1978 Report		SecDef Approved Sept 78 ^d
		Air Force Ser. No. ^b	Request	Status	Congress			Status	Amount	
1	1,583.8	2	-1.8	A	NR	1,600.0	+13.7			1,613.7
		4	+20.0	A	P			Partially approved by Congress	+2.0 ^e	
		5	-2.0	NR	NR					
		7						Approved by SecDef and Congress	-2.0	
2	1,521.3	2	-3.4	A	NR	1,601.3	+74.2			1,628.6
		3	+32.6	A	P			Denied by Congress	-32.6	
		4	+43.8	A	P			Partially approved by Congress	-19.3 ^e	
		5	+5.0	NR	NR					
		7								
3	657.2	2	-1.9	A	NR	673.7	+19.2			682.1
		3	+0.8	A	P			Denied by Congress	-0.8	
		4	+18.6	A	P			Partially approved by Congress	-9.0 ^e	
		5	-1.0	NR	NR					
		7						Approved by SecDef and Congress	-1.0	
4	543.4	2	+30.3	A	NR	572.6	+14.6			587.1
		4						Partially approved by Congress	+1.0 ^e	
		5	-1.1	NR	NR					
		7						Approved by SecDef and Congress	-1.1	
7	2,887.5					2,937.9 ^f	+85.1			2,995.8
		1	+6.0	A	A					
		2	-21.6	A	NR					
		4	+64.9	A	P			Partially approved by Congress	-27.2 ^e	
		5	+1.0	NR	NR					
		6	+1.0	A	NR					
8	919.6					946.8 ^f	+24.3			965.3
		2	+1.9	A	NR					
		4	+17.0	A	P			Partially approved by Congress	-4.9 ^e	
		5	-0.8	NR	NR					
		6	+0.1	A	NR					
		7						Approved by SecDef and Congress	-0.9	
		DA	+9.1	A	A					
9	221.6					215.1 ^f	+8.2			223.3
		2	-5.5	A	NR					
		5	-1.1	NR	NR					
		6	-1.6	A	NR					
10	0.8					0.8	+0.1			0.9
TOA	8,335.3					8,548.1				8,696.8

Legend: A - Approved; P - Pending; NR - Not Required

^aDollars shown are those reflected in the Initial Request for Reprogramming Action, DD Form 1414, report of the Air Force FY 78 program. As explained in the text, these same data are included in the Congressional column of the March 1978 Report of Program, DD Form 1416. Values shown by BA do not add to total because of rounding.

^bThe cross reference to DoD serial numbers and titles shown earlier are as follows:

AF-1/78-6P/A, AFMC ADP Operations	AF-5/DoD Serial Number Not Required, Realign BAs
AF-2/78-4, Realign BAs	AF-6/78-10, Realign BAs
AF-3/78-31N, Readiness	AF-7/78-32P/A, Aviation Fuel Consumption
AF-4/78-33P/A, Contract Services	

^cDollars shown are from the "Program Approved by SecDef, This Report" column of the March 1978 DD Form 1416. These same data are reflected in the "Program Approved by SecDef, Last Report" column of the September 1978 DD Form 1416.

^dDollars shown are those reflected in the "Program Approved by SecDef, This Report" column of the September 1978 DD Form 1416. These data do not include BA realignments made by the Air Force which did not require approval by the SecDef. These latter changes are discussed separately.

^eThe impact of Reprogramming Action AF-4 was included in the March 1978 program in accordance with DoDI 7250.10 which permits SecDef approved requests to be reflected in the approved program pending approval by the Congress. In September, the Congress approved only a portion of the request. As explained in the text, the Air Force ultimately applied \$107M against the reprogramming request. The adjustments shown result in a net reduction of \$57.3M to the \$164.3M requested in the original request (i.e., \$164.3 - 107 = \$57.3M). The dollars do not add precisely due to rounding.

^fThese totals reflect slight differences from direct applications of the adjustments shown in the reprogramming columns to the BA totals in the second column (i.e., BA 7 and BA 8 are each \$0.9M less and BA 9 is \$1.7M more than the sum of the adjustments). The reasons for this are not known, although some part is due to rounding.

As described in this section, resource information in the reprogramming system is focused primarily at the BA level within each O&M appropriation since this level is the area of primary concern to the OASD/C. However, information at this level is not adequate to support OASD/MRA&L's requirements for improved visibility and control of O&M-funded logistic resources. Despite this fact, the system offers the opportunity for OASD/MRA&L to achieve this desired visibility and control if it can play an expanded role in developing the base for reprogramming and in reviewing requests for reprogramming actions that have the potential to alter logistic programs approved in earlier decisions.

3. Service Operating Budgets

Although the SD Form 348 described earlier is technically part of the allocation process, it was included in the discussion of the apportionment process to emphasize its use in the distribution of funds to the Services. When the Service Headquarters receive their fund authorizations, they issue operating budgets to their major agencies, which then issue operating budgets to their subordinate agencies. For purposes of our research, we are interested primarily in the operating budgets for the Service major agencies. Even though these budgets are not routinely provided to OSD, they are of interest to us because they demonstrate the type of detailed information available at the Service Headquarters level.

Uniformity among the Services in budget execution prevails especially with regard to operating budgets because each Service must pass the same kinds of instructions to its subordinate organizations. For this reason, we use in this section the procedures and information included in the Air Force operating budgets to discuss the relevance of these budgets to this study.

In general, operating budgets are used to allocate funds to subordinate agencies. In this process, each Service must pass all of the OMB- and OSD-imposed limitations on the Service Operating Budget to the agencies to which these limitations apply. Primary among these limitations are cumulative authority by quarter at the BA and total appropriation levels. Also included are rigid constraints, such as floors and ceilings on specific items, as well as advisory guides that represent recommended funding levels. The rigid constraints are absolute controls; however, the advisory guides represent targets for which deviations are permitted but must be reported to the issuing authority as soon as they become known. These targets reflect the fact that the issuing authority has greater flexibility for the categories on which targets are placed than for those on which absolute controls are applied.

Exhibit 5 is an overview of some of the major kinds of information provided by the Air Force to one of its major agencies. This exhibit illustrates some of the specific limitations included in an actual operating budget.

4. Accounting Data

The Services have developed similar systems and procedures to account for planned versus actual resource use during budget execution primarily because the Services receive common direction from OSD and must respond to the same reporting and accounting data requirements. For all Services, these data are accumulated for each operating budget in categories such as appropriation, budget activity, DoD element of expense, and DoD functional category. More important for this study, however, is the fact that each Service uses prescribed building blocks as the primary tool to program, budget, expend, and account for O&M funds. These building blocks [Air Force Elements of Expense (AFEE), Navy Budget Classification Codes, and Army

Exhibit 5. ILLUSTRATION OF INFORMATION INCLUDED IN AIR FORCE
OPERATING BUDGETS ISSUED TO MAJOR OPERATING
AGENCIES^a

(Dollars in Thousands)

Section 1 Cumulative authority by budget activity and total appropriation
for the direct program and reimbursables.

Section 2 Identification of limitations within the authority listed above.

Legal Limitations

A. Total Availability/Obligation Authority

Funds shall not be distributed in excess of the cumulative quarterly obligation authority (direct plus reimbursement program), nor shall obligations be authorized or incurred in excess of these amounts. Total annual obligation authority is reduced at year-end to the extent the reimbursement program is not realized, i.e., reimbursable orders are not received.

B. Direct Annual Program by Major Force Program

Obligations shall not be authorized or incurred in excess of amount stated for each MFP. Reprogramming of direct obligation authority between MFPs is allowable for the first three quarters of the fiscal year provided: no quarterly program exceeds the corresponding annual MFP limitation, and the sum of direct plus reimbursable program does not exceed the cumulative total obligation authority of the quarter.

C. Availability of Funds for Specific Purposes

Funds in the amount stated shall not be used for any other purpose, but obligations for this purpose may exceed the amount stated. Inability to obligate the amount stated shall be reported to the issuing authority as soon as it becomes apparent.

1. \$72,200 Real Property Maintenance

D. Total Obligations Limited to Amounts Stated

Obligations for the purpose indicated shall not exceed the amount stated.

1. \$ 16 Contingencies
2. \$ 229 Public Affairs (PE91214 and 91298)
6. \$ 7,800 First Destination Transportation
7. \$15,393 Exchange Goods Transportation
8. \$37,500 Logair

Other Limitations

E. Targets or Advisory Guides

Funds in the amounts stated are provided for the following purposes. Deviations from amounts stated shall be reported to the issuing authority as soon as they become apparent.

1. \$15,286 Intelligence
2. \$ 13 Timber Management
3. \$ 1,100 Heavy Gate
6. \$ 6,609 Score Event
8. \$21,234 ADPE Activity
11. \$ 161 Administrative Travel Limitation

^aBased on the FY 79 Air Force Operating Budget issued to AFLC on 1 Nov 78. The Air Force uses machine runs in lieu of hard copy budgets to manage O&M budget execution.

Management Structure Codes (AMSCO)] are used to identify these funds at all levels according to function performed.¹ These data can be summarized by program element and budget activity categories so that planned versus actual fund usage can be reported.

In our research for this task, we were advised that OASD/C, DP&FC, was the office responsible for receiving and processing accounting data for its use and for use by the entire OSD staff. Because we were unable to gain access to the DP&FC staff to discuss the availability and use of accounting data in their office, we relied on previous IDA research in this area. Based on this research, we know that the majority of the accounting data at the OSD level is highly aggregated and focused primarily on appropriations and budget activities because most of the accounting reports submitted to OASD/C are designed to support that office in its primary role of ensuring that funds are used in accordance with Congressional constraints. Data at these levels of aggregation are not sufficient, however, to satisfy OASD/MRA&L needs in fulfilling its role of ensuring that specific O&M-funded logistic resources are implemented in accordance with SecDef decisions.

From our previous research, we know that the Services routinely collect data below the BA level on a monthly basis to respond to the reporting requirements of DoDI 7000.5.² In the past, highly aggregated versions of these reports were provided quarterly to OASD/C but we were unable to determine from OASD/C, DP&FC, how much of the basic data available in the Services' Operations Subsystem data bases were available to OASD/C

¹Many of these building blocks are directly related to logistics, and, in previous IDA work in support of the proposed Logistics Resource Annex, we have described how they can be used to identify resources in all of the categories of primary interest to OASD/MRA&L. See IDA P-1194, S-484, and P-1334 for detailed discussions of the use of these building blocks to identify logistic resources.

²DoDI 7000.5, *The FYDP Operations Subsystem*, June 5, 1972.

or how the reports received are distributed.¹ Based on discussions with OASD/C budget analysts, we believe that the reports are not used extensively in their work. Nevertheless, the DoDI 7000.5 system should have significant potential to help OASD/MRA&L to determine the extent to which specific SecDef logistic decisions are implemented, without affecting the use of accounting data by OASD/C to accomplish its primary mission of monitoring budget execution.

Table 34 uses data from the Air Force Operations Subsystem Report as of September 1978 to illustrate the visibility available on a monthly basis. The data shown are for the Depot Purchased Equipment Maintenance Program (DPEM). The first column in the table displays the AFEEs, which are the basic building blocks for the DPEM program.² The second column displays data about the approved program for direct funding. The last column displays actual obligations for the fiscal year.

Table 35 uses similar data from the Navy Operations Subsystem to illustrate the type of information included in the Navy accounting system. In this example, we have chosen information about the ship maintenance program. Because the Navy prepares during budget execution monthly reports that are available in the Office of the Navy Comptroller 4 to 6 weeks after the close of each month, data that OASD/MRA&L could use routinely to acquire visibility of the Navy's execution of O&M programs are available.

Similar data are available from the Army data base maintained in compliance with DoDI 7000.5. For example, the Army CSCFA 218 Report, "Status of Approved Operating Budget", which is available 35 to 40 days after the end of each month, provides similar coverage by Department of Defense Element of Expense

¹See, for example, DD-COMP(Q) 1185, *Report of Status of Operations Resources*, which is a quarterly report showing the status of O&M accounts by BA and PE.

Table 34. AN ILLUSTRATION OF RESOURCE VISIBILITY PROVIDED BY THE AIR FORCE
OPERATIONS SUBSYSTEM^a
(Dollars in Thousands)

Air Force Element of Expense		Operations Subsystem Data	
Code	Title	Direct Annual Program	Direct Actual
541	Aircraft Maintenance	300,468	299,540
542	Missile Maintenance	13,897	14,002
543	Engine Maintenance	139,543	141,172
544	Major Item Maintenance	43,799	43,794
545	Exchangeables Maintenance	783,979	783,879
546	Area Support	56,272	55,766
Total DPEM		1,337,958	1,338,153

^aUSAF Operating Budget Status report, HAF-ACB(M) 7401, as of 30 Sep 78, Dated 8 Nov 78.

AN ILLUSTRATION OF INFORMATION IN THE NAVY OPERATIONS SUBSYSTEM^a

(Dollars in Thousands)

Operation and Maintenance, Navy	Budget Classification Code ^b	FYDP Program	Direct Obligations
Budget Activity 1 ^c			
Ship Intermediate Maintenance	E2	20,564	19,606
Regular Ship Overhaul	F1	135,503	137,418
Restricted/Technical Availabilities	F2	49,190	48,850
Fleet Modernization Program	PU	85,886	84,492
(Others not shown here)			
Total Budget Activity 1		813,329	807,590
Total O&MN Appropriation ^d		11,065,506	11,028,991

^aThe source of this illustration is the BC02 Report, Report of Status of Operations Resources by BCC As of September 1978. In addition to the BC02 Report used in this illustration, several other standard reports are produced that provide data by claimant, PE, element of expense, and other categories.

^bOnly 4 of over 30 BCCs displayed under BA 1 are shown to illustrate the type of information available.

^cOnly one of the 10 BAs is displayed. In addition, data for the O&MN appropriation also are included in the BC02 Report.

^dThe O&M totals agree with data in the October 1978 and January 1979 FYDPs.

(DoDEE) and AMSCO. Thus, detailed information that provides the framework for improved visibility about budget execution is available monthly in each of the Services. This system's ongoing nature and extensive use by the Services facilitates its use by OASD/MRA&L.

5. The OSD Budget Review

Although the OSD review of the Service budget submissions is formally a part of the budget formulation phase, information about prior year and current year programs is included in these submissions. This information is a valuable source of data on planned and actual budget execution. For example, the FY 79 budget submissions reviewed by OSD late in 1977 included information on actual obligations for FY 77 (the fiscal year just completed, or the "prior year") and revised estimates for FY 78 (the fiscal year just beginning, or the "current year"). Similarly, the FY 80 budget submissions, reviewed by OSD late in 1978, included information on actual obligations for FY 78. Thus, budget justification material for two successive budget submissions provided the means to compare resource levels at the beginning and end of a fiscal year. (In this example, the FY 79 budgets displayed resource levels for FY 78, which was just beginning; the FY 80 budgets displayed resource levels for FY 78, which had just ended.) Moreover, since the budget justification material is generally prepared in the same major resource categories and at the same levels of detail each year, it is possible to make these comparisons in considerable detail. Table 36 uses data on the Air Force FY 78 DPEM to illustrate the use of information in the budget submissions to achieve visibility about budget execution.

Table 36 displays estimated O&MAF fund requirements for the FY 78 DPEM from the initial Service budget estimate in September 1976 to the actual obligations incurred as shown in January 1979 in the FY 80 President's Budget. Data at the

Table 36. AN AIR FORCE ILLUSTRATION OF O&M PROGRAM VISIBILITY IN THE FY 78 OSD AND PRESIDENTIAL BUDGET SUBMISSIONS^a

(Dollars in Thousands)

Resource Category	Budget Submission and Date	Sep 76	Jan 77	Feb 77	Oct 77	Jan 78	Oct 78	Jan 79
		FY 78 Service Budget	FY 78 Presidential Budget	FY 78 Amended Budget	Revised FY 78 Estimate, FY 79 Service Budget	Revised FY 78 Estimate, FY 79 Pres. Budget	FY 78 Estimated Actuals, FY 80 Service Budget	FY 78 Actuals, FY 80 Presidential Budget
Total, O&MAF		9,989,404	8,595,500	8,586,114	8,542,118	8,767,579	8,696,771	8,682,188
Total, BA-7		3,412,623	2,953,649	2,991,549	2,959,933	3,030,900	2,997,504	2,990,423
Depot Maintenance ^b								
Aircraft Maintenance & Mod.		256,892	277,758	277,758	306,696	306,696	300,923	299,540
Missile Maintenance		16,803	17,791	17,791	14,350	14,350	14,438	14,002
Engine Overhaul & Repair		108,901	114,678	114,678	116,446	116,446	139,047	141,172
Other Major Equipment Items		41,738	47,068	47,068	39,607	39,607	42,106	43,794
Exchangeables		832,400	772,384	810,284	796,015	802,202	776,974	783,879
Area/Base Support, Other		43,517	52,890	52,890	53,296	53,296	53,043	55,766
Total Requirement DPEN ^c		1,300,251	1,282,569	1,320,469	1,326,410	1,332,597	1,326,531	1,338,153
Adjustment		f	-22,900 ^d	-22,900 ^d	+12,100 ^e	+12,100 ^e	-	-
Total DPEN, DMIF		f	1,259,669	1,297,569	1,338,510	1,344,697	1,326,531	1,338,153
Total Non-DMIF		f	72,213	72,213	69,351	86,965	76,545	61,046
Total Depot Maintenance Program		1,642,441	1,331,882	1,369,782	1,407,861	1,431,662	1,403,076	1,399,199

^aData are from the Air Force Operations Budget Justification Books submitted to OSD and to the Congress for the dates shown in each column heading.

^bThese subcategories are the functional repair categories used by the Air Force to manage the Depot Maintenance Program. They correspond to primary Air Force Elements of Expense 541-546, respectively.

^cDepot Purchased Equipment Maintenance (DPEN) Program is comprised of funds to purchase services from the Depot Maintenance Industrial Fund (DMIF).

^dFY 78 civilian pay supplemental.

^eFY 78 lump sum payment to DMIF.

^fThese data are not available.

appropriation and budget activity levels are shown for reference. In this table, the October 1977 and January 1978 data reflect the Air Force revised estimate for FY 78 based on funds provided in the basic FY 78 Appropriations Act as amended by subsequent supplemental appropriations and requests for reprogramming (discussed earlier in this chapter). These data represent the Air Force's fund allocation at the time FY 78 budget execution began.

The October 1978 and January 1979 data reflect estimated and final obligations, respectively, for FY 78 based on information in the Air Force accounting system. These data can be compared with the allocation of resources planned at the beginning of the fiscal year to achieve insight into how programs actually were funded.

Note that the DPEM total shown in the final column corresponds to data on actual obligations displayed in the final column of Table 34. The relationship of the data for the approved program displayed in Table 34 and the various approved programs in Table 36 was not determined, although Air Force analysts stated that such a track existed at the time the data were current and could be recreated if necessary.

Similar data on the depot maintenance program are available in the Army and Navy O&M Justification Books. In addition, similar data are available in all of the Services for other major logistic functions such as MRP, BOS, supply depot operations, and procurement operations. Unfortunately, data on other logistic functions, such as intermediate and organizational maintenance, are not available in the justification books since neither OSD nor the Congress requires that resources for these programs be identified explicitly.

The major limitation in using data in the budget submission to monitor budget execution is not the level of detail displayed. The more serious limitation is that the information

is formally available after-the-fact and, thus, does not afford OASD/MRA&L the opportunity to influence on-going resource allocations. This situation is alleviated somewhat since considerable data are available in the budget reviews conducted in conjunction with each submission. Nevertheless, the lack of timeliness in the availability of these data is a major limitation.

Another important limitation in using the justification books to achieve insight into budget execution is that these books are not published at regular intervals during the execution year. In the past, the formal OSD midyear budget execution reviews provided additional visibility during execution. Unfortunately, these reviews no longer are held for the O&M appropriation. Based on discussions with members of the OASD/C staff, we have concluded that the formal reprogramming system is considered to provide sufficient information on changes in the application of resources from the levels approved in the initial budget execution plans.

In lieu of formal OSD mid-execution year reviews of O&M appropriations, expanded use of execution year data during the POM review could offer the opportunity for OASD/MRA&L to achieve improved visibility on logistic programs. However, the Services are not required to provide updated current year data in the POM submissions (e.g., POM 80 submitted in May 1978 did not generally address years prior to FY 80).¹ In fact, formal machine runs, including FYDP updates, seldom revise information for years prior to the new budget year, although limited information about prior years often is included in the POM narrative and special exhibits if required to support

¹In our opinion, this is because the POM is directed toward development of the budget that is to be submitted to the Congress the following January. Also, there is probably little advantage to be gained by addressing the budget currently being reviewed by the Congress. It would seem to be more useful to rely on execution year data included in the Services' September budget submissions to OSD.

specific POM initiatives. In these instances, the data generally address only that portion of total programs for which major changes in the application of resources are required. For example, for the Air Force FY 78 depot maintenance program shown in Table 36, POM 80, published in May 1978, did not change the \$1,344 million required for the DPEM program that was shown in January. A slight reduction was made in the non-DMIF program, however, so that funds for total depot maintenance were reduced to \$1,419 from \$1,431 million in the President's Budget.

C. VISIBILITY AVAILABLE TO OASD/MRA&L UNDER CURRENT BUDGET EXECUTION PROCEDURES

This section discusses current budget execution procedures in terms of their potential to provide OASD/MRA&L with improved visibility of the execution of O&M financed logistic programs.

1. Congressional Review

In our examination of the activities associated with the Congress' review and adjustment of the President's Budget, we have concluded that OASD/MRA&L already has adequate visibility of adjustments made by the Congress to specific programs. Under current procedures, OASD/MRA&L analysts have the opportunity to participate in hearings that involve specific resource categories, and the current status of each adjustment considered by the Congress is reported by OASD/C in the FAD 728 reports.

Congressional adjustments of a more general nature may provide the opportunity for the content of previously approved logistic programs to be changed without the prior knowledge of OASD/MRA&L. These general adjustments, such as the FY 78 adjustment for inflation, are traced in the FAD 728 system as a single entry for each appropriation, and they require distribution by the Services to specific resource categories. Under current

procedures, OASD/C approves the distribution of all general adjustments to specific programs; i.e., when the appropriation acts are passed, the spread of all general adjustments to BAs is known. To the extent that OASD/MRA&L can work with the OASD/C during this process, the opportunity to monitor the effects of the spread of general adjustments at least to the BA level already exists. Currently, the impact of this spread on specific programs is determined by the Services in conjunction with preparation of the revised estimate for the fiscal year just starting. As described earlier, OASD/MRA&L has the opportunity to review and influence this Service spread during the fund distribution process and during the review of the Service budget submissions for the President's Budget scheduled to go to the Congress in January.

2. Reprogramming Process

As described earlier, resource information in the reprogramming system is focused primarily at the BA level within each appropriation. In addition, in developing the base for reprogramming, DD Form 1414, information is available, within each BA, on the line item adjustments made by the Congress during the budget review. Also, the procedures used by OASD/C to process all requests for reprogrammings permit OSD to monitor and control subsequent changes to the approved baseline. Unfortunately, the visibility provided by the reprogramming system is not at a level of detail that would permit OASD/MRA&L to ensure that approved programs for specific logistic programs are implemented.

In our examination of the reprogramming process, we have concluded that OASD/MRA&L can achieve improved visibility within current procedures by expanding their participation in two areas. First, improved coordination with OASD/C is required during the development (i.e., prior to SecDef approval)

of the DD Form 1414. This action will permit OASD/MRA&L to influence the Services' spreads of Congressional adjustments of a general nature to insure that logistic programs are adjusted in a manner consistent with the intent of the general adjustment. Second, improved coordination with OASD/C is required during the processing of all reprogramming requests that have the potential to alter logistic programs. OASD/MRA&L can ensure that funds approved for specific logistic programs are not identified as the source of funds for desired reprogrammings. Despite the fact that the DD Forms 1415 are written in broad terms, backup data to the formal reprogramming documents are available to OASD/C. These data permit identification of changes in resource levels to specific logistic programs.

3. OSD Budget Review

The Service budget submissions include information about revised estimates for the fiscal year just starting. This information reflects the Services' revised estimates of program requirements based on Congressional adjustments to the budget request and fact-of-life changes that have occurred since the budget was submitted. In our examination of the budget execution process, we noted that significant changes in resource levels are reflected in these revised estimates. We concluded, however, that OASD/MRA&L already has the opportunity to review these changes during the regular budget review and reprogramming processes; so, no changes in current procedures should be required.

4. Use of Accounting Data To Monitor Budget Execution

In our research we have not addressed the relevance of many special purpose reports used by the Comptroller to monitor

budget execution.¹ We acknowledge the importance of these reports and reporting systems, but we believe that they do not have as much potential to help OASD/MRA&L to achieve improved visibility on the usage of logistic resources as do the systems on which we have concentrated. We reached this conclusion because the primary systems used by OASD/C generally focus on appropriation and BA totals that are too aggregated to support OASD/MRA&L. Moreover, the Operations Subsystem, which uses information from the same accounting data base as is used to prepare the primary reports used by OASD/C, contains information at a level of detail that is already useful to OASD/MRA&L. Thus, if OASD/MRA&L is successful in adapting these Operation Subsystem reports to their needs, improved visibility can be achieved without altering the primary reports used by OASD/C to manage budget execution.

The data bases maintained by the Services to permit compliance with DoDI 7000.5 already include considerable information about logistic programs of interest to OASD/MRA&L. This is especially true for programs such as MRP and depot maintenance. Moreover, the computerized systems used by the Services to process Operations Subsystem data provide the framework within which additional building blocks can be added for use in entering information about other logistic programs. Thus, the Operations Subsystem already has the potential to provide information that could be used by OASD/MRA&L to monitor planned versus actual obligation data for prescribed logistic resource categories.

¹The DoD Accounting Guidance Handbook, DoDHB 7220.9H, February 1, 1978, addresses the accounting reports used by OASD/C. These include the *Report on Budget Execution*, DD-COMP(M) 1125, and the *Flash Report on Obligation Status*, DD-COMP(M) 1445, which focus on appropriation data; and the *Report of Obligations*, DD-COMP(M) 1238, which includes data at the BA and line item level. Of these, the 1002 report is potentially useful but not as much as the Operations Subsystem Reports. The formal Flash Reports are not useful to OASD/MRA&L, but the concept of using flash reports may offer the potential to help that office achieve improved visibility and control for logistic resources.

A large variety of reports is available within the Services 30 to 60 days after the end of each month. Selected data from these reports are forwarded to the OASD/C each quarter. We were unable to determine from the DP&FC the specific content of these reports and the distribution that is made within OSD. We believe, however, that this system can afford OASD/MRA&L improved visibility on the execution of O&M programs on a monthly basis. Expanded use of reports from the Operations Subsystem would not, however, provide OASD/MRA&L the opportunity to influence changes in the application of funds during budget execution because the reports reflect resource usage 1 to 2 months prior to receipt. OASD/MRA&L would have to continue to rely on the reprogramming system to monitor and control requests for changes in resource usage prior to approval.

D. CURRENT CONTROLS ON BUDGET EXECUTION

At the OSD level, the reprogramming system is the primary system for control of O&M-financed resources. This system establishes the baseline for budget execution at funding levels consistent with Congressional appropriation, budget activity, and line-item controls and provides for orderly shifts of resources during budget execution. Below the OSD level, formal operating budgets are the primary system for control of these resources. These budgets are used to allocate resources among users, transmit funding limitations imposed by higher headquarters, and add additional constraints as desired by the issuing authority.

The statutory control in the execution of O&M budgets is at the appropriation level. No user of O&M funds is authorized to incur obligations in excess of amounts made available in each O&M appropriation in the operating budget.

Within each O&M appropriation, the primary limitation in budget execution is at the BA level. No Service is authorized

to incur obligations in any budget activity in excess of \$5 million above approved levels without initiating a formal reprogramming action and being advised, in writing, by the Deputy Assistant Secretary of Defense, Comptroller (Program/Budget) of the extent to which the reprogramming request has been approved. This "threshold" is cumulative in that an individual shift may be below \$5 million, but when it is combined with amounts already reprogrammed for the same BA, the cumulative amount exceeds \$5 million. The Services can shift resources between BAs without reprogramming approval as long as the \$5 million-limitation is not violated.

The final class of funding limitations includes the specific constraints included in O&M appropriation acts and those Congressional adjustment line items designated as funding limitations in the DD Form 1414, Base for Reprogramming. This latter category, commonly identified as "footnoted" items, includes items for which specific reductions in the amounts requested were made by the Congress and items designated as special interest items by one or more of the Congressional Committees. The use of the term "specific reductions" is significant in that not every line item adjustment results in a limitation. During the budget review, each line item reduction is reviewed to determine whether it results in a funding constraint.

Current DoD policy (see for example DoDD 7200.1)¹ is to limit the use of fund limitations to those necessary to comply with statutory provisions of the appropriation acts or to comply with the intent of Congress as expressed during the budget review and reflected in designated adjustment line items. The DoD has sometimes imposed its own line item controls, but, apparently, this seldom is done. As a result of

¹DoDD 7200.1, *Administrative Control of Appropriations*, November 15, 1978, para. D4.

this policy, most of the controls over budget execution are at levels too high to permit OASD/MRA&L to ensure that specific SecDef decisions on logistic programs are implemented.

In our examination of current DoD O&M fund control policy and procedures, we have concluded that they provide a framework within which OASD/MRA&L can impose line item controls, as desired, on logistic resource categories. For example, at the time OSD issues the fund authorization document, SD Form 348, OASD/MRA&L could work with OASD/C to impose OSD limitations on a particular logistic program. The specific details of the use of these limitations are addressed in Chapter IV.

E. MOVEMENT OF RESOURCES WITHIN BUDGET ACTIVITIES

Of special interest in our research was OASD/MRA&L's concern about the so-called "migration of funds" problem, i.e., the movement of funds from a lower priority program (or from a program for which timing is less critical) early in the execution year, accompanied by obligation of funds during the last few days of the year if funds are still available.¹ In this study, we were unable to develop solid evidence on the extent to which this is a serious problem. We believe, however, that it is possible to implement control mechanisms that would prevent this migration in particular resource categories of special interest to OASD/MRA&L.

Funds migration is a direct consequence of current DoD budget execution procedures. The constraint on moving funds between BAs, together with the time required to secure approval of major reprogramming actions and the lack of restrictions on

¹In our research to support this task, we purposely have defined "migration of funds" to exclude the often alleged end-year scramble by users of funds to obligate all of the funds appropriated for a given year. This is a more general problem that is properly the concern of OASD/C. For this reason, we have not included analysis of this problem in our research, although we acknowledge that the two problems are related.

moving funds within BAs, motivates the Services to emphasize the movement of funds within BAs to meet high priority requirements. Lower priority programs within the same BA, if no reprogramming line item limitation has been established, comprise a readily available source of funds if a higher priority requirement for funds is encountered during budget execution. This use of these funds is a preferred strategy even if a Service realizes that the most efficient solution is to shift funds, via a formal reprogramming request, from another BA. In fact, use of these funds represents an immediate solution without the risk of either having a formal request for reprogramming disapproved or experiencing delays from the reprogramming process.

The migration of funds from lower priority programs, even if it results in subsequent cancellation of previously approved projects, is an effective management technique for funding emergent higher priority programs. Service managers are able to make rapid decisions about relative priorities and fund those for which immediate obligations are required. The most serious potential problem from this practice is not program delay or cancellation, but rather the likelihood that the rapid application of funds late in the fiscal year may lead to inefficiencies. For example, if funds become available late in the year, the projects that may be funded are those for which funds can be rapidly obligated rather than the projects that should and would have been funded if the original budget had been executed.

Current budget execution procedures provide a readily available means for OASD/MRA&L to prevent this problem. Consider, for purposes of illustration, an OASD/MRA&L decision to ensure that the MRP program, justified during the budget review

and approved at the start of execution, is, in fact, implemented.¹ OASD/MRA&L would merely have to designate the program an "OSD Special Interest Program" and establish time-phased funding controls. For example, OASD/MRA&L could require a monthly funding profile at the beginning of the year and direct that monthly obligations be incurred at a rate consistent with the approved profile unless specific, prior approval is obtained. Moreover, the Operations Subsystem reports described earlier can be used to monitor the monthly obligation rate in lieu of special reports.

F. CONCLUSIONS

Based on our evaluation of the current O&M budget execution process, we have reached the general conclusion that OASD/MRA&L can achieve improved visibility and control over the usage of O&M-financed logistic resources within current systems and procedures by taking a more active role in the management of budget execution. This conclusion is based on the assumption that OASD/MRA&L has identified, prior to the beginning of budget execution, the resource categories and SecDef decisions for which improved visibility and control are required.

Our general conclusion on applicability of current systems and procedures is based on the following existing capabilities:

- (1) During the Congressional review of the President's Budget, OASD/C, working with the Congressional and DoD staffs, identifies all Congressional adjustments to specific categories of resources in the budget request. A computerized system is used to monitor and record all adjustments. These systems and procedures permit OASD/MRA&L to achieve satisfactory visibility of Congressional changes to the DoD budget

¹MRP is used merely for convenience. This program often is cited as one into which available funds typically are added at the end of the fiscal year.

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INSTITUTE FOR DEFENSE ANALYSES ARLINGTON VA COST ANAL--ETC F/S IS/S
IMPROVED PROCEDURES FOR FORMULATION AND EXECUTION OF OPERATIONS--ETC(U)

SEP 79 J D MORGAN, M B DAVIS, A B FULLER

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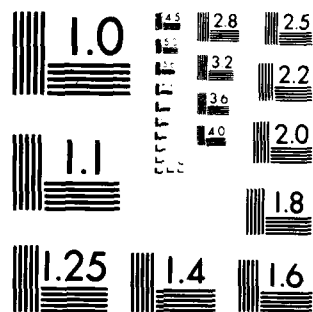
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submissions that pertain to logistic programs and associated resources.

- (2) The current reprogramming system permits OASD/MRA&L, through OASD/C, to impose controls on specific logistic resource categories in addition to those imposed by the Congress. Also, the reprogramming system provides the mechanism to monitor and control changes in approved resource levels.
- (3) Information about the "prior year" and the "current year" budgets that are included in the annual OSD and Presidential Budget submissions provides insights about resource usage during budget execution in those years.
- (4) Most of the accounting reports used by OASD/C to manage budget execution provide information only at appropriation and BA levels. Data at these levels are too highly aggregated to satisfy OASD/MRA&L needs in performing its role of monitoring logistic programs.
- (5) Operations Subsystem reports, which the Services prepare monthly using basic accounting data, already provide useful information about approved and actual resource usage. The data in these reports are at a level of detail adequate to support OASD/MRA&L for some categories of logistic resources. Moreover, these Operations Subsystems provide the framework to report resource usage in all categories of interest to OASD/MRA&L.

Although OASD/MRA&L can achieve improved visibility and control of O&M-financed logistic resources within the current system, several short-run improvements can be made to improve the budget execution process. Furthermore, additional long-run improvements can be made to provide the complete system OASD/MRA&L requires to monitor logistic program budget execution. The improvements will be discussed in Chapter IV.

Chapter IV RECOMMENDATIONS

A. INTRODUCTION

To improve its control over budget formulation and execution of O&M-financed logistic resources, OASD/MRA&L must make several basic decisions about which resources to control and how to control them. As guides to these decisions, IDA makes three policy recommendations on which resources to control and nine procedural recommendations on how to improve control. These recommendations are shown in Exhibit 6.

As shown in the exhibit, the three policy recommendations represent obvious decisions affecting the categories of resources for which OASD/MRA&L requires increased visibility and control. What is not quite so obvious is that when these decisions are applied to the different phases (formulation, justification, execution) of the budget cycle, it is entirely possible that different degrees of visibility and control may be required for various resource categories in the three phases of the cycles. This possibility is consistent with our discussion of study assumptions in Chapter I, where it is explained that SecDef program and budget decisions of interest to this study may affect simultaneously broad summary categories of total logistic dollars as well as specific subcategories and programs making up the broad totals. During one phase of the budget cycle, such as formulation, it may be appropriate to require extensive visibility and no explicit controls over the impacts of decisions on both the summary categories and their more specific logistics subcategory and program components. However,

Exhibit 6. RECOMMENDATIONS FOR IMPROVED O&M BUDGET CONTROL
OVER LOGISTIC RESOURCES

Policy Recommendations

OASD/MRA&L must decide:

1. The relevant categories of logistics for visibility and control.
2. The kinds of controls to apply.
3. The frequency of visibility and control review to require.

Procedural Recommendations

Short Run Minimum Essential

OASD/MRA&L must:

4. Expand its role in the determination of the base for reprogramming.
5. Expand its role in the reprogramming process.
6. Receive detailed Operations Subsystem data.
7. Receive Service distributions of all budget decisions at the conclusion of the budget review period.

Short Run Supplementary

OASD/MRA&L:

8. Must seek to expand the logistics budget detail in the POM.
9. Must seek to standardize POM and budget submission details among the Services.
10. Should advocate percentage budget activity reprogramming thresholds.

Long Run

OASD/MRA&L could:

11. Seek to manage logistics as a total program through the Logistic Resource Annex structure.
12. Recommend the establishment of O&M appropriation management reserves in the Services.

during a different phase of the budget cycle, such as execution, the requirements for visibility may be limited to fewer categories, and some controls may be established over selected categories.

The application of the policy recommendations to different phases of the budget cycle is discussed later in this chapter.

The procedural recommendations are shown in three categories: short-run minimum essential; short-run supplementary; and long-run. All of the short-run procedural recommendations build on the substantial resource visibility and control capabilities present in existing budgeting and accounting systems. These existing capabilities, extensively examined in Chapters II and III, would permit the short-run recommendations to be implemented relatively quickly, starting with the calendar year 1980 POM.

The short-run minimum essential recommendations represent a set of actions that we believe must be accomplished if OASD/MRA&L is to solve its O&M budget control problems. It would be possible, of course, to adopt only some of the minimum essential recommendations and to obtain, as a result, some degree of improvement in O&M budget control. To satisfactorily solve the problems of O&M budget control, however, all of the minimum essential recommendations are required.

The short-run supplementary recommendations are actions that could not, by themselves, provide a sufficient solution to the O&M budget control problem. As additional actions combined with the minimum essential recommendations, however, they can improve the quality and degree of O&M budget control beyond the minimum satisfactory level.

The long-run recommendations in Exhibit 6 are stated as conditional actions that OASD/MRA&L could take if it desired. These actions are identified as long-run because they entail more than building on existing systems to solve the O&M budget

control problem, and more than a single budget cycle would be necessary for their approval and implementation.

The long-run recommendations represent major changes in the logistic management roles of OASD/MRA&L and the Services. In particular, OASD/MRA&L would be adopting a total logistic management function based on the LRA as a comprehensive definition of the categories of total logistics. The Services would be providing execution visibility to OASD/MRA&L in terms of the LRA categories, and would indicate reasons for change to explain deviations from approved resource levels. Such total logistic resource management by OASD/MRA&L would tend to reduce Service flexibility for meeting unforeseen contingencies through ad hoc program adjustments during execution. However, the need for such ad hoc adjustments should be reduced with the establishment of O&M management reserve accounts that would be formally justified and approved in the budget cycle. These accounts would permit the Services to meet unforeseen contingencies without withdrawing funds from budgeted programs as they frequently have to do under existing arrangements.

Each recommendation in Exhibit 6 is discussed in greater detail in the remainder of this chapter.

B. POLICY RECOMMENDATIONS

The three policy recommendations discussed here represent decisions that must be made by OASD/MRA&L for the procedural recommendations to be effective. They apply to both the short- and the long-run, because whether improved O&M control is obtained through better use of the existing system in the short run or through a change of management philosophy in the long run, these policy decisions still must be made.

1. Recommendation One: OASD/MRA&L Must Decide The Relevant Categories of Logistics for Visibility and Control

Existing budgeting and accounting systems already provide considerable visibility of the impacts of SecDef decisions on categories of logistic resources. As discussed in prior chapters, the LRA, budget DUs and associated subcategories, and O&M categories in the Service Operations Subsystems already contain logistic categories that provide the basis for expanded visibility and control. OASD/MRA&L must examine these existing categories and decide whether they are sufficient, and if they are not, identify additional categories that should be added. Following these decisions, OASD/MRA&L must decide which of the correctly identified categories are to be used for visibility and which are to be used for control in various phases of the budget cycle.

OASD/MRA&L's examination of existing categories of logistics to determine whether and how they need to be expanded is essentially an attempt to define the word "logistics" as it relates to OASD/MRA&L responsibilities. Since the LRA already provides a comprehensive definition of logistics that has been accepted by OASD/MRA&L, it seems reasonable to conclude that the categories in the LRA provide an acceptable representation of logistics. Also, since most of the budget DUs and their subcategories (activity and subactivity groups) are equivalent to LRA categories, there is already a considerable degree of correspondence between the comprehensive LRA logistic categories and the program and budget categories used during budget formulation and justification. The major exceptions are organizational and intermediate maintenance, categories that are identified separately in the LRA but not in the DU structure. Additional DUs could be established for organizational and intermediate maintenance. This action would make the LRA and the budget DUs

essentially identical in their O&M categories of logistics. If, for some reason, the identification of new DUs would be inappropriate, organizational and intermediate maintenance could be established as activity or subactivity groups within existing DUs.¹

Assuming that the correct categories of logistics have been defined and introduced into existing budgeting and accounting systems, OASD/MRA&L must decide which of these categories will be used for visibility and control and during which phases of the budget cycle. In making these decisions, it is important to consider that there are two major types of SecDef decisions for which the impacts on categories of logistics would be required: total and specific logistics decisions.

Total logistics decisions involve the total O&M Service budgets approved by the SecDef in established budget activity and decision unit categories and subcategories. For example, when the SecDef completes review of the Service budgets and forwards them to the President for inclusion in the President's January budget, an O&M total for each Service is "approved" by the SecDef. Each Service's O&M total is identified to DUs and DU subcategories, and the amounts of TOA associated with each of these categories represent SecDef decisions. This view is confirmed by the fact that for each program and budget DU, a separate DPS decision paper is written in OSD and approved by the SecDef. For those DUs that are exclusively logistics, such

¹Organizational and intermediate maintenance resources currently are included in several O&M BAs. Although most DUs are identifiable to a single O&M BA, the BOS DU in each Service identifies resources in several BAs. The same approach used for BOS could be used for organizational and intermediate maintenance. If new DUs were not adopted for these resource categories, it would be possible to define organizational and intermediate maintenance activity or subactivity groups within existing DUs. The disadvantage of this latter approach compared with establishing new DUs is that it would not provide as great a degree of visibility, because activity group information is backup detail and is not tracked by the OASD/C budget review status system.

as Ship Maintenance (Navy DU 008), Base Operations (Air Force DU 059), Supply and Maintenance Activities (Marine Corps DU 026), and Industrial Preparedness (Army DU 020), SecDef approval in a DPS represents an approved level of logistic resources. For those DUs that are a mix of logistics and nonlogistics, such as Strategic Forces (Navy DU 001), Tactical Forces (Air Force DU 006), General Purpose Forces (Marine Corps DU 007), and Land Forces (Navy DU 003), the approved levels of logistic resources will have to be identified, as discussed earlier, by defining new DUs that are exclusively logistics or by establishing logistics activity groups within the existing DUs.

Given that the correct categories of logistics are represented by DUs and DU subcategories, the total SecDef logistic decisions represented by the approved TOA levels in these categories are completely visible during the formulation stage of the budget cycle. Because DUs and activity groups are carried into the Congressional Justification materials presented to Congress in January, visibility of total logistic decisions and subsequent Congressional actions against these decisions is also possible during the Congressional Justification phase of the budget cycle.

During budget execution, resource obligations are not identified to categories that are directly equivalent to DUs, activity groups, and LRA categories. However, the Service Operations Subsystems record obligations in categories that can be related to the proper logistics categories. Thus, if desired, total logistic decisions made by the SecDef could be visible each month through a proper alignment of Operations Subsystem data with the desired logistic categories. Ideally, Operations Subsystem categories would be defined to provide complete coverage of the correct logistic categories. Some of this redefinition already has been accomplished for BOS resources. For example, the Navy Operations Subsystem has introduced a set of new categories (budget classification codes) to provide execution year

visibility of BOS resources that are identical to the program and budget BOS DU activity group categories.

Specific logistic decisions refer to SecDef decisions that impact a specific program or subcategory of logistics within a larger program and budget category. The impact of a specific logistic decision may not be confined to a single DU or LRA category but, instead, may be spread among several logistic categories. Specific decisions may involve a relatively narrow set of resources, such as the O&M resources required to increase the inventory effectiveness at a particular ammunition depot, or a relatively broad set of resources, such as the O&M resources required to reduce the Navy ship and aircraft depot maintenance backlog. Regardless of whether the specific decisions are narrow or broad, the program and budget DU categories provide the means by which these decisions are made visible during budget formulation. For examples of this, we can examine a force structure specific decision that includes both logistic and nonlogistic O&M impacts and a purely logistic specific decision that includes only logistic O&M impacts. These examples assume that the proper logistic categories have been established in the DU structure.

A specific SecDef force structure decision could be the addition of a wing of A-10 aircraft to the Air Force. During the POM Issue Paper cycle, the Air Force would have internally identified the O&M dollars associated with the new wing to DUs and to DU subcategories. Some of these DUs will represent categories of logistics and some will not. Since all of the O&M dollars associated with the A-10 decision are identified to the affected DUs, OSD has formulation visibility of both the logistic and the nonlogistic decision impacts.

When the SecDef PDM-APDM decisions are made, the Air Force will identify internally the impacts of these decisions on the A-10 wing proposal to DUs and subcategories. In the October

budget presented to OSD, the Air Force will identify explicitly, for OSD examination, the O&M dollars associated with the A-10 requirement in DUs and subcategories.

Since we are assuming that the DUs have been defined properly to show the required logistic categories of interest to OASD/MRA&L, the A-10 logistic impacts will be visible. When the SecDef decisions in the DPSs are made, the impacts of these decisions on the A-10 proposal will be recorded by the Air Force in terms of DUs and subcategories. Once the SecDef-approved Service budget is sent to the President and incorporated into the President's January Budget submission, the logistic category visibility of the A-10 decision can be retained. However, it is not currently part of the routine of the Operations Subsystem to identify separately during budget execution the resources associated with the new A-10 wing. Thus, the visibility of specific force structure decisions is retained throughout the formulation and justification phases of the budget cycle, but it is lost during the execution phase. OASD/MRA&L must decide whether it requires visibility to ensure that the resources identified to the A-10 wing during formulation actually are obligated to support that wing during budget execution.

The Services can provide such specific decision impact visibility during execution. The identification of obligated logistic resources to a particular wing of aircraft would involve the use of factors and prorated dollars. Such identification may be useful for gross visibility of whether the O&M requirements formulated for the new A-10 wing are good estimates of actual execution experience. It should be noted, however, that it might be difficult for analysts to conclude that the resources obligated for a specific A-10 wing represent the unique experience of that wing because the obligated dollars identified to logistic

resource categories for a specific wing of a new aircraft would represent averages applicable to the entire A-10 force.

A purely logistic specific SecDef decision might involve O&M dollars used to reduce the backlog of depot maintenance repairs. Throughout formulation and justification, the proper logistic DUs and DU subcategories would be identified to these O&M dollars, so that OASD/MRA&L could ascertain how the various categories of logistics are affected by the backlog decision. During execution, however, these particular O&M dollars would not be earmarked routinely under existing procedures.

Thus far, we have examined the questions of what are the proper resource categories to consider and whether they can be made visible during formulation, justification, and execution. For both total and specific logistic decisions, visibility is possible in designated categories; however, in some cases, factored results and prorated values are involved. The final question for OASD/MRA&L with regard to proper logistics categories is which categories to control.

Although visibility is possible for all decisions in all designated logistic categories, it is unlikely that controls would be desired on all categories for which visibility is available. Controls probably would be applied only to selected categories. In Chapter I we established that control during formulation is not particularly useful because of the fluid nature of the budget review and reranking process; thus, the most likely phase in which controls would be imposed is budget execution. Since we also have established the total logistic decisions are more reasonable as objects of visibility during execution, it follows that they also would be likely candidates for control. Execution controls over parts of resource categories identified to specific logistic decisions would require the Services to meet dollar controls that reflected factored

and prorated dollars, and such controls would seem inappropriate. Thus, the issues of which logistic categories to control reduces to the issue of which logistic categories that reflect total SecDef decisions should be controlled during execution.

Any resource categories of policy interest are legitimate candidates for control; however, it seems reasonable to expect that most control candidates will come from two broad types of resource categories. One category comprises the resources required to execute high priority defense programs. Usually these programs have received the benefit of careful analysis during the POM and budget reviews, and decisions have been made at the highest levels based on top management perceptions of national defense priorities. Depot maintenance customer funds are a likely example. The second category includes resources that are considered to be of lower priority and, as a result, are used as sources of funds to meet unforeseen emergent requirements. These are de facto deferrable resource categories because they are the ones deferred. Over time, however, a resource category that suffers persistent program deferrals becomes either a high priority problem area to which additional funds must be applied or a resource category that is recognized as unimportant to the defense effort and eventually is ignored altogether in the program and budget formulation process.

2. Recommendation Two: OASD/MRA&L Must Decide What Kinds of Controls To Apply

The second recommendation is for OASD/MRA&L to decide the kinds of controls it wishes to place on logistic resource categories. The other recommendations discussed are compatible with a variety of controls: fences, floors, ceilings, and targets.

However, even though all of these options are feasible under the recommendations in the short and long run, the disadvantages of fences, floors, and ceilings suggest that targets may be the most viable control technique in the long run for a comprehensive logistic management system.

Fences, floors, and ceilings are inappropriate forms of formulation control. During execution they may be useful for extremely high priority programs. However, in view of the uncertainties inherent in defense program execution, most rational decisionmakers would not discount the occurrence of events that would dictate reprogramming resources from a controlled resource area. Once it is recognized that such events are conceivable, decisionmakers are confronted with two alternatives for fenced or floored resources: fence or floor resources on the low side, or provide some mechanism for reconsideration of the fence or floor in case a critical need develops. Fences or floors on the low side may result in approved resource levels that are too low in relation to perceived priorities of normal program execution. On the other hand, mechanisms for reconsidering the fence or floor provide an explicit form of reprogramming.

Ceilings are a different problem. The need for such a device could reasonably occur only if a Service considered a program to be a higher priority than OSD considered it to be. O&M resources always are limited and budgets are developed based on fiscal guidance for balanced programs under appropriations ceilings. It follows, then, that an OSD judgment that a Service has requested too many resources in a given area means that insufficient resources are being requested in other areas. This assertion would be untrue only if the fiscal guidance were judged to be too high, and it is doubtful that a Service or OSD would reach such a conclusion.

It follows that if OSD installs the proper control procedures there should be no need for application of a ceiling to any resource category. Proper control procedures would most likely be part of a total long run logistics management system. If these control procedures were appropriate, the Service would have to allocate resources to its preferred program area in a manner consistent with OSD intent. The flexibility to "overfund" an area would not exist because there would be no source for the excess resources, unless OSD could become convinced during the execution year that such a diversion of resources was desirable.

We recognize that the Congress has applied fences, floors and ceilings on O&M resources in the appropriation process. For obvious reasons the Services comply with these controls, probably shifting resources from programs they perceive to be of high priority to meet some critical new requirements. Of course, the reprogramming process is available to the Services in case severe imbalances in programs would result if Congressional limitations were implemented. If reprogramming approvals could be secured relatively quickly from the Congress, we believe that fences, floors, and ceilings could be useful Congressional tools to influence the Services to comply with Congressional intent. Since the present Congressional reprogramming process can be a slow, time-consuming process, we believe these fund control devices often represent inappropriate constraints to the optimum allocation and usage of defense resources, when applied to relatively large resource areas.

3. Recommendation Three: OASD/MRA&L Must Decide What Frequency and Degree of Visibility and Control Review To Require

The third recommendation is for OASD/MRA&L to decide the degree and frequency of visibility it requires. Visibility is related to both the determination of proper resource categories and control. Although it is clear that the identification of

proper logistic resource categories prescribes categories of visibility, some other visibility characteristics are not necessarily determined automatically by the identification of the resource categories. For example, the frequency with which resource categories are made visible during the budget cycle is a separate decision that OASD/MRA&L must make independent of the choices among short- and long-run recommendations. Similarly, whether the same degree of resource category visibility is required at each point of visibility is another separate issue that is independent of the recommendations selected. As discussed in relation to identifying the relevant logistics categories, visibility may be different in formulation and execution.

With respect to the relationships between visibility and control, we have assumed that visibility is not a form of overt control, but that it is related to control as a necessary element for proper verification and understanding. If enhanced visibility alone were capable of ensuring that O&M dollars were spent in accordance with SecDef decisions and policies, O&M control problems would result primarily from inadequate dialogue at a fine enough level of detail between OSD and the Services. Although this is certainly part of the O&M control problem, it also seems clear that some elements of problems in O&M control require overt controls such as targets (or even fences, floors, and ceilings if their disadvantages are accepted).

Additional visibility seems to be most necessary in the execution phase of the budget cycle, when visibility is largely a matter of tapping existing data that are not reported to OSD and of adding a few resource categories to the existing logistic categories. As explained in Chapters II and III, the basic visibility structure that exists during budget formulation, justification and execution, combined with appropriate controls, provides the basis for ensuring that O&M dollars are spent in accordance with SecDef decisions and policies. In its present

form, this structure provides each Service with the capability to maintain comprehensive visibility and to monitor the use of O&M appropriation funds in very fine levels of detail. Parts of this structure are visible at the OSD level, and parts are not. To provide enhanced visibility and monitoring at the OSD level, it is necessary to make existing Service information visible at the OSD level and to add a few additional resource categories. This does not involve the creation of new systems; it involves tapping existing systems for details that are not already being reported to OSD.

C. SHORT-RUN MINIMUM ESSENTIAL RECOMMENDATIONS

It is important to stress that these recommendations are short run only in the sense of the time required for implementation, not at all in the sense of being temporary or partial solutions to the O&M budget control problems discussed in Chapter I. We believe that the three policy recommendations presented earlier, combined with the four short-run minimum essential recommendations to follow, constitute a solution to OASD/MRA&L's O&M budget control problem that represents a substantial improvement over existing conditions.

1. Recommendation Four: OASD/MRA&L Must Expand Its Role in the Determination of the Base for Reprogramming

The process to develop the base for reprogramming really begins during the Congressional review. As each adjustment is considered by the Congress, the OSD and Service staffs work closely with the Committee staffs to agree on the impact of the adjustment on the resource levels in the budget request. Agreement is reached both on adjustments that impact specific programs and budget activities and adjustments of a more general nature,

such as inflation, that must be distributed.¹ As a result, when the various appropriation acts are passed, there is an agreed-upon distribution of funds by budget activity and by program. At the same time, the staffs determine which of the adjustments result in Congressional limitations.² Thus, before funds are distributed to the Services, the impact of the Congressional review on the budget request is determined. Moreover, for each adjustment, both the amount contained in the budget request and the amount approved in the budget enactment are identified.

OASD/C monitors the results of this process almost daily. The OASD/MRA&L staff already can play an active role in this process. Only two changes are required. First, they must insist on visibility of the categories of resources selected by OASD/MRA&L and monitor and approve all adjustments to the levels in the budget request. Second, they must establish desired line item limitations for those categories of resources selected by OASD/MRA&L for control. The fact that some of the OASD/MRA&L "special interest" items are only internal DoD areas of concern should present no problem. These could be processed in the same way as is now done except that the Congressional staffs would not be involved. In addition, those limitations that are not Congressionally imposed would not appear on the DD Form 1414, but rather the Services would be informed either in an appropriate cover letter, in footnotes to the operating budget (SD Form 348), or in a separate form like the DD 1414. This is merely an administrative detail that should present no problem. Also, as subsequent DD Forms 1414 for budget supplements are processed, OASD/MRA&L would have to perform these same actions.

¹In practice, the Services actually spread general adjustments, but OASD/C provides the final approval.

²As pointed out in Chapter III, not all of the Congressional adjustments result in line item limitations. For example, for the FY 78 O&MAF appropriation, only 9 of 37 lines resulted in specific limitations.

This approach to solving the O&M control problem is based on using current O&M budget formulation and execution systems to improve control and visibility of logistic resources associated with SecDef decisions affecting selected resource categories. It is not intended to address the longer range problem of controlling all the logistic categories in the OSD budget (this problem is addressed later). However, if the existing categories were defined to equal the LRA categories, this approach could result in the same comprehensive control as the long-run LRA recommendations.

It is possible for OSD to direct that the logistic resources associated with any SecDef decision be identified in selected resource categories and monitored during budget execution and that appropriate information be sent to OSD. If this were done, the Services could comply within their current procedures. Because the Services already have the desired data within their data systems, they can comply with such direction without interfering with the fulfillment of their information requirements for the OSD Comptroller.¹

Given that execution visibility in desired resource categories is possible, the issue of whether to impose limitations on the usage of these resources can be addressed. The current reprogramming system permits such limitations internal to OSD without interfering with OASD/C areas of prime concern. We recommend that, OSD-imposed limitations regardless of their form, be internal to DoD.² The decision on which logistic

¹If the applicable categories of resources correspond to explicit resource groupings already used in budget formulation, the required information is probably already available. In cases in which this is not true, new categories will have to be established (e.g., new DUs, PDPs, budget sub-categories, AFEEs, and Navy BCCs) in accordance with the policy recommendations discussed earlier.

²For purposes of explaining how current procedures can be used to impose limitations, it is not necessary to consider the form of control since the current procedures apply to all forms of control that could be selected.

categories to make visible and to control is relevant here. As noted in the earlier A-10 example, it is feasible to separately make visible and control the resources associated with the A-10 decision, but the usefulness of such visibility and control during budget execution is doubtful.

The primary limitation on MRA&L's ability to use current procedures to achieve (interim) improved visibility and control is the extent to which it is possible to obtain the full cooperation of and improved coordination with OASD/C. This is a policy issue that we have not addressed, but we stress that our recommendations in the remainder of this section need not increase the OASD/C workload or interfere with its ability to accomplish tasks associated with its areas of primary concern. We must acknowledge, however, that delays could result from the requirement that OASD/C must coordinate all actions that involve significant changes in resources for approved logistic programs with other OSD staff offices. For this reason, detailed administrative procedures must be developed to ensure a positive approach to the OASD/MRA&L requirement by all affected DoD organizations.

2. Recommendation Five: OASD/MRA&L Must Expand Its Role in The Reprogramming Process

Requests for changes in approved resource levels would be processed just as they are now, except that OASD/MRA&L would be an active participant in the review and approval of all requests for reprogramming that could change previously approved resource levels for the OASD/MRA&L "special interest" items. This expanded OASD/MRA&L role in the reprogramming process should permit that office to influence shifts in resources from specific programs of interest before the Services receive OSD approval.

3. Recommendation Six: OASD/MRA&L Must Receive Detailed Operations Subsystem Data

The OASD/MRA&L staff currently obtains detailed information about budget execution during the budget and POM reviews and from direct contact with their counterparts in the OASD/C and Service staffs. In addition, the formal budget justification material in October and January of the year for which the budget is being executed provides insight to budget execution at the beginning and end of each year. While these data are useful, they provide neither the timeliness nor frequency of coverage required to permit OASD/MRA&L to monitor resource usage at the levels of detail generally of interest. Moreover, much of the accounting data received by OASD/C to support its primary responsibility of seeing that Congressional limitations are not violated is focused at the appropriation or budget activity level rather than at specific logistic programs.

The DoDI 7000.5 data base established by each of the Services has the potential to provide on a monthly basis, information that could be used by OASD/MRA&L to monitor approved versus actual obligations for specific logistic programs. Each Service receives comprehensive accounting data from its subordinate organizations 30 to 45 days after the close of each month. OASD/C, however, receives only summary level, quarterly reports of these data.¹ Expanded use of the data already available to the Services would permit OASD/MRA&L to monitor, on as close a real time basis as is practical from accounting data, both resource levels and rates of obligation for designated programs.

¹DoDI 7000.5 assigns the general RCS DD-COMP(Q) 1185, *Report of Status of Operation Resources*, to data received from this system. Unfortunately, we have heard informally that action is underway to cancel the requirements for this report because of lack of use at the OSD level. We were unable to confirm this with DP&FC, but our theory is that OSD's failure to exploit this data source may be due to failure to advertise the full capability of the system.

We recommend that OASD/MRA&L, through OASD/C, require the Services to provide monthly reports on all OASD/MRA&L special interest items.

This recommendation to require that Service Operations Subsystem reports be sent to OASD/C offices as desired for execution visibility is crucial to the development of a reasonable capability to examine, in any degree of detail, the flows of execution dollars in O&M. Currently, the OASD/C does not provide such monitoring on a comprehensive basis; instead, OASD/C monitoring of execution below the BA level is conducted on an "exception" basis during the execution year. This means that a Service with a problem to resolve or a change in execution that would become a budget issue in next year's budget examination informs the OASD/C analyst responsible for that portion of O&M program. But such "exception" basis monitoring, while serving the requirements of the OASD/C, does not always provide sufficient visibility or tracking for other OSD offices. To the extent that this is true, there is a requirement for additional execution year program execution visibility and tracking, and the Operations Subsystem reports prepared by the Services provide such a tracking capability in extensive detail.

4. Recommendation Seven: OASD/MRA&L Must Receive Service Distributions of All Budget Decisions at the Conclusion of the Budget Review Period

This recommendation is designed to improve visibility during the OSD budget review by requesting that OASD/C reports display Service spreads of all final budget actions by DU and by activity group prior to preparation of the Congressional Justification documents. Throughout the budget review, the OASD/C publishes daily a series of tracking reports that show in considerable detail the updated status of the budget review. Some, but not

all, of the data available in these reports were used as the basis for the budget review tables presented earlier in Chapter II. These data include such information as the minimum budget by DU, CDPSS by DU, PDIPs, serials, DPs by DU, and various cross references and crosscuts of these and similar data. These reports continue to provide visibility to interested parties right up to and including the final reranking of CDPSS and the final pricing and executability adjustments. As shown in several examples in Chapter II, however, once the reranking process and pricing and executability reviews are completed, the OASD/C tracking system no longer provides a visibility medium to OSD offices. Last minute adjustments or changes to the minimum or CDPSS may be left out of the final OASD/C reports, and as a result, OSD analysts cannot determine exactly how the Services will present the approved budgets to Congress until the Congressional Justification materials are published.

It is, of course, possible for individual OASD/MRA&L analysts to contact the Services and OASD/C analysts on a one-to-one basis and to inquire about bits and pieces of programs. There is no comprehensive published overview, however, of the approved budget available outside OASD/C until the justification materials are published and distributed. OSD analysts may be unaware of the impacts on programs of last minute spreads of budget reductions or additions between the conclusion of the budget review and the Congressional Justification submission.

The Services, in consultation with OASD/C analysts, prepare the Congressional Justification Books. Last minute reductions or additions that are not refelected in the last OASD/C reports can potentially affect programs of interest to other OSD analysts, programs that had seemingly survived reranking,

repricing, and executability examination only to be changed in the Congressional Justification submission. Visibility and tracking of O&M line items and decisions would be enhanced by reporting these changes in the OASD/C tracking system.

D. SHORT-RUN SUPPLEMENTARY RECOMMENDATIONS

These short-run supplementary recommendations represent actions that OASD/MRA&L can pursue to improve the quality and functioning of the minimum essential recommendations presented earlier. These supplementary recommendations could not, by themselves, lead to a significant improvement in O&M budget control.

1. Recommendation Eight: OASD/MRA&L Must Seek To Expand The Logistics Budget Detail in The POM

Displaying the POM minimum and PDPs in greater detail at the OSD level, at least by DU and activity group, would provide increased visibility of data that already exist at the Service level. Showing the DU and activity group details to OSD would forge an important logical link in the chain of data that, for a given fiscal year, stretches from the Service operating budget submissions; through the POM, OSD budget review, and Congressional Justification; into budget execution; and back to the Service operating budgets (prior year data).

Visibility of the minimum and PDPs in the POM by DU and activity groups would permit direct monitoring of O&M categories throughout the budget cycle. Since the operating budget submissions by the subordinate commands to the Service headquarters staffs in March, prior to the POM, contain current and prior year data, these data also could be included in the POM displays by DU and activity group. This would mean that beginning in the POM, last year's execution by DU and activity group could be seen along with the current year's execution by DU and

activity group. The POM minimum and PDPs by DU and activity group then could be compared with prior year and current year execution data.

DUs and activity groups are identified as the logical categories in which to show the POM minimum and PDPs because these are the same categories in which the Services have the POM in their internal data disaggregations. These are the same categories in which the budget submitted to OSD is reviewed by OMB and the same categories in which the Congressional Justification materials are submitted, as was discussed in Chapter II. In essence, the only major portion of the budget cycle for which DU details currently are not shown to OSD is the POM and POM Issue Paper review.

An important flexibility of the DU structure is that selected line items can be shown separately within the minimum of any DU or activity group, and these line items can be retained through the budget cycle. In addition, new or modified DUs and activity groups can be created within the existing structure. Thus, the potential for tracking any line items deemed appropriate is present within the existing DU system. By requiring that the POM minimum and PDPs be shown to OSD by DU and activity group, a decision-maker would be completing the logical remaining step in the existing visibility system.

2. Recommendation Nine: OASD/MRA&L Must Seek To Standardize POM and OSD Budget Submission Details Among the Services

Standardization of the levels of detail submitted by the Services in the OSD budget submission would improve the visibility and trackability of programs, line items, and decision impact on them. As noted in Chapter II, the levels of detail within a single DU, or even within a single activity group of a DU, vary widely among and between the Services. In some DUs, line item detail is in a highly aggregated form at the OSD

level, while in others it is in a very detailed form. The same degree of visibility and traceability is not present between and among DUs and activity groups within a Service, much less between and among DUs and activity groups in different Services.

3. Recommendation Ten: OASD/MRA&L Should Advocate Percentage Budget Activity Reprogramming Thresholds

The Services frequently find it necessary under existing arrangements to move dollars among resource categories to respond to perceived changes in priorities during budget execution. At the BA level they are constrained in such movements as described in Chapter III; however, it may be more consistent to apply percentage BA thresholds instead of the current absolute threshold of \$5 million. For example, in BA 7 with several billion dollars, a one-half percent threshold could amount to several millions of dollars of below threshold authority, while in BA 10 with less than \$100 million, a five percent threshold could amount to less than the \$5 million currently in force. It may be more consistent with efficient management flexibility to permit a large BA a relatively small percent but large absolute dollar threshold, and a small BA a relatively large percent but small dollar threshold.

The current constraint on moving money between BAs may force the Services to be more active in moving money among programs within a single BA. Assume that a change in priorities during execution requires a rapid response in terms of funds diversion. The most efficient change of priorities might require funds to be shifted from one BA to another; however, if the required funds exceed \$5 million, a timely response may be impossible through the Congressional reprogramming process. As the only feasible alternative, the Service may be forced to shift funds among

programs within the same BA, even though the most efficient change in priorities would dictate a funds shift between FAs.

E. LONG-RUN RECOMMENDATIONS

The long-run recommendations are those that, by their very nature as major policy changes, probably will require more time to implement than the short-run recommendations. The first long-run recommendation is to adopt the LRA as the structure for OASD/MRA&L visibility and control and to impose notification controls on selected resource categories in the structure. This first recommendation amounts to OASD/MRA&L managing logistics as a whole. The second long-run recommendation is to establish O&M management reserves in the Services; it could be adopted as a complement to either the short-run recommendations or to the LRA long-run recommendation.

1. Recommendation Eleven: OASD/MRA&L Could Seek To Manage Logistics as a Total Program Through the LRA Structure

This recommendation constitutes a major change in OSD logistic administration. Not only would all relevant logistic resource categories become visible and traceable throughout the budget cycle by adoption of the LRA categories, but also these visible and monitored LRA categories would selectively have budget targets and notification controls attached to them. Depending on the number of resource categories selected for control, this recommendation has the potential to provide relatively narrow or very broad administrative control over logistics.

The LRA is to be a standard annex to the FYDP and will be submitted each time the FYDP is updated. We believe that the LRA contains the proper categories of logistic resources, by function, and by weapon system, to use in identifying logistic-related O&M resource areas for application of reprogramming

procedures. For example, component repair funds must be identified by materiel category and selected weapon system in each LRA submission. Funding levels for real property maintenance activities must be shown by subcategories corresponding to the Service RPMA budget activity groups. These data will be shown by fiscal year for the period covered by each FYDP.

Other potential candidate resource areas for application of O&M fund control procedures also are identified separately in the LRA. Some of these categories are organizational maintenance, modification and alteration installation, sustaining engineering and technical support, and base operations, other services and support.

If reasons for change were incorporated into the LRA resource category structure, the LRA could provide visibility that would permit OSD analysts to track the Service use of authorized flexibilities in reprogramming resources to and from selected O&M financed logistic resource areas. In addition, the LRAs could show the effect on these areas of adjustment approved in the internal DoD reprogramming process.

New DoD reprogramming procedures could be applied to resource categories that OASD/MRA&L already had approved as a comprehensive definition of logistics. In applying these procedures, we suggest that approved budget levels on O&M programs in LRA resource categories could be considered as targets, granting the Services limited authority to increase or decrease the budget levels during the execution year. The determination of targets should be part of the budget review process. For increases and decreases that cumulatively exceed these authorities, the Services could be required to submit reprogramming requests to OSD and precluded from taking reprogramming actions until OSD approval is secured. Needless to say, OSD must act promptly on reprogramming requests if this system is to be successful.

It seems clear that such an LRA-based system, including budget reviewed targets and notification controls, as well as reasons for change, would provide a comprehensive logistics administration technique. As discussed earlier in this chapter, comprehensive logistics administration of the kind discussed here could be achieved through the short-run recommendations if the categories of logistics to be made visible and controlled correspond to the LRA categories. In addition, the controls imposed in the base for reprogramming could be notification controls such as those discussed here. The advantage of treating the LRA long-run recommendation separately in this case is that it represents a convenient, established framework through which a comprehensive logistics management policy by OASD/MRA&L could be accomplished.

2. Recommendation Twelve: OASD/MRA&L Could Recommend Establishment of O&M Appropriation Management Reserves in the Services

Official Service O&M management reserves provide a long-run technique for O&M budget control that can complement both the short run and the LRA long-run recommendations. If the minimum essential short-run or the LRA long-run changes were implemented, one effect could be to restrict Services from using low priority deferrable programs as convenient ad hoc management reserves. Given that these programs which traditionally had served as sources of funds to meet unforeseen contingencies were controlled, Service O&M managers still could potentially require some flexibility to meet the unforeseen contingencies. An official management reserve, identified as a budget request category to be estimated and defended in the budget review, could provide a source of flexibility.

In addition to complementing already established controls, a management reserve would probably require expanded use of line item controls. For example, if the official reserve were

established without more wide spread use of controls on selected line items, it would be possible for Services to use not only the management reserve as a source of funds, but also use the same low priority deferrable resource categories that always had been the sources of funds for unforeseen contingencies. Thus, if the management reserve were established and the deferrable categories were not already controlled, it might be necessary to control them after the management reserve was established.

Management reserves in the O&M appropriations would be new techniques in O&M funds management. Currently, the Services must identify in their Operations and Maintenance budgets all of the programs to be financed by those budgets. There is no provision, under existing regulations, for contingency funds unidentified to specific programs that could be used to finance emerging high priority requirements.

With the passage of time between initial budget preparation and final authorization of funds to be spent, many changes occur in proposed O&M-financed programs. Some of these changes are directed in the review process, but others are caused by unpredicted events that occur over time and render obsolete some of the elements of the programs in the initial budgets.

The impact of many of these events can be recognized in the preparation of the Form 1414, Base for Reprogramming, when the execution year begins. The Congress and OSD also have established the formal reprogramming system to accommodate changes in programs that occur during the execution year. This system operates on the premise that if new high priority requirements arise, it is appropriate to delete from the budget previously justified lower priority programs and to transfer the released resources to the new program. Of course, some other resources may become available if needs projected in the original budget

do not materialize. It should be noted, however, that these mechanisms are not as flexible at the Service level as would be an O&M management reserve.

The current O&M budget system suffers from several disadvantages. First, experience indicates that changes in national defense needs inevitably arise in the execution year and resources must be found to support them. Since the Congress will entertain supplemental appropriation requests only for the most critical of emerging national defense needs, very few of the new requirements for O&M appropriations support qualify for supplemental appropriation of funds. These requirements must be financed by reduction or cancellation of programs considered to be of lower priority. Some O&M-financed programs (e.g., civilian manpower, weapon system maintenance, and Service operational activities such as flying and steaming hours) consume large amounts of O&M funds and always enjoy high priority. Therefore, other areas, such as maintenance and repair of real property and travel programs, have become traditional sources for funds to finance new high priority requirements. Furthermore, in the long run, serious problems caused by underfunding can develop in defense resource areas originally programmed for support with the funds that have been withdrawn.

A second disadvantage of the current O&M budget system is that unforeseen events requiring high priority financial support from the O&M appropriation may occur at any time during the fiscal year. Under the current budget procedures, as funds are progressively obligated for all programs, the Service flexibility to reprogram funds consistently declines. Unless the Services intentionally postpone implementation of low priority programs, it is conceivable that by the final quarter of the fiscal year, it would be virtually impossible to transfer resources in sufficient amounts from low priority programs to finance emerging, critical high priority needs. Thus, it may

be necessary to reprogram these funds from other relatively high priority programs to meet an even more critical need.

Finally, the Services occasionally have experienced delays in securing approval for reprogramming requests under the provisions of DoDD 7250.5 and DoDI 7250.10. These delays restrict Service flexibility and impede the timely execution of both the higher and the lower priority programs affected by the requests for reprogramming.

The three disadvantages mentioned above tend to restrict Service O&M fund management flexibility and lead to inefficiency in the application of O&M-funded logistic resources during the execution year. To promote efficiency in O&M appropriation financial management, we recommend that the Services be granted authority to establish and maintain O&M appropriation management reserves similar to those permitted contractors in the implementation of acquisition programs for DoD weapon and support systems.¹ This reserve could provide a mechanism for handling emergent requirements without arguing issues of relative priorities at a critical time. It also could reduce the number of reprogramming requests and permit more efficient financial management of each program in the approved budget.

Management reserve levels should be established based on an analysis of prior year program adjustments that were necessary to meet unforeseen O&M requirements during the execution year. Strict criteria should be established for use of the management reserve funds. O&M programs should be developed exclusive of the amount of funds included in the management

¹*The Joint Implementation Guide for Cost/Schedule Control Systems Criteria*, identified in the Air Force as AFSC/AFLC Pamphlet 173-5, (page 9), defines a Management Reserve as: "An amount of the total allocated budget withheld for management control purposes rather than designated for the accomplishment of a specific task or set of tasks."

reserve to ensure that reserve funds are not merely used to make up known deficiencies in other O&M program areas.

In implementing this recommendation the management reserve category should be established as a new O&M Decision Unit for the annual budget submission and as a separate category in the Congressional submission.¹ In the POM and budget processes, management reserves should be included within the ceilings prescribed by the fiscal and budget guidance. The management reserve DU should be subjected to the same review and analysis in terms of a "minimum" program and sequential increments above the minimum as existing budget decision units.

¹The management reserve could be established as a new budget activity in the Congressional submission and used as a means of visibility throughout the execution of the budget. However, it must not be subject to the reprogramming directives that currently require submission of a reprogramming request in order to increase O&M funds in a BA by more than \$5 million.

APPENDIX A

SAMPLES OF FORMS USED IN THE REPROGRAMMING PROCESS

Exhibit A-1. DD Form 1105, Apportionment Request

APPORTIONMENT AND REAPPORTIONMENT SCHEDULE				
AGENCY DEPARTMENT OF DEFENSE COMPONENT DEPARTMENT OF THE AIR FORCE		APPROPRIATION TITLE AND SYMBOL Operation and Maintenance, Air Force (5793400)		FISCAL YEAR 1978 APPROPRIATION SYMBOL COMPONENT NO. DDO NO.
DESCRIPTION	AMOUNT ON LATEST DD FORM 1105	ADJUSTED BY COMPONENT	REQUESTED BY SEC DEF	ACTION BY OMB
BUDGETARY RESOURCES				
BUDGET AUTHORITY				
1A APPROPRIATION REALIZED	9,243,000,000	9,243,000,000	9,243,000,000	
1B OTHER NEW AUTHORITY REALIZED				
1C NET TRANSFERS OF CY AUTH REALIZED				
1D ANTICIPATED RESOURCES				
1 TOTAL BUDGET AUTHORITY	9,243,000,000	9,243,000,000	9,243,000,000	
UNOBLIGATED BALANCE				
2A BROUGHT FORWARD OCTOBER 1				
2B NET TRANSFERS OF PY BALANCES				
2C ANTICIPATED TRANSFERS OF PY BALANCES				
2 TOTAL UNOBLIGATED BALANCE				
REIMBURSEMENTS AND OTHER INCOME				
3A EARNED				
3B CHANGE IN UNFULFILLED CUSTOMER ORDERS		969,843,000	969,843,000	
3C ANTICIPATED FOR REST OF YEAR				
3 TOTAL REIMBURSEMENTS AND OTHER INCOME		969,843,000	969,843,000	
RECOVERIES OF PRIOR OBLIGATIONS				
4A ACTUAL RECOVERIES				
4B ANTICIPATED RECOVERIES REST OF YEAR				
4 TOTAL RECOVERIES OF PRIOR OBLIGATIONS				
5				
6 RESTORATIONS (+) AND WRITE-OFFS (-)				
7 TOTAL BUDGETARY RESOURCES	9,243,000,000	10,212,843,000	10,212,843,000	
APPLICATION OF BUDGETARY RESOURCES				
MEMORANDUM APPORTIONMENTS OBLIGATIONS INCURRED				
8A 1st QTR	2,310,750,000	2,520,190,000	2,520,190,000	2,520,190,000
8B 2nd QTR	2,310,750,000	2,554,100,000	2,554,100,000	2,554,100,000
8C 3rd QTR	2,310,750,000	2,533,000,000	2,533,000,000	2,533,000,000
8D 4th QTR	2,310,750,000	2,055,643,000	2,055,643,000	2,055,643,000
8E				
8F				
8G				
8 TOTAL APPOINTMENTS	9,243,000,000	10,212,843,000	10,212,843,000	10,212,843,000
RESERVES				
9A FOR DEFERRAL				
9B FOR RESCISSION				
9 TOTAL RESERVES				
10 UNAPPORTIONED BAL OF REVOLVING FUNDS				
11 TOTAL BUDGETARY RESOURCES	9,243,000,000	10,212,843,000	10,212,843,000	10,212,843,000
FOR DOD USE ONLY		FOR OMB USE ONLY		
This apportionment request indicates a necessity for a supplemental appropriation now estimated at \$127,349,000. In addition to the amounts apportioned herein, an amount equal to the value made available by transfer from the Foreign Currency Fluctuation, Defense Appropriation, is automatically apportioned.		This apportionment anticipates a supplemental appropriation of \$127,349,000 due to increased pay costs.		
SUBMITTED TO OMB (Col 4)		DATE		
Signature (Principal Officer - OMB) Acting Assistant Secretary of the Air Force (Financial Management) REQUESTED BY OMB (Col 4)		17 OCT 1978		
SIGNATURE (Principal Officer - OMB) John R. Quetsch Principal Deputy Assistant Secretary of the Air Force DD FORM 1105 (10-77) (Impeller)		DATE OCT 20 1978		
SIGNATURE (Principal Officer - OMB) 15 John Plotzke		DATE 11/12/78		

Exhibit A-2. SD Form 348, FUND AUTHORIZATION DOCUMENT (Operating Budget)

OPERATING BUDGET - SCHEDULE OF CUMULATIVE OBLIGATION AND EXPENSE AUTHORITY (DOLLARS IN MILLIONS)

Account: Operations, Air Force Operation and Maintenance, Direct Program (by Subdivision):	Schedule No. 1	FY 1978			
		First Quarter	Second Quarter	Third Quarter	Annual Program
Strategic Forces		493.1	902.0	1,288.2	1,553.0
General Purpose Forces		488.7	839.1	1,219.4	1,493.9
Intelligence and Communications		258.9	383.0	522.4	655.3
Lift and Sealift		144.6	290.2	430.2	553.7
Central Supply and Maintenance		865.0	1,550.8	2,224.7	2,865.3
Training, Medical & Other Personnel Activities		267.7	504.3	703.8	930.6
Administration and Associated Activities		61.2	115.5	163.0	214.1
Military Assistance Activities		.2	.4	.6	.8
Total Direct Obligational Authority a/		2,579.4	4,585.3	6,552.3	8,266.7
Total Reimbursable Authority		184.1	394.4	622.3	876.5
Total Obligational Authority b/		2,763.5	4,979.7	7,174.6	9,143.2
Direct Military Personnel Expenses c/		1,819.8	3,601.3	5,373.4	7,048.6
Total Operating Budget		4,583.3	8,581.0	12,548.0	16,191.8

Limitations:

- a/ The O&M subdivision distribution of these FY 1978 quarterly amounts are targets. Increases of \$5.0 million or more in the annual program for each subdivision must have the specific approval of the issuing authority.
- b/ This total and the amounts by quarter, as increased by reimbursements which qualify for automatic apportionment, are the obligational authority under the FY 1978, O&M, Air Force, appropriation, and are limitations on a cumulative quarterly basis subject to R.S. 3679 and DoD Directive 7200.1.
- c/ This total and the amounts by quarter are targets. Deviations beyond 5% must be explained to the issuing authority.

Joseph H. Sherick *[Signature]* **APPROVED** **SEP 19 1977**

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DD FORM 1414

RESPOND CONTROL SYMBOL
DD-Form (AR) 443

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BASE FOR REPROGRAMMING ACTIONS									
Page 3 of 4									
1478									
(Amounts in thousands of dollars)									
LINE ITEM	PROGRAM BASE PRELIMINARY TO CONGRESS IN PRINTED JUSTIFICATION		APPROVED CHANGES PRESIDENTIAL CONGRESSIONAL ACTION		CHANGES REFLECTING ACTION/INTEREST		REVISED PROGRAM REPROGRAMMING		AMOUNT
	QUANTITY B	AMOUNT C	QUANTITY D	AMOUNT E	QUANTITY F	AMOUNT G	QUANTITY H	AMOUNT I	
CENTRAL SUPPLY AND MAINTENANCE									
Initiation									
Maintenance of Real Property									
Automatic Data Processing Operations									
3/ Project MAX		2,991,349				-104,024			2,887,325
Base Operating Support		(700)				(- 8,745)			(700)
Standards Application						(+ 2,100)			
Logistics Readiness						(-11,805)			
Area Support						(-)			
ETR Downrange Support						(- 3,940)			
Flying Hour - Added Logistics Support						(- 199)			
Military Bands						(- 7,900)			
2/Second Destination Transportation						(- 1,638)			
Foreign Military Sales - Transportation						(- 1,000)			
1/Aircraft Depot Maintenance		(269.1)				(- 5,300)			(209.3)
Flying Hour Program						(- 5)			
Transfers to Research & Development						(-59,800)			
G-141 Stretch/Con						(+15,500)			
Civilian Personnel Reduction						(- 3,892)			
						(-13,700)			
						(- 2,100)			
						(- 1,500)			
TRAINING, MEDICAL & OTHER PERSONNEL ACTIVITIES									
Inflation									
Maintenance of Real Property						-28,934			919,602
Automatic Data Processing Operations						(- 7,146)			
Intelligence Related Programs						(+ 1,500)			
Base Operation Support						(- 937)			
Acc Program - KC-135 (Incl Civilian Personnel)						(- 200)			
High School Completion Program						(- 2,240)			
Military Bands						(- 1,050)			
Foreign Military Sales - Training						(- 350)			
Flying Hour Program						(- 76)			
Recruiting Advertising						(- 5,000)			
Medical Operations						(- 174)			
Civilian Personnel Reduction						(- 2,220)			
ROTC Scholarships		(10,483)				(- 8,500)			(8,263)
Defense Institute for PMS		(757)				(- 2,541)			(-)
						(-)			(-)

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A-5

Exhibit A-3 (Continued)

BASE FOR REPROGRAMMING ACTIONS									
Page 4 of 5									
1978									
(Amounts in thousands of dollars)									
LINE ITEM	PROGRAM RATE PRESENTED TO CONGRESS		APPROVED CHANGES PRESENTED TO CONGRESS		CHANGES REFLECTING CONGRESSIONAL ACTION		REVISED PROGRAM RATE FOR REPROGRAMMING		
	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	
ADMINISTRATION AND ASSOCIATED ACTIVITIES		231,436			-11,227			221,609	
		(3,998)			(-4,662)			(1,998)	
					(-2,565)				
					(-2,000)				
					(+1,300)				
SUPPORT OF OTHER NATIONS		797						797	
BUDGET AUTHORITY		8,585,114						8,585,279	
		876,500						876,500	
		9,462,614						9,462,779	
TOTAL FINANCING - FY 1978 PROGRAM									

Exhibit A-4. DD FORM 1415, ILLUSTRATION OF REPROGRAMMING ACTION

REPROGRAMMING ACTION									
OPERATION ACCOUNT TITLE							DD SERIAL NUMBER		
Operation & Maintenance, Defense Agencies							78-5 IR		
APPROPRIATION SERIAL NUMBER		(Amounts in Thousands of Dollars)							
FY 1978-1 IR		PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM PREVIOUSLY APPROVED BY SEC DEF		REPROGRAMMING ACTION		REVISED PROGRAM	
LINE ITEM		QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT
		a	b	c	d	e	f	g	h
<u>INTERNAL REPROGRAMMING ACTION</u>									
The purpose of this action is to transfer FY 1978 CHAMPUS funds from the Operation and Maintenance, Defense Agencies Appropriation to the Operation and Maintenance Appropriations of the three military departments as authorized by Section 854 of PL 95-111 of the DoD Appropriation Act. REPROGRAMMING INCREASE: FY 1978 TRAINING, MEDICAL AND OTHER GENERAL PERSONNEL ACTIVITIES O&M, Army +3,384 O&M, Navy +5,300 O&M, Air Force +9,100 Explanation: To provide resources to conduct the Medical Capitation Budgeting Test (CHAMPUS). TOTAL PROGRAM INCREASE +17,784 REPROGRAMMING DECREASE: FY 1978 TRAINING, MEDICAL AND OTHER GENERAL PERSONNEL ACTIVITIES CHAMPUS 614,583 -17,784 596,799 Explanation: To transfer funds budgeted by CHAMPUS to the services for execution of the Medical Capitation Budgeting Test. TOTAL PROGRAM DECREASE -17,784 NET CHANGE IN PROGRAM -0-									
REQUESTED (Signature and Date)				APPROVED (Signature and Date)					
D. O. Cooke, Dep Asst Sec of Defense (Admin)				Fred P. Walker					
DD FORM 1415				Unclassified				REPORT CONTINUED ON NEXT DD-Form (M) 1415	

Exhibit A-5. DD FORM 1416, REPORT OF PROGRAMS

REPORT OF PROGRAMS									
Page 1 of 2									
UNCLASSIFIED									
DD FORM 1416, 1-78									
PROGRAM BASE REFLECTING CONGRESSIONAL ACTION									
PROGRAM APPROVED BY SECRETARY OF DEFENSE AS OF DATE OF LAST REPORT									
CHANGES NOT REQUIRING PRIOR APPROVAL BY SECRETARY OF DEFENSE									
PROGRAM INCLUDING CHANGES REQUIRING PRIOR APPROVAL BY SECRETARY OF DEFENSE									
LINE ITEM	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY	AMOUNT	QUANTITY
(Units in thousands of dollars)									
FY 1978 PROGRAM									
STRATEGIC FORCES									
***Military Bands	1,583,831								1,600,039
GENERAL PURPOSE FORCES									
***Military Bands	1,521,340								1,601,290
INTELLIGENCE AND COMMUNICATIONS									
AIRLIFT AND SEALIFT	657,177								673,663
***T-39 Flying Hours	543,398								572,567
***Military Bands									
CENTRAL SUPPLY AND MAINTENANCE									
3/ Project Max	2,887,525								2,937,864
***Military Bands	(700)								(700)
2/ Second Destination transportation	(209.31)								(289.11)
Foreign Military Sales - transportation									
1/ Aircraft Depot Maintenance	919,602								946,773
TRAINING, MEDICAL & OTHER PERSONNEL ACTIVITIES									
*High School Completion Program									
*Recruiting Advertising	(8,263)								(8,263)
***NYC Scholarships	(-)								(-)
**Defense Institute for PMS									
ADMINISTRATION AND ASSOCIATED ACTIVITIES									
3/ Phase IV Base Operations - ADP	221,609								215,081
	(1,998)								(1,998)
1/ Requires Committee approval prior to implementation of a reprogramming decrease in funding. The Depot Maintenance floor is \$1,326.4, of which \$22.9 is proposed to be financed from the supplemental appropriation for pay raises.									
2/ Requires committee notification commensurate with a reprogramming increase in funding.									
3/ This is an item of special interest to Congress for which obligation must be deferred until specific compliance with Congressional direction is met.									
e/ Includes reprogramming action pending approval of one or more Congressional committees.									

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REPORT OF PROGRAMS

RECONCILIATION ACCOUNT VOUCHER

Operation & Maintenance, Air Force FY 1978

Page 2 of 2

31 March 1978

LINE ITEM	(in units in thousands of dollars)											
	PROGRAM BASE REFLECTING CONGRESSIONAL ACTION		PROGRAM APPROVED BY SECRETARY OF DEFENSE AS OF DATE OF LAST REPORT				CHANGES NOT REQUIRING PRIOR APPROVAL BY SECRETARY OF DEFENSE				PROGRAM INCLUDING CHANGES REQUIRING PRIOR APPROVAL BY SECRETARY OF DEFENSE	
	QUANTITY a	AMOUNT c	QUANTITY d	AMOUNT e	QUANTITY f	AMOUNT g	QUANTITY h	AMOUNT i	QUANTITY j	AMOUNT k		
SUPPORT OF OTHER NATIONS		797				797					797	
Direct Program		8,335,279				2/ 8,548,074					8,548,074	
Reimbursable Program		876,500				876,500					876,500	
TOTAL PROGRAM		9,211,779				2/ 9,424,574					9,424,574	
FINANCING												
BUDGET AUTHORITY:												
Appropriation						8,335,279					8,335,279	
Transfer plus (+) or minus (-)						+ 212,795					212,795	
Reimbursable Orders						876,500					876,500	
TOTAL FINANCING - FY 1978 PROGRAM						9,424,574					9,424,574	
*Requires Committee approval prior to implementation of a reprogramming increase' in funding. **this item has been denied by the Congress and is not subject to reprogramming. ***Requires Committee approval prior to an increase in the scope of the program: T-39 flying hour utilization rate is limited to 268 hours/qtr; ROTC scholarships are limited to 5,010 for FY 78. 2/ Includes reprogramming action pending approval of one or more congressional committees.												

DD FORM 1416

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REPORT CONTROL SYMBOL
DD FORM 13A, 486

APPENDIX B

INFLATION BUDGETING IN THE O&M APPROPRIATIONS

APPENDIX B

A. INTRODUCTION

DoD budgeting for inflation in the O&M accounts was first permitted by OMB in the FY 78 budget submission. Maximum permitted inflation rates for O&M budgeting are developed by OMB to reflect the President's economic assumptions. These rates are passed from OMB to DoD, where they become part of the budget guidance information that DoD provides to the Services and other defense agencies. For FY 80, the maximum allowable inflation rate for O&M purchases of goods and services was 6.3 percent. Based on this rate, DoD identified \$696 million as O&M purchase price inflation in the FY 80 budget justification materials and in testimony presented to the Congress.

Because these inflation rates are used in the preparation of Service budgets submitted to the Congress, the Congress reviews the percentages and the budget proposals associated with them. The Congress can accept, modify, or reject the rates entirely. As an example, the FY 79 President's Budget was prepared using a DoD O&M inflation rate maximum of 6.3 percent. The Congress reduced O&M funds requested for inflation based on this 6.3 percent rate to an amount equivalent to a 4.3 percent inflation allowance. The rationale provided during the budget hearings was that historically DoD was capable of absorbing about 2 percent inflation through the deferral of low priority programs. It is, of course, true that inflation can be absorbed by deferring programs. However, program deferral has potential cumulative impacts in later years. These impacts can be especially pernicious in O&M programs such as equipment maintenance and facilities

repairs in which the cumulative deterioration of equipment and facilities may be difficult to remedy in a short time.

In addition to the O&M inflation rate discussed above, which is for goods and services purchased from commercial firms, inflation is also budgeted for through rate stabilization in the industrial and stock funds and through the establishment of a foreign currency fluctuations fund.

Before examining in more detail the specifics of O&M inflation budgeting, it is necessary to address the issue of the likelihood that inflation forecasts can be made more accurately in the future. The Secretary of Defense declared in his January 1979, testimony to the Senate Armed Services Committee that "obviously it is not possible to forecast inflation rates with a high degree of accuracy." During a period of rapid inflation such as the late 1970s, inaccurate inflation forecasts used as the basis for the maximum O&M inflation budget guidance given to the Services mean that program deferrals become increasingly likely when the actual inflation rate exceeds the forecast rate. These program deferrals come on top of the requirements for deferrals that may be imposed by Congressional and OMB assumptions about how much the Services can "absorb." Since the FY 80 O&M inflation budget guidance maximum was 6.3 percent, while the annualized rate of inflation for the economy was 13 percent in August 1979, it seems likely that the actual FY 80 inflation rate will exceed the DoD O&M budget guidance rate by a considerable amount. If the inflation forecast upon which the 6.3 percent rate originally was based had been more accurate, the 6.3 percent rate would have been higher; that is, it would have been higher ignoring the influence of possible political pressures within OMB to keep the officially permitted inflation budgeting rates as low as possible.

Inflation forecasts may not improve in accuracy in the near future. As long as inflation continues to exceed its historical

trend since 1945 (1 percent to 2 percent per year), the prominent econometric forecasting models may continue to miss the mark by a considerable margin.¹ This is important to government inflation budgeting because it means that officially sanctioned budget inflation rates may continue to fall short of the actual rates to the extent that they are derived from the forecast rates in the econometric models. The Spring 1979 OMB DoD O&M budget issue paper noted that "we must begin to budget using more realistic inflation estimates." This is certainly a solution to O&M inflation budgeting problems that cause the Services to defer programs during budget execution, but the likelihood of better forecasts upon which the estimates are based seems doubtful.

It is likely, of course, that the inflation rates OMB authorizes the Services to use in budget submissions are not determined solely by econometric forecasting models. Political considerations may play a role as well. To the degree that such considerations dominate the setting of the official inflation budgeting rates, better econometric forecasts cannot lead to more realistic official rates.

¹The econometric models suffer from at least two weaknesses. One, they cannot predict unforeseen events such as wars or oil price and supply difficulties. This is obviously inherent in the nature of forecasting, but its implications are more debilitating than merely requiring adjustments once the events become known. How the economy adjusts to an oil supply cutoff is not well represented in the econometric models.

Two, the supply side of the economy is not well represented in econometric forecasting models, although efforts are underway to consider supply elements in some of the models. Emphasis on aggregate demand relationships and variables led to benign neglect of the supply side relationships, yet it is through these relationships that private and institutional decision-makers "adjust" to rapidly changing relative price relationships. These current weaknesses of econometric models mean that the models are not well equipped to predict accurately within the kind of economic environment that has characterized the late 1970s.

Political adjustments to the official rates may be justified in part by the argument that the econometric model forecasts have been missing the actual inflation rate by a considerable margin. Better forecasting could reduce the force of this argument and require stronger political justification for official inflation budgeting rates that are set well below the predicted rate. However, since the inflation forecasts are unlikely to be improved in the current econometric models, the potential latitude in inflation budgeting rate setting due to inaccurate forecasting is likely to persist.

B. O&M PURCHASE RATES

The FY 80 O&M purchase inflation rate was based on a forecast inflation rate of 6.5 percent. OMB assumed that DoD could absorb 0.2 percent in increased efficiencies, and the 6.3 percent maximum rate was the result. Since current forecasts of FY 80 inflation now are running as high as 10 percent or more, the "efficiencies" that the Services will have to seek are on the order of 3.7 percent or more instead of 0.2 percent. According to DoD and Service testimony to the Congress, "we are going to swallow a lot of maintenance that we are not going to do and a lot of people are going to tighten their belts."¹ It is clear that FY 80 unanticipated inflation will have to be taken in program deferrals unless supplemental appropriations are enacted.

Unanticipated inflation is not the only source of pressure for program deferrals. As explained in Chapters I and IV, unpredicted emergent requirements also may cause the Services to reorder priorities and to defer or delete low priority programs. When unanticipated inflation and unpredicted emergent requirements occur in the same execution year, pressures on the Services to make program deferrals are made even more severe. As

¹Testimony of Principal Deputy Assistant Secretary of Defense, Comptroller, to the Senate Appropriations Committee, DoD Appropriations FY 80, April 11, 1979.

discussed in Chapter IV, establishment of official management reserves in the O&M accounts could permit the Services to deal with emergent requirements without resorting to program deferrals during the course of execution. Such reserves could restrict program deferrals to responses to unanticipated inflation. This might indirectly result in improved rationality in the selection of program deferrals due to inflation since the additional complication of emergent requirement deferrals could be reduced or eliminated.

C. RATE STABILIZATION

The rate stabilization program for stock and industrial fund activities is another means by which inflation is accommodated in O&M budgeting. Because this program insulates the customers buying services or goods from inflation for the period of the fiscal year being executed, it places issues of program deferral in the budget formulation and review stage, at which point they can be addressed comprehensively in terms of total budget priorities. This may be viewed as an advantage since the customers of the funds within the Services can budget for goods and services from the funds in terms of stable prices.

Rate stabilization works as its name implies: the rates are fixed for the execution year, and profits or losses in the funds rise or fall in accordance with what the funds have to pay to obtain the goods and services for their customers. Each individual depot or other stock or industrial fund activity estimates the total cost to perform the work and the total man-hours (or man-days) required based on its anticipated customer workload. The rate to be charged to perform the work during the budget year is then developed. The rate includes prices experienced during the then current execution year to reflect inflation that has occurred since the rate was last set, an estimate of anticipated inflation in the budget year, and an amount to make up for prior year gains or losses. Once

the rate is established, it is stable throughout the budget execution year to which it applies.

Initially, the billing at standardized rates caused some complications in the administration of the stock and industrial funds. For example, prior to rate stabilization, the automated industrial fund accounting systems were designed to record actual costs by job order and to automatically recover these costs from the customer accounts. Obviously this approach would defeat the rate stabilization concept, so the automated systems have been adjusted to continue to record actual costs by job order, but the customer accounts are billed at the pre-determined rates. This information by job order permits computations of how much the actual costs of a particular job fell short of or exceeded the stabilized rate.¹ A summary is prepared at the end of the year, and new rates are established to reflect both the experienced execution year changes in prices and the anticipated changes in prices for the next fiscal year. These adjusted rates are then provided to the Services to use in preparing their budgets for the next fiscal year. The Services can, in turn, identify rate increases (or decreases) by various resource categories. In effect, the impact of current experienced and future expected inflation in stock and industrial fund prices is portrayed in this year's budget through increased rates.

Table B-1 shows the FY 80 stock fund and industrial fund price changes identified to direct readiness resource categories

¹In addition to insulating customers from inflation, rate stabilization restores funds to the stock or industrial fund corpora. When new rates are set and issued for the Services to use in budget formulation, the rates include amounts to make up for gains or losses to the corpora during the prior fiscal year. This use of the rates has been authorized in various DoD letters to the Services, and the Services are in the process of publishing the new rate setting procedures. The Navy has incorporated the policy in NAVCOMPTINST 7600.23A (October 17, 1977), *Rate Stabilization Policy and Procedures*.

Table B-1. NAVY FY 80 O&M DIRECT READINESS BUDGET REQUESTS DUE TO STOCK FUND, INDUSTRIAL FUND, AND "OTHER" PRICE INCREASES
(Millions of Dollars)

Resource Category	FY 80 Δ From FY 79	Δ s Identified to Following Elements				Real Program Growth
		Stock Fund Price Increases	Industrial Fund Rate Increases	Other Price Increases		
AIR OPERATIONS	+40.9	+30.6	0	+9	+9.4	
AIRCRAFT REWORK	-22.1	0	+29.0	+13.9	-65.0	
SHIP OPERATIONS	+100.7 ^a	+21.2	+3.5	+5.0	+70.3	
SHIP IMA	+43.0	+5.3	0	+2.0	+35.7	
SHIP MAINT/ALT	+238.3	+2.0	+160.4	+57.9	+18.0	
FLEET SUPPORT	+14.9	+1.3	+3.5	+4.7	+5.4	
TRIDENT SUPPORT	+41.9	0	0	+3.5	+38.4	
FBM SYSTEMS	+73.8	+1.1	+2.2	+15.6	+55.9	
COMMUNICATIONS	+17.9	+6	+7	+10.0	+6.6	
ASW MAINT SUPPORT	+32.6	0	+7.4	+1.8	+23.4	
MATERIAL REWORK	+44.8	+2	+4.5	+3.7	+36.4	
AIR-SURF MISSL REWORK	+11.2	0	+3.5	+2.1	+5.6	
CALIBRATION	+1.6	0	+1.6	+7	-7	
CATS AND ARRESTING GEAR	+1.0	0	+1.0	0	0	
AIRCRAFT SUPPORT	+11.9 ^b	+3.1	+1	+9	+7.7	
SURFACE ORDNANCE REWORK	-4.2	0	+2.4	+2	-6.8	
NET DIRECT READINESS	+648.2	+64.4	+219.8	+122.9	+240.3	

^a Annual pay increase of \$.7 million included but not separately shown.

^b Annual pay increase of \$.1 million included but not separately shown.

in the Navy budget submissions to OSD and Congress. The table also shows in the "Other Price Increases" column the effects of the 6.3 percent O&M purchase allowance. In the last column in the table the "real" program growth for each resource category is shown. This is the residual after subtracting stock fund, industrial fund, and purchase inflation price increases from the FY 80 budget delta for each resource category.

As noted earlier, rate stabilization may be seen as an advantage because it permits the Services to make program deferral adjustments in the budget formulation and justification stages of the budget cycle rather than during execution. It seems reasonable to argue that the appraisal of priorities and constraints during budget formulation and justification is more balanced than during execution, when the pressure of ongoing or upcoming obligations may force expedient but inefficient priority adjustments. Table B-1 shows that price increases for inflation in the industrial and stock funds amounted to \$284.2 million in the Navy resource categories shown.¹ If these increases in the stock and industrial fund prices due to inflation had been taken during the execution of the FY 79 budget, they would have forced the Navy either to seek a supplemental appropriation, to find "efficiencies," or to defer programs. However, with rate stabilization, the impact of FY 79 inflation in the stock and industrial funds is evaluated in the FY 80 budget formulation and justification procedures.

D. FOREIGN CURRENCY FLUCTUATION FUND

Beginning in FY 79, a new appropriation was established: "Foreign Currency Fluctuations, Defense" (FCF,D). It is a "no-year" account that is designed to eliminate the undesirable

¹ An additional \$3.6 million in rate stabilization increases was identified by the Navy in other resource categories such as BCS, training, medical, and recruiting and advertising.

effects of falling foreign exchange rates for American dollars. For example, during the early 1970s, German marks exchanged at the rate of between 4 and 5 marks per dollar. Today, the exchange rate has fallen to around 2 marks per dollar. Thus, a dollar of O&M funds in Germany buys considerably less in 1979 than it did a few years ago. If the decline in the exchange rates between American and foreign currency were steady and predictable, it would not pose a severe problem on O&M budgeting. However, in the late 1970s, fluctuations in exchange rates have occurred from month to month. As a result, O&M funds budgeted for expenditure abroad often have been found inadequate to meet the budgeted requirement because of the declining value of U.S. dollars in terms of host country currency.

The FCF,D appropriation authorizes the transfer of funds to operating appropriations to cover losses from foreign exchange rate fluctuations. Net gains from exchange rate fluctuations (rising exchange rates for a U.S. dollar in terms of foreign currency) must be transferred from the operating appropriations into the FCF,D appropriation. The operating appropriations for which transfers are applicable are O&M and MILPERS.

OASD/C manages the FCF,D appropriation. Funds are transferred to centrally managed allotments (CMAs) in each Service. Each Service uses the FCF,D funds in its CMA to cover net losses in direct programs due to falling exchange rates in 14 specified currencies.¹ Periodically, the OASD/C transfers funds from the FCF,D account to the Services' CMAs to fund net losses. To the degree possible, these transfers fully fund CMA losses, but if losses have been unusually severe the OASD/C makes transfers to the CMAs based on need, on the funds available to cover such losses DoD-wide, and on other budgetary considerations.

¹Belgian francs, Canadian dollars, Danish kroner, German marks, French francs, Greek drachmas, Italian lira, Japanese yen, Dutch guilders, Philippine pesos, Portuguese escudos, Spanish pesetas, Turkish lira, and British pounds.

Exchange rate declines in the value of the U.S. dollar in terms of foreign currency are directly related to the rapid U.S. inflation rates of the late 1970s. Severe domestic U.S. inflation makes relatively lower priced foreign imports attractive. Relatively higher priced American exports are made unattractive to foreign buyers. With the current modified flexible international exchange rate system, the relative abundance of U.S. dollars in foreign hands causes downward pressure on exchange rates, and the value of American dollars in terms of foreign currency decreases. Thus, effects of falling exchange rates for dollars on Service O&M budget requirements in foreign countries are rightly viewed as part of the unanticipated inflation problem in O&M. According to DoD testimony to Congress, much of the exchange rate difficulties in O&M have been relieved by establishment and implementation of the foreign currency fluctuation fund (the FCF,D appropriation).

E. SUMMARY

Inflation in the O&M accounts has been dealt with in three ways: OMB has permitted DoD to budget explicitly for purchase price inflation with a maximum rate that can be applied; rate stabilization has been instituted in the stock and industrial funds; and a new appropriation, FCF,D, has been created to counter the impact of foreign exchange rate fluctuations on O&M budget execution abroad. Each of these methods of offsetting unanticipated inflation is designed to permit the Services to execute their O&M budgets without having to defer or diminish required programs.

By its very nature, unanticipated inflation is difficult to offset with a set percentage allowance like the FY 80 6.3 percent purchase price allowance. But any set percentage is better than none at all because it permits the Services to

at least partially offset the anticipated inflation during the execution year.

The rate stabilization and FCF,D actions seem to effectively insulate the O&M account from unanticipated inflation during the execution year. Of course, in the next year's budget, rate stabilization and the currency fluctuation fund have to be paid for if they are to be continued, but at least the decisions concerning program adjustments and priorities are placed in the budget formulation and justification phases of the budget cycle and are taken out of the execution phase.

APPENDIX C

TASK ORDER NO. 79-II-2

January 15, 1979

ASSISTANT SECRETARY OF DEFENSE

Washington, D.C. 20301

Task Order to be Performed

by the Institute for Defense Analyses

for the

Office of the Assistant Secretary of Defense (MRA&L)

As provided for in the Department of Defense Contract DAHC 15-73C-0200, dated September 1, 1972, the Institute for Defense Analyses (IDA) is requested to undertake the following task:

1. TASK ORDER NO. 79-II-2
2. TITLE: Development of Improved O&M Budget Control Mechanisms and Implementation of the FYDP Logistics Resource Annex
3. CONTENT AREA: Logistics Resource Management
4. OBJECTIVES: To develop better methods for ensuring that O&M appropriation financed logistics resources are used consistent with SECDEF decisions and policies; to recommend solutions to problems arising in the implementation of an FYDP Logistics Resource Annex (LRA) by the Services, using the LRA as a resource document in a O&M budget control system.
5. BACKGROUND: Logistics support consumes a large part of the resources (funds and manpower) provided through the Service Operations and Maintenance appropriations. These resources are used by DoD activities from the organization level through intermediate logistics support activities to the central, depot level logistics activities. Systems currently used to allocate and account for O&M financed logistics resources do not permit OSD to ensure that these resources are utilized in a manner consistent with SECDEF program and budget decisions.

The Logistics Resource Annex (LRA) to the FYDP is a PPB-related management information system for the display of logistics resources programmed, budgeted and utilized at all DoD organizational levels. The LRA offers significant improvements over existing resource management information systems in providing visibility and potential control of logistics resource allocation and utilization, in terms of logistics functional categories and weapon systems or missions supported.

Research and studies through FY 78 on the concept and feasibility of an LRA will have validated LRA structural concepts and have proposed guidelines and recommended solutions to problems arising in LRA development.

Full-scale implementation of the LRA is tentatively planned for FY 79. Successful implementation will require additional study to overcome critical emergent problems, achieve consistency in data element content and resolve issues related to the coordination of the LRA structure with other resource data systems (e.g., VAMOSOC).

Once implemented, the LRA will provide OSD-level visibility of logistics resources that could greatly improve control over the allocation and utilization of resources critical to materiel readiness. The current degree of OSD control over the actual application of O&M funds programmed and budgeted for readiness improvement is seriously inadequate. There is an urgent need for new or improved O&M budget control mechanisms to ensure that O&M resources are utilized in a manner consistent with SECDEF program and budget decisions.

6. **SCOPE:** This task will focus initially on problems of O&M budget control and, as implementation of the LRA proceeds, on emergent LRA-related problems, as follows:

a. Review and evaluate OSD and Service policies, procedures, methods, and techniques for management control of the processes of O&M budget formulation and execution, especially as these processes involve O&M-funded logistics programs. This will include an evaluation of various institutional or procedural factors that affect the O&M budgeting process, including (but not limited to) the following:

- (1) Procedures for budgeting for inflation and effect of unanticipated or unbudgeted inflation on program execution.
- (2) Reprogramming policies, procedures and levels of approval.
- (3) End-year "migration" of funds.
- (4) Centralized versus decentralized concepts and procedures for O&M funds management.
- (5) Interaction between industrial fund operations and O&M "customer" fund programs.
- (6) Reporting systems and procedures, including O&M program/budget categories (program elements, budget activities, sub-activities, etc).

b. Develop and recommend new or improved policies, procedures or techniques to provide more effective OSD-level control of O&M budget formulation and execution, especially with respect to O&M-funded logistics programs. Use of the LRA as well as other potential management tools will be evaluated for this purpose.

c. Recommend solutions to critical problems identified in the process of LRA implementation, including problems related to data consistency among the Services, and problems arising from possible LRA use to satisfy O&S cost data requirements.

7. SCHEDULE: This task covers the period 1 November 1978 to 30 September 1979.

8. PRODUCTS:

a. A final draft report reflecting the scope of the effort described in paragraph 6 above, will be prepared by 30 September 1979 and submitted to OASD/MRA&L upon completion of internal editing and review.

b. Progress reports in the form of informal oral briefings will be made each month or upon request.

9. ESTIMATED LEVEL OF EFFORT: A funding level of \$175,000 is authorized for this task. This level will not be exceeded without written approval of OASD/MRA&L.

10. TASK MONITOR: MRA&L Project Officer for this task is Mr. Charles Alcorn who will provide technical guidance and assist in arrangements for access to DoD installations.

ACCEPTED:


Alexander H. Fax

President

Institute for Defense Analyses


Robert B. Pirie, Jr.
Acting Assistant Secretary
of Defense (MRA&L)

DATE: January 15, 1979