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THESIS

**PLANNING, PROGRAMMING AND BUDGETING
SYSTEM IN THE INDONESIAN NAVY: COMPARING THE
BUDGETING PHASE OF THE INDONESIAN NAVY'S
SYSTEM TO THE U.S. NAVY'S SYSTEM**

by

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INDONESIAN NAVY: COMPARING THE BUDGETING PHASE OF THE
INDONESIAN NAVY'S SYSTEM TO THE U.S. NAVY'S SYSTEM**

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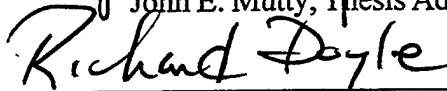


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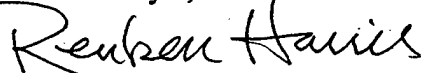
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ABSTRACT

This research evaluated the functionality of the Planning, Programming and Budgeting System (PPBS) in the Indonesian Navy. Specifically, the objective was to determine the feasibility of improving the Indonesian Navy PPBS using the U.S. Navy model as a reference, with emphasis on the Budgeting phase. Research included conducting a review of the current review processes of Planning, Programming and Budgeting in both systems. Several recommendations for improving the Indonesian Navy's system were made, including separating the Programming and Budgeting phases, establishing a team of dedicated budget analysts, and developing a budget review and reclama process similar to the one used in the U.S. Navy. Additional recommendations regarding the need for further evaluation of the organizational structure, culture and political influences that affect the budgeting phase in the Indonesian Navy were made for improving the Indonesian Navy's Budgeting phase.

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I. INTRODUCTION

A. BACKGROUND

One of the instruments helpful in preparing budgetary processes and one which is versatile for the President and his principal advisers, is the Planning, Programming, and Budgeting System (Ref. 19, p. 9).

Every time we discuss planning, we must consider the future. Effective planning systematically takes into consideration all potential courses of action. We do organizational planning because we know that the future is uncertain. It is also reasonable and understandable that any organization should make clear its objectives, decide what actions should be taken, and by whom, to reach the objectives and predict what costs should be paid to achieve its goals (Ref. 12, p. 10).

Uncertainty forces planners to make assumptions to simplify problems, therefore, the result of any plan may not be what was expected at the beginning. Even the most sophisticated planning, which considers any possibility and is able to adapt to changing information, cannot guarantee that errors will not take place (Ref. 12, p. 10). It should be understood that proper planning is not a perfect crystal ball; instead it is a means by which planners can minimize the impact of unexpected events.

Programming is used as a bridge between planning and budgeting. It is a means of integrating the capabilities of all planning components into capability packages that can stimulate the next process, the budgeting. The objective of Programming is to develop a financial plan that is consistent with the policy, resources and fiscal guidelines from the Planning phase (Ref. 15, p., 6). In other words, it is used to guide, aggregate and translate the program elements that are the basic building blocks of projected defense asset requirements into the framework of PPBS (Ref. 4, p. 23).

Nowadays, in a global environment where management has to face complex and time consuming problems, care is needed when considering in what direction to proceed. Management needs to judge the value of its planning not on whether it hits the initial

target or not, but on whether it helps to optimize results in a changing environment (Ref. 2, p. 19). Ultimately, management is interested in how it can achieve its goals efficiently and effectively. Effectiveness is related to how the organization deals with operational matters to achieve its goals and efficiency is linked to the operational outputs within its budget.

Budgeting is mainly an effort at rationing resources across and within departments, agencies or offices in consonance with planning and programming decisions (Ref. 4, p. 24). There is a more rigorous and authoritative definition from the U.S. Navy.

A budget is often defined as a document which expresses in financial terms the plan for accomplishing an organization's objectives for a specific period of time. It is an instrument of planning, decision-making, and management control, as well as a statement of priorities (Ref. 13, I-3).

The Planning, Programming, and Budgeting System (PPBS) was implemented by Robert S. McNamara, Charles Hitch, Robert Anthony, and others during the administrations of Presidents Kennedy and Johnson to make decisions on policy, programs, and resources of the US Department of Defense. Even though the PPBS will have its own style depending upon the current Presidential administration, the basic characteristics of the system have remained in place for more than 30 years (Ref. 4, p. 20). Similar systems exist in many other countries, including Indonesia.

The introduction and first phase of Program Budgeting in Indonesia began in 1969 with the use of the Program Proposal (Ref. 17, p. 2). A PPBS study group, headed by Major General A. Kadir Prawiraadmadja, published the "Conception Skeleton of the Application of PPBS in Indonesia" in 1973. Following that publication, the Indonesian Department of Defense-Security issued The Manual for Strategic Planning, Programming and Budgeting in the DOD-Security "Buku Induk Perencanaan Stategis, Program dan Anggaran Hankam" or (Ref. 12, p. 11).

As a follow-up action, the Indonesian Navy issued Guidebook for Planning, Programming, and Budgeting for the Indonesian Navy "Buku Petunjuk Perencanaan Strategis Penyusunan Program dan Anggaran TNI-AL (UM-9.1)." A second book, UM-9.1A, "Administration Guidance for Planning, Programming, and Budgeting for the Indonesian Navy" was issued in 1977 (Ref. 12, p. 11).

The latest edition was published in March 1994, named Guidebook for Programming and Budgeting for the Indonesian Navy "Buku Petunjuk Induk Pola Pembinaan Bidang Program dan Anggaran" (PUM-1.06). Another guidebook is Guidebook of Organizing Program Structure and Planning Documents for the Indonesian Navy "Buku Petunjuk Pembinaan Prosedure Penyusunan Documen Perencanaan Pembangunan Kekuatan TNI-AL" (PUM-1.05.001), which was published in June 1994.

B. OBJECTIVE

This study will provide the information required to apply beneficial aspects of the U.S. Navy's PPBS model to the Indonesian Navy's model. It will provide a model to enrich the functionality and improve the efficiency and effectiveness of the Indonesian Navy's efforts to organize its financial resources in the face of complex and scarce resource constraints.

C. RESEARCH QUESTION

The primary research question is: Does the PPBS used by the U.S. Navy have beneficial features that could be adopted by the Indonesian Navy to improve its PPBS?

Secondary research questions include the following:

1. How does the Indonesian Navy organize and manage its budget?
2. How does the U.S. Navy organize and manage its budget?

3. What problems does the Indonesian Navy Planning, Programming, and Budgeting System have with the budgeting phase?
4. How does the Indonesian Navy deal with these problems?
5. What lessons, if any, can the Indonesian Navy learn from the PPBS of the U.S. Navy?
6. What are the strengths and weakness of the Indonesian Navy Budgeting system?
7. What are the similarities and the differences between both systems?

D. SCOPE AND METHODOLOGY

This thesis includes: (1) a review of the current budgeting processes in the Indonesian Navy and the U.S. Navy, (2) an in-depth evaluation of the Indonesian Navy's Budgeting process, and (3) suggestions and recommendations to improve the Indonesian Navy's PPBS process as required to improve management.

The methodology used in this thesis research consisted of the following steps.

1. A literature search of books, briefing materials, magazine articles, CD-ROMs, and other library information resources.
2. A review of the current Planning and Programming process of the Indonesian Navy.
3. A review of the current Planning and Programming process of the U.S. Navy.
4. Identification of the similarities and the differences in the Budgeting phase between the Indonesian Navy and the U.S. Navy.
5. An evaluation of the Indonesian Navy Budgeting process to determine what beneficial changes could be made using the U.S. Navy's system as a model.
6. Conclusions and recommendations.

E. ORGANIZATION OF STUDY

The thesis consists of the following outline: (1) an introduction is in Chapter I; (2) an overview of the current Planning and Programming Phases in both the Indonesian Navy and the U.S. Navy is in Chapter II; (3) Chapter III deals with the similarities and the differences between the Budgeting phase of each system; (4) Chapter IV identifies beneficial changes to the Indonesian Navy's system using the U.S. Navy's system as a model, and (5) the summary along with recommendations for further study, are discussed in the last chapter.

II. PLANNING AND PROGRAMMING; A REVIEW OF THE U.S. NAVY AND THE INDONESIAN NAVY SYSTEMS

A. PLANNING PHASE

This chapter will give brief reviews of how the U.S. Navy and the Indonesian Navy carry out their Planning and Programming phases.

1. The U.S. Navy Planning Phase

a. Overview

The planning phase is primarily done in the Department of Defense (DoD), which develops the DoD definition of the current strategy and force requirements needed to counter current and potential threats to the United States. DoD then creates an outline for allocation of resources based upon those strategy and force requirements. Along with these steps, guidelines are produced that prioritize the use of the DoD resources for making allocation decisions (Ref.15, p. 5).

The Defense Resource Board (DRB), a high level committee that manages the three phases of PPBS for the Secretary of Defense, reviews the planning guidance to ensure it is realistic and executable. The Defense Planning Guidance (DPG) comes from this. It is signed by the Secretary of Defense and sent to the military departments and defense agencies. The military departments use the DPG as an instruction for preparing and submitting their Program Objective Memoranda (POM). The DPG comes from three inputs: the President's National Security Strategy, the National Military Strategy Document (NMSD), and Service Strategy/Policy Documents (Ref. 14, p. C-4, C-5).

b. *The major events:*

(1) Identify National Interests

Gathering information from a variety of sources such as the State Department, the National Security Council, the Congress and other executive agencies, the President determines National Interests.

(2) Examine World Security Environment

The Central Intelligence Agency (CIA) evaluates foreign policy objectives, national interests, international defense policy and the current defense status to determine the current world environment.

(3) Define National Military Strategy

The Chairman of the Joint Chiefs of Staff (JCS) in conjunction with the JCS, determines the military strategy and force levels needed to counter any threat and ensure that defense policy objectives will be achieved.

(4) Plan Force Structure

Navy commands prepare and develop programs that will lead to the achievement of the Navy's assigned goals and objectives. Guidance provided by the planning decisions will serve as policy and resource direction for the programming phase (Ref. 14, p. C-5, and C-6).

c. *Defense Planning Guidance*

The primary output of the Planning phase is the Defense Planning Guidance (DPG), which is developed by the Joint Chiefs of Staff (JCS) and the Office of the Secretary (OSD). The inputs to the DPG are collected from the JCS, the services, Commanders in Chief (CINCs), Office of Management and Budget (OMB), the National Security Council and the State Department. The DPG is preceded by and incorporates information from two other planning documents. They are:

(1) National Security Strategy of the United States

This is a document that gives information on national interests; states political, economic and defense strategies and global and regional trends, and outlines defense strategy. It is signed by the President.

(2) National Military Strategy Document (NMSD)

This document contains JCS/CINC advice to the President, the National Security Council and the Secretary of Defense (SECDEF) on national military strategy and fiscally constrained force structure recommendations needed to support the attainment of the national security objectives during the defense planning period covered by the next DPG. It is signed by Chairman of the JCS. Naval components of the NMSD are co-authored by Secretary of the Navy (SECNAV), Chief of Naval Operation (CNO) and Commandant of the Marine Corps (CMC).

The services use the DPG as fiscal and force guidance to construct their respective Program Objective Memorandums (POM) and ultimately, their budgets (Ref. 14, p. C-6).

2. The Indonesian Navy Planning Phase

a. Overview

A planning system is a means by which management outlines the direction it wants the organization to take. The Indonesian Navy planning process is an essential part of the Department of Defense-Security planning, short-range intelligence estimation, and Commander in Chief of the Indonesian Armed Forces Planning, Programming and Budgeting Guidance (Ref. 8, p. 7). In order to develop strategies and the force needed to counter potential threats in the future, it is essential to allocate naval resources carefully.

The naval force estimate developed each year is a guideline for naval force planning, which uses a centralized system. The input for the plans comes from assistants to the Chief of Staff of the Navy (CSN), the Naval Districts, and others, with the deputy CSN acting as the coordinator of Navy Planning (Ref. 10).

Navy Planning consists of three stages corresponding to three time periods: long-range, mid-range, and short-range, as shown in Figure 1. The plans in each succeeding stage are based upon plans from prior stages or on some other plans that are in the same stage.

NO. OF YEAR	1	2	3	4	5	6	7	8	9	10
LONG-RANGE	X	X	X	X	X	X	X	X	X	X
MID-RANGE	X	X	X	X	X					
SHORT-RANGE	X									

Figure 1. Planning Period (Ref. 12, p. 14)

b. The major events:

(1) Strategy Formulation

National Defense and Security Strategy and Policy is formulated by the Department of Defense-Security, based upon National Political Strategy in the President's National Guidelines, and the Broad Lines of State Policy (GBHN) for the next five years.

(2) Force Readiness

Force Readiness Planning is formulated as a guideline to plan and achieve the Strength of State Defense and Security goals for the next five years. It covers activities such as:

- (a) analyses of and counters to potential threats
- (b) drafting the Naval Strength Building planning document and preparing it so that it can be used over the next five years based on the national resources available.
- (c) evaluating and finding solutions to expected risks.

Appendix A discusses the planning phase of the Indonesian Navy in more detail (Ref. 5, p. 8).

B. PROGRAMMING PHASE

1. Programming Phase in the U.S. Navy

a. Overview

After the DPG is issued, the programming phase commences. It uses the last four years of the program developed in the previous PPBS cycle as a starting baseline. In fact, it translates the DPG into a financial plan of effective and achievable programs. This phase produces a six-year program for each component via development of a Program Objective Memorandum (POM) and the Future Years Defense Program (FYDP), a DoD database (Ref. 14, p. C-7).

For the Navy, the Deputy Chief of Naval Operations, (Resources, Warfare Requirements, and Assessments) (N-8), and for the Marine Corps, the Deputy Chief of Staff, Requirements and Programs are the responsible offices for developing the two services' components of the Department of the Navy (DoN) POM. Coordination between these two inputs and overall responsibility for DoN programming officially takes place at the Office of Program Appraisal in the Secretary's Office (Ref. 3, p. 28).

The Integrated Resources and Requirements Review Board (IR3B), an important group of high level Navy officers, controls the programming process within DoN. The IR3B makes macro level decisions that will be presented to the CNO Executive Board (CEB) (Ref.14, p. C-7).

b. The major Events:

(1) POM Development

Programming in the Navy starts in September with reviews of strategy, warfare areas, and support tasks. These reviews, variously called investment strategy reviews, warfare appraisals, and assessments, examine the threat, the program levels provided by the previous cycle, and the requirements stated in draft OSD guidance. The reviews define funding needed to achieve certain program levels or capabilities and make recommendations to the resource sponsors for use in preparing their program proposals. The reviews are condensed in the Summary Warfare Appraisal/ Summary Readiness and Sustainability Appraisal in late December. Program development guidance is provided to the resource sponsors in the CNO Program Fiscal Guidance, issued in January (Ref. 13, I-11-12).

The resource sponsors, using the recommendations of the fall reviews, specific CNO guidance, and input from various offices such as the systems commands for acquisition programs and fleet commands for readiness initiatives, develop their Sponsor Program Proposals (SPPs), which constitute the basic program building blocks for the POM, from January until March. These proposals are submitted to the Director, Programming Division (N80) in the form of changes to the Future Years Defense Program, which is based on the previous President's budget. The program proposals are reviewed to ensure compliance with CNO guidance and to resolve issues, presented to the CNO, and then to the SECNAV. These presentations mark the beginning of final development of the POM and result in further CNO and SECNAV guidance (Ref. 13, I-12).

Programming in the Marine Corps varies somewhat from that in the Navy. The Marine Corps reviews POM proposals concerning operations, personnel, materials, and systems by unique Marine mission areas. Coordinated by the Deputy Chief of Staff, Programs and Resources (P&R), the Marine POM submission is advanced by the POM Working Group and reviewed by the Marine Program Review Group.

Proposals are then sent to the Assistant Commandant's Committee for final program review. Following this review, the draft Marine POM submission is forwarded to the CMC for final approval prior to submission to the SECNAV (Ref. 13, I-12).

(2) The "End Game"

The "End Game" is the final development phase of the POM, where CNO, CMC, and SECNAV resolve outstanding issues. It is then that changes are made to ensure that the program submitted to OSD reflects their guidance during this phase. The results of CNO, CMC, and SECNAV decisions are incorporated into a database, and documentation is prepared to describe the program. In late May or early June, the Navy and Marine Corps program data and supporting justification are consolidated and submitted to OSD along with the Department of the Navy's Program Objectives Memorandum (POM) (Ref. 13, I-12).

(3) POM Review

When the Navy submits its POM to the Office of the Secretary of Defense (OSD) for review, and necessary changes have made with the oversight of the DRB, this signals the commencement of the POM review. This review will focus on differences between the OSD staff's estimates and the submitted service POM using questions and analyses provided principally by the Assistant SECDEF, Program Analysis and Evaluation (PA&E) (Ref. 14, p., C-12).

(4) Preparation of Budget Estimates

After completion of the DoN's POM, the preparation of budget estimates begins. The transformation of program estimates into budget estimates occurs in the budget submission to the Navy Comptroller (NAVCOMPT) and subsequent DoN review. The submitting offices develop initial budget estimates based on the programs contained in the POM, and changes to the programs as directed by the Program Decision Memorandum (PDM) are incorporated into the budget during the DoN review. The final steps in the DoN Planning, Programming, and Budgeting System are when the budget is submitted to NAVCOMPT for the DoN budget review and the budget's formal submission to OSD and OMB. While the President's Budget is the final product of the

DoD PPBS, the Secretary of the Navy's budget submitted to OSD and OMB is the final product of the DoN PPBS (Ref. 13, I-13).

2. Programming Phase in the Indonesian Navy

a. Overview

The Indonesian Navy's Programming and Budgeting are more centralized with fewer reviews and more overlap in staff functions and responsibilities than in the U.S. Navy. Programming and Budgeting are both formulated, processed and decided under the staff of the Programming and Budgeting Office. It is like a coin with two faces.

The Naval Strength Building Planning Process is an integral part of National Defense Strategy Planning, which commences with the formulation of the Navy Long Range Strategic Appreciation. The latter is used as an input to the Defense Political Strategy Framework. The output of the Navy Long-Range Strategic Appreciation is the Naval Strength Building Program (NSBP) or (PROBANGKUAT).

b. The major Events:

(1) Naval Strength Building Program (NSBP)

The NSBP is the implementation of the Armed Forces Force Development Program, which is based upon the Department of Defense-Security Five Year Defense Program (DDSFYDP). The DDSFYDP can be broken down into yearly objectives programs. There are three activities:

- (a) Long-Range Strategic Planning
- (b) Mid-Range Strategic Planning
- (c) Short-Range Strategic Planning (Ref. 6, p. 3).

Appendix A discusses those activities in more detail.

The yearly formulation of the programming and budgeting process begins following those activities. This process in turn implements the personnel, materiel

requirements and budgeting schedules. Each program contains and describes objectives to be achieved; personnel, materiel and funds needed; and how to achieve those goals so that they can be controlled and evaluated.

(2) Naval Planning Guidelines of the Working Program
(NPGWP) (JUKCANPROGJA TNI-AL)

Upon completion of NSBP, a Naval Planning Guidelines of the Working Program document is formulated as a guide for creating an Activities Proposal List (DUK), which contains proposed routine activities compiled as a routine budget for the next fiscal year; and a Project Proposal List (DUP), which contains proposed development activities compiled as a development budget for the next fiscal year, to be reviewed by the Deputy Chief of Navy Staff. Upon approval of the Activities Proposal List and the Project Proposal List, the Activities Fulfillment List (DIK), which contains a compilation of routine activities to be applied in a certain fiscal year; and the Project Fulfillment List (DIP), which contains a compilation of development activities to be applied in a certain fiscal year, are issued by the Chief of Staff of the Navy. The next step is to formulate the Implementation Guidelines of Working Program and Budgeting of the Navy (PPPA) as a guideline for Major Commands (KOTAMA) and Cost Center (SATKER) at headquarters level (Ref. 8, p. 7).

III. COMPARISON OF THE INDONESIAN NAVY BUDGETING PHASE AND THE U.S. NAVY BUDGETING PHASE

This chapter provides a comparison of the Indonesian Navy budgeting phase with the U.S. Navy budgeting phase. First, it discusses budget formulation. Following that, it then discusses the budget review process. It concludes with a discussion about the similarities and the differences of the two systems.

A. BUDGET FORMULATION

1. Key Players in the U.S. Navy

Starting from the lowest level they include:

a. Cost Center

A Cost Center is a unit, workcenter or department, for which identification of costs is desired. It provides input to the Fund Administering Activity's budget request.

b. Fund Administering Activity (FAA)

An FAA is an organizational unit (installation) headed by an officer or supervisor who is responsible for management of resources and can normally influence the expenses incurred in the unit. Other responsibilities are to prepare and submit budget requests to an assigned subclaimant.

c. Type Commander or Subclaimant

A Subclaimant is a bureau, office, or command designated as a subclaimant (for the Operations and Maintenance Navy (OM&N) appropriation) or suballocation holder (for Procurement appropriations) under a major claimant. Fleet units

have a Type Commander in their chain of command as the Subclaimant. However, not all FAAs have a Subclaimant or a Type Commander in their chain of command. For instance, the Naval Postgraduate School (an education and training activity) receives funding directly from its major claimant (Field Support Activity; CNO 09BF).

d. Major Claimant

Major Claimants include offices designated as administering offices for portions of the Navy operations and maintenance, reserve personnel, and selected procurement appropriations. They include Fleet Commands (e.g. Commander in Chief, U.S. Atlantic Fleet) and systems commands, such as Commander Naval Sea Systems Command (NAVSEA), Commander Naval Air Systems Command (NAVAIR) as well as the Commander Naval Supply Systems Command (NAVSUP), Commander Space and Naval Warfare Systems (SPAWAR) and Commander Naval Facilities Engineering Command (NAVFAC).

e. Responsible Office

The Responsible Office, located at the Headquarters Command, is responsible for budgeting, accounting and reporting the totality of an appropriation. Either the Chief of Naval Operations, the Commandant of the Marine Corps or the Office of Naval Research fills this function. The Responsible Office receives the totality of an appropriation from the ASN (FM&C) on an allocation document.

f. Assistant Secretary of the Navy (Financial Management and Comptroller)

The Assistant Secretary (Financial Management and Comptroller) is a civilian presidential appointee who works directly for the Service Secretary and serves as the service's Chief Financial Officer (CFO) and comptroller (Ref.14, p. B-5).

2. Key Players in the Indonesian Navy

a. Cost Center (SATKER)

A Cost Center is a unit, work-center or department that desires an identification of costs. The center provides input to the Major Command budget request.

b. Major Command (KOTAMA)

These offices include the Western Fleet, the Eastern Fleet, the Naval Academy, Sea Lift Command, the Naval Education Command, the Commandant of the Indonesian Marine Corps, the Navy Staff and Command College and, at the Headquarters level, the Deputy Chief of Staff of the Navy.

c. Chief of Staff of the Navy

The Chief of Staff of the Navy is responsible at the highest level for Navy budgeting, accounting, reporting and auditing. He reports to the Commander in Chief of the Armed Forces.

d. Commander in Chief of the Armed Forces (PANGAB)

The Commander in Chief of the Armed Forces is responsible for five offices including the Army, the Navy, the Air Force, the National Police and the Armed Forces office.

3. The U.S. Budget Formulation Process

The U.S. Navy has a very decentralized budget formulation process. The idea behind it is that personnel at the lowest levels in the organization often have better ideas on what functions can be eliminated, added to or combined, and how goals can be

accomplished effectively and efficiently. Figure 2 shows the U.S. Navy Chain of Command in the Budgeting process.

The process commences when the Cost Center submits budget estimates to the activity comptroller who, in turn, analyzes, reviews and revises the estimates. The budget estimates are incorporated into the activity budget, which is then sent up the chain-of-command to the major claimant. The Major Claimant sends its budget submission to the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)). Before sending it to (ASN(FM&C)), the major claimant reviews all activity budget submissions, makes adjustments as needed and consolidates the budgets into one major claimant budget submission (Ref. 14, p. B-7).

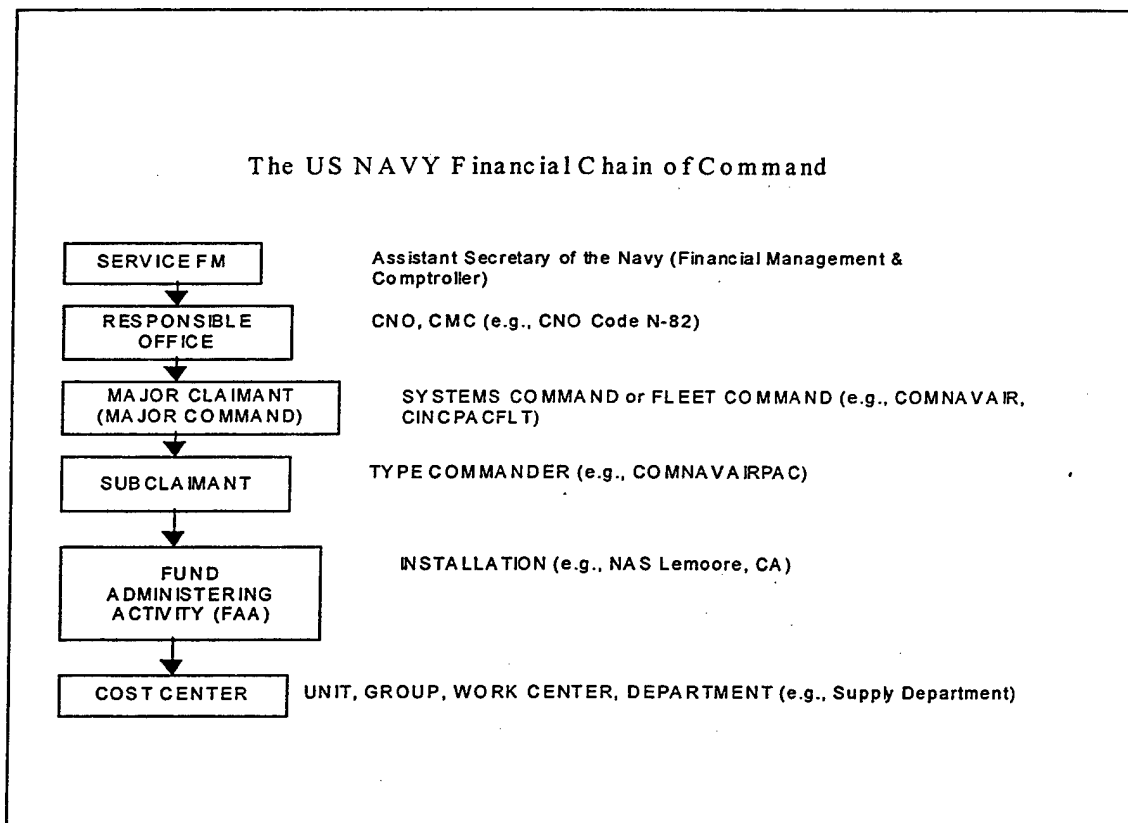


Figure 2. Financial Chain of Command in the U.S. Navy

4. The Indonesian Navy Budget Formulation Process

The first step in the Programming and Budgeting process is planning based upon organizational level Programming and Budgeting inputs. It is an essential process. One of the factors that should be considered in planning for the Programming and Budgeting phase is the results from evaluating the balance account book. These results will indicate previous activities that could not be achieved. A Coordinating-meeting (RENAKU) is used as a means for collecting, developing and focusing activities or projects that have been proposed and can accommodate Cost Center or Major Claimant needs.

The process commences after the Cost Center (SATKER) prepares and submits an Activity Proposal List (DUK) and a Project Proposal List (DUP) to the Major Command. The process is driven by a coordinating meeting at the Major Command level, based upon priorities and the Working Program of the Major Command (PROGJA KOTAMA). The Major Command then reviews the inputs, makes adjustments as necessary and consolidates them into one major command DUP and DUK. The coordinating meeting takes place in June/July. Following that, in August/September, the first coordinating meeting takes place between the Major Commands and Assistant Chief of Staff of the Navy. This meeting is used by the Deputy Chief of the Navy Staff with Major Commands at the Headquarters level to synchronize the Naval Activity Proposal List and Project Proposal List with the Commander in Chief of the Armed Forces Activity Proposal List and Project Proposal List. Following that meeting, in January, is a similar meeting to formulate the Naval Activity Fulfillment List (DIK) and the Project Fulfillment List (DIP) (Ref. 9, p., 21-25). Appendix B discusses the mechanisms of the programming and budgeting process.

B. BUDGET REVIEW

A budget review is a process of checks and balances to make sure that the Navy's budget is the most defensible and executable budget possible. In the U.S. Navy, the budget review process involves personnel from field activities all the way to the

Congressional level. It can be broken down into five reviews, beginning with the Comptroller's review, the Major Claimant's review, NAVCOMPT's review, the OSD and OMB review and finally the Congressional review (Ref. 14, p. B-38-B-41). The final steps in the DoN Planning, Programming, and Budgeting System is when the budget is submitted to NAVCOMPT, (the DoN budget review), and the formal budget is submitted to OSD and OMB. While the President's Budget is the final product of the DoD PPBS, the Secretary of the Navy's budget submitted to OSD and OMB is the final product of the DoN PPBS (Ref. 13, I-13). Appendix C discusses the U.S. Navy Budgeting organization and Appendix D discusses more about the U.S. Navy budget review process.

Unlike the U.S. Navy, the Indonesian Navy's budget process only involves personnel from the field activity up through the Navy Headquarters level. There are no parallels to OSD and OMB and Congressional reviews. When the Indonesian Navy submits its budget to the Armed Forces, the budget process within the Indonesian Navy is complete. The Armed Forces reviews all of the service budgets internally and then passes them to Department of Defense-Security. From there they go to the People's Assembly Chamber.

C. SIMILARITIES WITH THE U.S. NAVY

Both Navies have a relatively decentralized budget formulation process, because the lowest levels in the organization often have better ideas on what functions can be added, eliminated or combined and how the mission can be achieved effectively and efficiently. This approach has some advantages. The accuracy of information is more reliable, and there is a sense of ownership and commitment from the cost centers. That means that they in turn provide better estimates of the amount of materials, manpower and other resources needed to achieve their goals (Ref. 14, p. B-6). However, in both Navies, top-down direction is used to define the budget and policy parameters within which cost center requests will be considered at the headquarters level.

D. DIFFERENCES BETWEEN THE TWO NAVIES

1. In the U.S. Navy, Programming and Budgeting are controlled and supervised under different staffs. On the other hand, the Indonesian Navy's Programming and Budgeting are controlled and supervised under the same staff, the Programming and Budgeting Office. The disadvantages of this system are that, first of all, the personnel who develop the Program are overloaded with work since they also have to prepare and develop the Budget. Secondly, since Programming and Budgeting are done under the same staff, there is a tendency for the staff not to work as efficiently as they can because there is no incentive to do that. Moreover, no other parties examine what they do.

2. There is a significant organizational difference between the U.S. Navy and the Indonesian Navy. The U.S. Navy is one department headed by the Secretary of the Navy, who is always a civilian political appointee of the President. The Department of the Navy consists of two services, the U.S. Navy and the U.S. Marine Corps. Even though the Chief of Navy Operations (CNO) and the Commandant of the Marine Corps (CMC) are equal under the Secretary, in terms of budgetary processes the final result is only one Program Objectives Memorandum (POM).

3. The budgeting function in the Department of the Navy occurs at the Office of Budget in the Office of the Navy Comptroller. Inside the Navy Secretariat, the Assistant Secretary of the Navy for Financial Management has supreme responsibility for the budgeting function, as well as the associated accounting functions for the Department.

Unique to the Navy, the Director of Budget has another title besides his responsibility for the entire Department of the Navy budget. He is also the Director of the Fiscal Management Division (N-82), and reports to the Deputy Chief of Naval Operations, Resources, Warfare Requirements and Assessments (N-8). In this capacity, he assists the Chief of Naval Operations in; (1) ensuring that Navy programmatic needs are considered in developing DoN financial management systems; (2) supplying information and advice on the formulation, review, justification, and execution of the

DoN budget; and (3) assuring compliance with DoN financial policy and procedures. For the United State Marine Corps, in a manner similar to that of N-82, a Fiscal Division provides budgetary support for the Commandant of the Marine Corps and exercises control over the Marine Corps' appropriations (Ref. 3, p. 28-29). The Indonesian Navy has only one budgeting phase component since the Marine Corps is an integral part of the Navy. All of the budget processes are conducted by the Programming and Budgeting Officer who reports to the Assistant Chief of Staff of the Navy for Programming and Budgeting. However, the Deputy Chief of the Navy is the one who responsible for the entire Navy process. He reports directly to the Chief of Staff of the Navy.

4. In the U.S. Navy there is a team of budget analysts, composed of military and civilian personnel, who work under the Director, Office of Budget (FMB). The civilian personnel are career budget analysts. These analysts review the budget submissions, including summaries and back up data, ask questions of claimants and talk, both over the phone and face to face, with claimants to try to keep the budget within fiscal guidelines while the claimants try to sell their budgets. Following these discussions, or hearings, the Comptroller of the Navy distributes budget "marks" to the claimants. The marks, usually budget cuts, make adjustments and corrections to, or are denials of the requests for funds made by the claimants. The marks are normally a reaction to incorrect pricing or timing concerns (where it is not believed that the funds will be needed during the year for which they have been requested,) or they challenge whether a program can be executed during the fiscal year (Ref. 11, p. 53).

There are no budget analysts in the Indonesian Navy. Instead there is a Budget Committee that consists of a chairman who is the Assistant for Planning and Budgeting, a secretary who is the Program/Budgeting Officer and a membership consisting of Program Supervisors. This Committee is responsible for doing an output appraisal of each program, analyzing the overall output and preparing reports to higher authority (Ref. 12, p. 63). Most of the personnel who deal with the budgetary process are military, so turnover is relatively frequent, approximately every three years. Therefore, there is always a lack of trained personnel (Ref. 12, p. 63).

5. In the U.S. Navy there is an activity known as a reclama process, whereby claimants defend their budgets with regards to the budget marks. A budget mark is considered money that is already lost to a program and FMB considers a mark a final decision unless new evidence can be brought to convince the analysts that there are grounds for further review (Ref. 11, p., 53). That is the purpose of a reclama. The Indonesian Navy has a different approach. There is a coordinating-meeting (RENAKU) scheduled to coordinate between the Programming and Budgeting Office and the Cost Center at the Major Command level, to formulate the Activity Proposal List (DUK) and the Project Proposal List (DUP), and to make any adjustments needed between the Major Command and its Cost Centers. This meeting is held in July. There are two scheduled meetings held at headquarters level, the first of which is used to synchronize the Naval Activity Proposal and Project Proposal Lists with the Commander in Chief of the Armed Forces Activity Proposal and Project Proposal Lists. That meeting is held in September between the Deputy Chief of Navy Staff and Major Commands at the Headquarters level. Following that, in January there is a similar meeting to formulate the Naval Activity Fulfillment and Project Fulfillment Lists.

IV. INDENTIFICATION OF BENEFICIAL CHANGES TO THE INDONESIAN NAVY SYSTEM USING THE U.S. NAVY SYSTEM AS A MODEL

Chapter III discussed the differences between the Indonesian and the U.S. systems of budgeting. The U.S. system was used as a model for the Indonesian system. This chapter discusses three potentially beneficial changes that are recommended for the Indonesian system. They are the segregation between Programming and Budgeting, establishing budget analyst positions and adopting a reclama process in the budget review phase.

A. SEGREGATION BETWEEN PROGRAMMING AND BUDGETING

There are several reasons why the Indonesian Navy Programming process should be segregated from the Budgeting process. First, the fact that the same staff in the Indonesian Navy conducts Programming and Budgeting often leads to an overworked staff. The fact that Programming is used as a bridge between Planning and Budgeting does not mean that it can be mixed with or conducted at the same time as budgeting by the same staff. Programming and Budgeting are two different processes that should be done separately under different staffs. The primary reason to separate Programming and Budgeting is that the Programming and Budgeting Office has too much work to cover both the Programming and Budgeting phases especially when facing the last two quarters of the fiscal year, which run from October to March. These months are the busiest time of the fiscal year. A lot of budget execution direction is issued by the Programming and Budgeting Office at the headquarters level to the Major Commands. At the same time, the Programming and Budgeting Office must also monitor, record and evaluate how many programs have been executed and how much money has been used. Starting in September, the Office has to prepare for a scheduled meeting (RENAKU) to formulate an Activity Proposal List and a Project Proposal List. Prior to the meeting, the staffs have to

collect, review and evaluate previous fiscal year data. Following that, in January, there is a final meeting to formulate an Activity Fulfillment List and a Project Fulfillment List.

Another potential issue that should be evaluated is how the measurement and control systems work since a single team does the two different jobs. In the case of the measurement and control system of the Programming and Budgeting office, one could question the objectivity of the staff since they do plan, prepare and conduct the Programming process, and they also issue budget execution guidance while performing the Budgeting process. Following these activities they also conduct the evaluation of the entire budgetary process.

To avoid this unfavorable situation and to be more fair and objective in achieving its goals, it is suggested that the Indonesian Navy clearly separate the Programming and Budgeting phases, so that one staff could concentrate on the Programming process and another could focus on the Budgeting process.

B. BUDGET ANALYSTS

Some of the functions of a budget analyst in the U.S. Navy are to review, analyze and suggest changes to budget submissions. Another function is to develop a dialogue with the claimants, both over the phone and face to face. Analysts try to keep the budget within fiscal guidelines, claimants try to sell their budgets. Budget analyst teams are composed of military and civilian personnel. The civilian personnel are the budget careerists, which means they often stay until their retirement call, thus providing continuity.

From an organizational perspective, having a dedicated budget analyst team could be very beneficial for the Indonesian Navy both for the short term and the long term. This team would generate both efficiency and effectiveness in the Navy's use of resources. In terms of costs, it can be measured in terms of resource utilization. Essentially, if a resource had not been wasted, it would have been available for other purposes and the

achievement of other worthy plans. Budget analysts help to evaluate how well the limited resources have been and are likely to be used.

The question then is how to incorporate these specific individuals, the future budget analysts, into the system to meet organizational requirements? There are a number of issues that should be taken into consideration in establishing a team of budget analysts. First, the budget analyst teams ought to be composed of both military and civilian personnel. The need for the civilian personnel is due to their career patterns, which allow them to stay in one place for longer periods of time. Their expertise will then be useful in the long run. The military personnel are important to organize and manage the whole system. The reason is because of their experience in operating various equipment such as, ships, planes and tanks. Because of this experience, they have a better idea of why the money is required. However, due to their career patterns, they normally stay at one place for a shorter period of time than their companions, the civilian personnel. Therefore, the Navy should prepare its personnel for replacement carefully. For example, an officer who will be replaced should have his/her successor in place at least one month prior to his/her departure so that the successor can learn from his/her expertise and experience. Second, the analysts need specific skill requirements to perform their jobs, meaning they need special training. The question is how much money does the Indonesian Navy need to conduct the training? The concise answer will not be available until the Navy decides to establish this team and establishes a special task force to conduct an analysis to determine how many analysts are needed and where they will be located. Third, how will the Indonesian Navy locate individuals who can meet its criteria? Collecting personnel data for example, from those individuals who graduated from the Indonesian Naval Technology College, as well as holders of degrees from overseas could solve that problem.

As mentioned above, establishing the budget analyst teams is not a one-night job. A lot of things must be taken care of, such as, the personnel, the training, the funds and the objectives. All of those requirements should be coordinated closely among the related offices. For example, the financial office will need to provide the funding for the

educational office, which in turn, needs to prepare training modules and plan the educational process.

A learning curve for establishing a team of analysts should be developed and anticipated. Once the team of analysts is established, it should make doing things more efficient and effective.

C. RECLAMA PROCESS

In the U.S. Navy, following budget marks, the claimants (in the Indonesian Navy, the term claimant is the equivalent of the Program Officer) submit a reclama to defend their budgets to avoid cuts or restrictions imposed by the budget analysts. By convention, a reclama must contain new information to convince the analysts to change their budget marks. Even though the analysts must keep the budget within fiscal guidelines, there is still room for flexibility. If the claimants are convinced that the analysts understand their position, the final decisions will be more acceptable not only to the claimants but also to the analysts.

One of good things about the budget review and reclama process is that it enables not only the claimants, but also their superiors to be more aware of their programs since they know early the consequences of a poorly managed program. If they failed to manage their programs wisely, over-budget for example, their program officers would have difficulty in a hearing session, justifying their budget. Therefore, it makes them more likely to plan, manage and execute their budgets wisely. If the program officers manage their programs in such a way that they know exactly what is going on, what has happened and what is likely to happen, they should not have any difficulty in justifying their budgets. Additionally, their superiors are also more likely to become aware of how to plan, manage and execute the budget, if it must be justified to a team of budget analysts. If all parties were aware of what is going on and knew what they were supposed to do, it would create a much more effective and efficient process in terms of managing not only their portion of the budget but also in terms of the entire budgetary process. Moreover,

this process would create a mutual respect relationship between superiors and subordinates allowing both to perform their jobs better. Such a relationship would help to create a good organizational culture, which can be beneficial for any organization. It would create an informal organization built on inter-personal relationships that could be a bridge between individuals in the budgeting organizations and those in the directed organizations such as in the Navy, which has a strict chain of hierarchy.

This process also can be a good measurement and control system both for the program officers and their superior. The program officers could view it as an assessment of how well they do their jobs. Also by being prepared to defend their budgets, they are more likely to understand the entire budgetary process within their office.

For the Indonesian Navy, superiors could use such a process as a good tool to evaluate the performance of their subordinates and the management of their budget. It could answer questions such as; do Program Officers have the skills and abilities to meet the demands of the task? How are program needs met by the task? It also could be used as a potential tool to grade the Program Officers' performance and reward those who perform well.

There is no such thing as a case that fits everyone. Due to the differences in organizational, cultural and political structure, this process should be studied further, evaluated and discussed for adaptability to the Indonesian Navy.

V. SUMMARY AND RECOMMENDATIONS

A. SUMMARY

Even though initially PPBS in the Indonesian Navy was adopted from the U.S. Navy, in implementing it, the Indonesian Navy had to adjust the system due to local circumstances and a different military structure. For example, the U.S. Navy Budgeting phase includes two services, the U.S. Navy and the U.S. Marine Corps. Some differences are due to political structure and the culture of the organizations. For example, even though both systems are centralized in terms of making decisions, the U.S. Navy is more decentralized than the Indonesian Navy, meaning authority to make decisions at lower levels is greater. The cultural structure comes from the external environment. It might be influenced from local culture, interpersonal relationships or tradition. For instance, the superior-subordinate interpersonal communication is significantly different in the two Navies. The U.S. Navy is less formal than the Indonesian Navy.

There is room however, for the Indonesian Navy to improve its Budgeting phase of PPBS by more closely mirroring the U.S. Navy Budgeting phase. These changes were recommended to better accomplish the goal of managing scarce and constrained resources more effectively and efficiently.

B. RECOMMENDATIONS

1. To avoid an overworked staff in the Programming and Budgeting Office, it is suggested that the Indonesian Navy clearly separate the Programming and Budgeting phases so that one part of the staff could concentrate on the Programming phase and another could focus on the Budgeting phase.

2. To make the Budgeting process more efficient and effective, establishing a team of dedicated budget analysts is recommended, at least at the headquarters level, and then in the major commands when personnel become available. In addition, the Navy should prepare its personnel by training them as budget analysts. They would need to use

personnel from various disciplines including; Operations Research, Business Administration, Industrial Management, Mathematics, Linguistics, Systems Analysis and Manpower and provide them with a specialized training in various analytical methods (Ref. 12, p., 81). Those personnel could be recruited from numerous sources such as, the Indonesian Naval Technology College (STTAL), holders of degrees from overseas, etc. The Navy should take into consideration the recruitment of budget analysts from civilian personnel who can be trained for a budget career. The advantage of recruiting civilians is that civilians have different patterns of careers. They can stay at one office for longer periods of time than the military personnel. Thus, their expertise could be useful for long-term processes such as dealing with PPBS, which is a continuous process. Moreover, the budget analysts should be independent and headed by a flag officer of rank equal to the major command head level (Ref. 12, p., 82). Two recommended alternatives as to where the use of budget analysts should be established are as follows:

a) Alternative I.

The budget analysts report directly to the Chief of Staff of the Navy in order to give them more of flexibility, to avoid the pressure from major commands (Ref. 12, p., 82) and to give them power to review, analyze and decide more objectively as to what programs should be continued and executed in the budget. Figure 3 shows the proposed location of these budget analysts.

b) Alternative II.

The budget analysts report directly to the Deputy of the Chief of Staff of the Navy in order to give them more of flexibility, to avoid the pressure from major commands and to review, analyze and decide more objectively as to what programs should be proceeded and executed into budget. This would be a logical arrangement due to the fact that the Deputy Chief of Staff of the Navy is the coordinator of the budget for the Navy. Figure 4 shows the proposed location of the budget analysts.

3. The Indonesian Navy should develop and adopt the budget review and reclama process used in the U.S. Navy and then modify it as needed to be able to accommodate and adapt to the political and culture differences from the U.S. Navy.

4. All these recommendations do not look at qualitative data factors such as the quality of personnel that deal with the process, morale of personnel to accomplish the job, organizational structure or political and cultural impediments. To further evaluate their potential effectiveness and usefulness a further intensive and comparative study should be conducted. The organizational structure, culture and political influences should be taken into consideration when such a study is performed in the future.

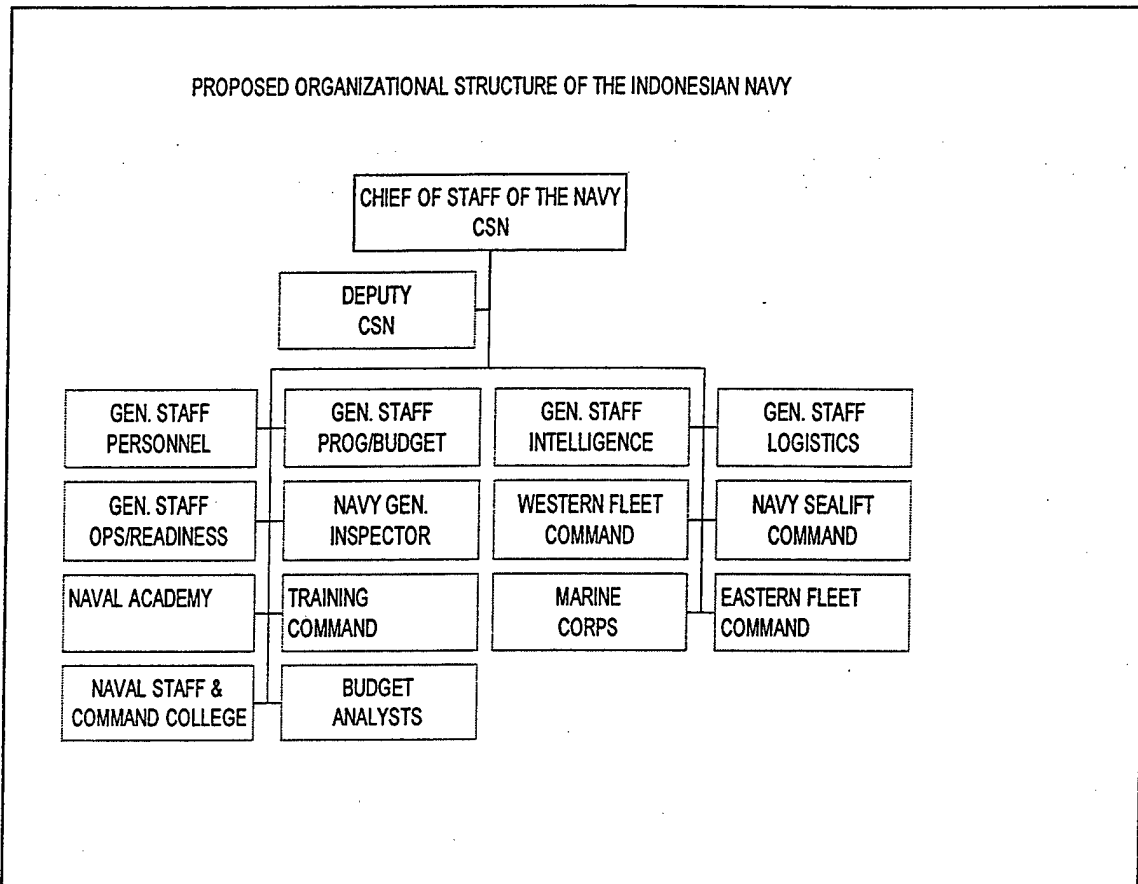


Figure 3. The Indonesian Navy organizational chart and proposed budget analysts.

PROPOSED ORGANIZATIONAL STRUCTURE OF THE INDONESIAN NAVY

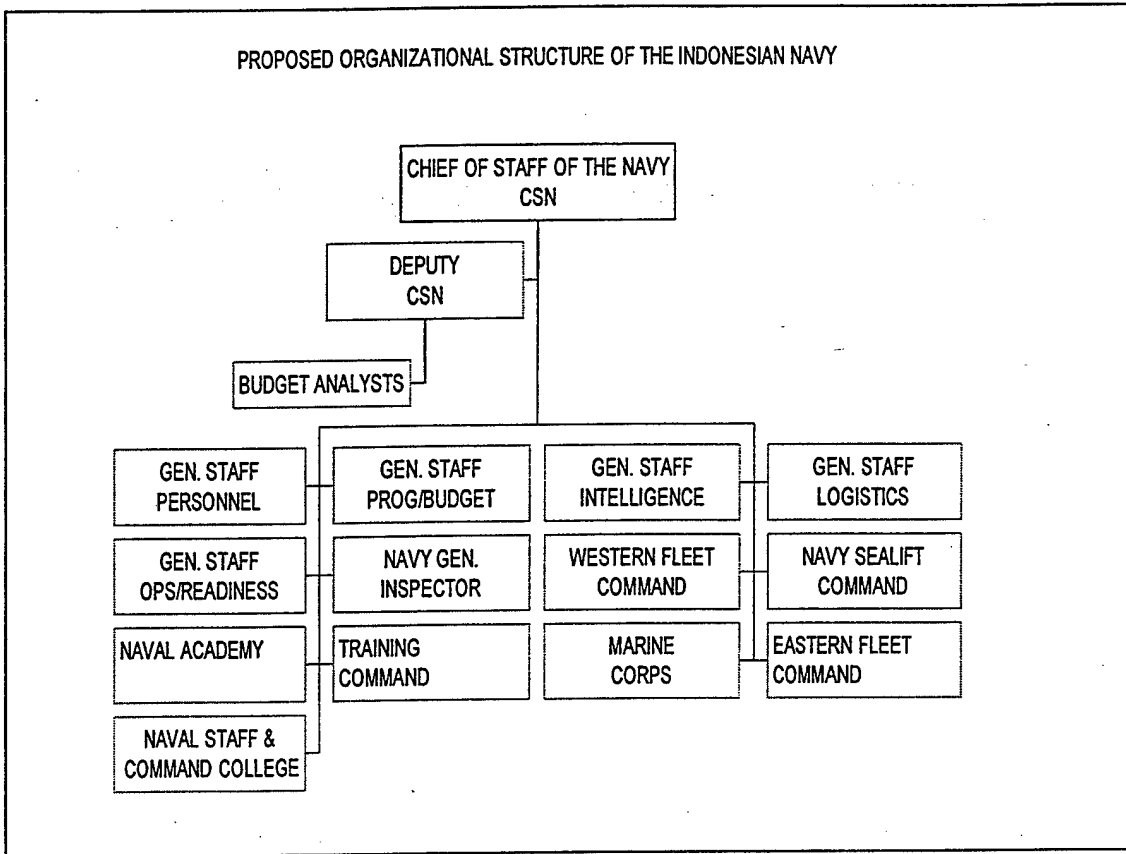


Figure 4. The Indonesian Navy organizational chart and proposed budget analysts.

APPENDIX A
PLANNING PHASE OF THE INDONESIAN NAVY

A. PLANNING STRUCTURE

1. Long-Range Planning

Strategic Appreciation provides a statement of the Indonesian Navy Force requirements for the next ten to 25 years. Strategic Estimates are generated that emphasize the second five years of the ten-year plan. These estimates discuss how environment, economics, international politics and technological changes might influence the National Security (Ref. 6, p. 3). Also, guidance for long term research and development activities is provided. The document "Strategic Appreciation" is prepared and reviewed annually from July 1 to October 31. Long Range Planning consists of the following documents:

- a) National Strategic Defense Framework.
- b) Armed Forces Framework for 25 years.
- c) Defense Security Potential Analysis.
- d) Potential Area Analysis (Ref. 5, p. 10).

2. Mid-Range Planning consists of the following documents:

a. *Strategic Estimates*

The Indonesian Navy Mid-Range Planning provides a Navy position on the first five years of the Long- Range Plan. Mid-Range Planning develops a proposed strategic concept and mission to guide Short Range Strategic Planning at the end of the Mid-Range Planning. This plan also calculates the forces needed and the risk if the

objectives cannot be met. The Strategic Estimates Document is the title of this plan. It is prepared and reviewed annually from May 1 to July 31.

b. *Strategic Objective Plans*

From the Mid-Range Plan of the Department of Defense-Security, the Navy then develops a Navy program control that states the annual objectives and budget estimates for the first six years of the Long- Range Planning document (Ref. 12, p. 14).

3. Short- Range Planning

This planning provides a statement of current capabilities, considering constraints such as the budget, environment, etc. Short- Range Planning consists of the following documents:

a. *Force Planning:*

This document provides the naval force development, logistics guidance, and administration support needed to meet the annual objectives. The Force Planning document is prepared and reviewed from May 1 to August 31.

b. *Mobilization Plans:*

Direction and guidance for the development of naval forces for prompt and sustained combat incident to operations at sea in the first years of the Long- Range Plan are provided in the Mobilization Plans (Ref. 7, p. 7).

4. Naval Financial Management

The main purpose of naval financial management is to manage naval funding resources effectively and efficiently while assuring compliance with laws and regulations. It also deals with guaranteeing sufficient funds continuously at the right time, in the right place and the exact amount of money required for execution. In order to accomplish those purposes, there are two main functions of naval financial management:

a. Management Function, which consists of two activities:

- (1) Funding activity.
- (2) Internal control.

b. Administration Function, which consists of four activities:

- (1) Computation.
- (2) Bookkeeping.
- (3) Responsibility.
- (4) Reporting (Ref. 9, p. 9-10).

B. CURRENT PLANNING PROCESS

1. Introduction

Basically, National Defense-Security Strategic Planning is a routine activity conducted every five-year. It commences when the Five-Year National Development Plan is executed. It is evaluated in the third year of activity to validate the threat, goals and planning principles (Ref. 5, p. 9).

Planning generates a range of meaningful courses of action through the systematic consideration of alternatives. The role of the major organizational elements in Long-Range Planning is as follows:

a. *Chief of Staff of the Navy (CSN):*

CSN authors the navy management policy document. This will be the basic document for the Navy planning.

b. *Deputy Chief of Staff of the Navy:*

Organizes and coordinates the general staff activities in Long- Range Planning.

c. *General Staff Intelligence:*

Prepares intelligence estimates that are relevant to the development of the posture of the Navy.

d. *General Staff-Personnel:*

Prepares personnel estimates and proposes the personnel plan based upon evaluation of the present situation.

e. *General Staff-Logistics:*

Prepares logistics estimates and proposes the logistics plan based upon the evaluation of the present situation.

f. General Staff-Operations and Readiness:

Prepares a Long- Range requirements and capabilities study that will be used as the basis for developing the strategic planning.

g. General Staff-Planning and Budgeting:

With the help of the other General Staffs and or study groups, this staff prepares:

(1) Strategic Appreciation:

Describes the threat, obstacles and environmental proposals for long-range policy and requirements to support it.

(2) Strategic Estimates:

Describes the projected position in the second five years of the long-range plan and provides alternative courses of action. Determines the objectives that might be accomplished.

(3) Strategic Objective Plan:

Describes the strategic objectives and estimates the budget needed for the first six years of the long-term planning.

(4) Mobilization Plan:

Describes the force level, probability of accomplishment of objectives, mobilization needs, mobilization phases and demobilization plan.

h. Navy Major Commands and Central Offices/Institutions:

Provide the supporting data, as needed for strategic planning and report periodically on the execution of the programs (Ref. 12, p. 15-17).

Figure A1 below is a simplified chart of the Indonesian Navy Organizational Structure.

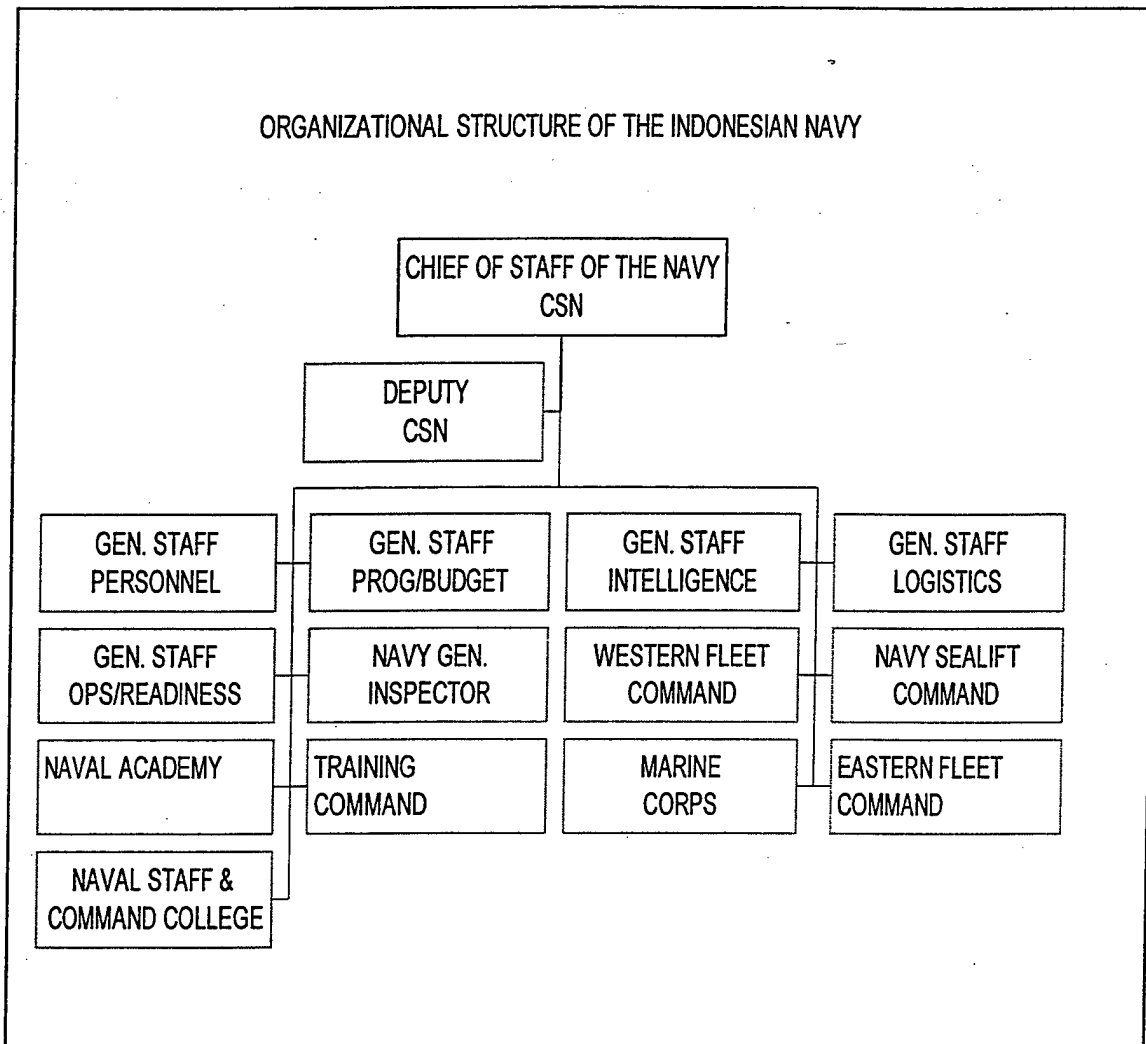


Figure A1

2. The Major Steps of the Strategic Appreciation are outlined below:

a. Step-1.

CSN issues Navy Management Policy Long- Range (NMP-LR) (Ref. 7, p. 9).

b. Step-2.

General Staff prepares estimates in their respective fields.

- Intelligence Estimates by the Assistant CSN for Intelligence.
- Personnel Estimates by the Assistant CSN for Personnel.
- Logistics Estimates by the Assistant CSN for Logistics.

c. Step-3.

Assistant CSN for Operations and Readiness prepares Long- Range requirements based upon the staff estimates (Intelligence, Personnel, and Logistics) within four weeks, starting August 15.

d. Step-4.

Assistant CSN for Planning and Budgeting prepares Strategic Appreciation based upon the Long- Range requirements, and submits to CSN by the last week of October.

e. Step-5.

CSN submits Strategic Appreciation to the Minister of Defense-Security.

Figure A2 portrays the steps of the Strategic Appreciation Process.

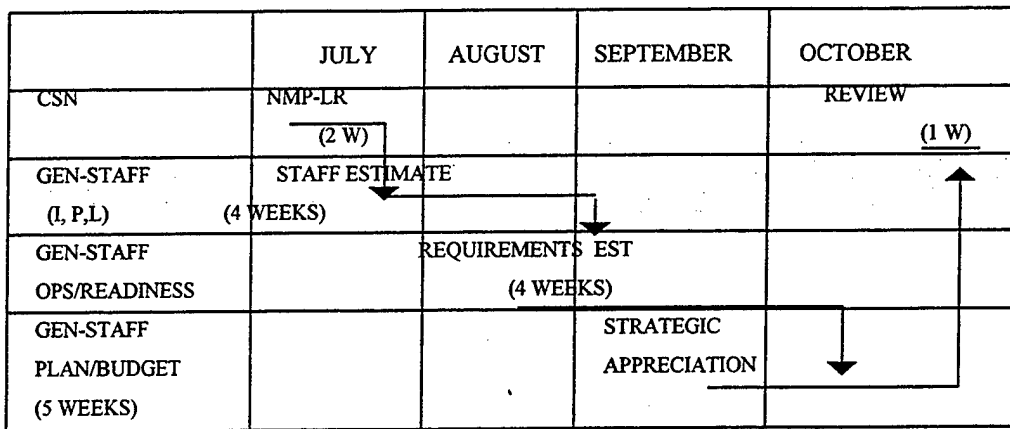


Figure A2. Strategic Appreciation Process (Ref.12, p. 21)

3. **The Major Steps of the Strategic Estimates Process** are outlined as follows:

a. Step-1.

CSN issues the Navy Management Policy Mid-Range (NMP-MR) that contains tentative guidance for the five-year plan (Ref. 7, p. 9).

b. Step-2.

General Staffs prepare Mid-Range Estimates in their respective fields:

- (1) Intelligence Estimates Mid-Range (tentative) by the Assistant CSN for Intelligence.
- (2) Personnel Estimates Mid-Range (tentative) by the Assistant CSN for Personnel.
- (3) Logistics Estimates Mid-Range (tentative) by the Assistant CSN for Logistics.

This should be done within three weeks after receipt of the NMP-MR.

c. Step-3.

Assistant CSN for Operations and Readiness prepares Mid-Range Requirements (tentative) based upon the intelligence, personnel, and logistics estimates. This should be done within three weeks after receipt of Staff Estimates.

d. Step-4.

Assistant CSN for Planning and Budgeting prepares Strategic Estimates (tentative) based upon the Mid-Range Requirement (tentative), and submits it to CSN by August 1.

e. Step-5.

CSN submits Strategic Estimates (tentative) to the Minister of Defense-Security.

The steps of the Strategic Estimates process are shown in Figure A3 (Ref.12, p. 22).

	MAY	JUNE	JULY	AUGUST
CSN	NMR-LR (2 W)		REV	IEW (1 W)
GEN. STAFF (I, P, L)	STAFF ESTIMATE	MR		
GEN. STAFF OPS/READINESS		REQUIRE MR (3 W)		
GEN. STAFF PLANNING/BUD.			STRATEGIC ESTIMATE (3 W)	

Figure A3.

4. The Major Steps of Strategic Objective Planning are outlined as follows:

a. Step-1.

Department of Defense-Security issues Mid-Range Strategic Plan, based upon the Army, the Navy, the Air Force, and the National Police Strategic estimates (tentative).

b. Step-2.

CSN issues Navy Management Policy Mid-Range, based upon the Department of Defense-Security Mid-Range Plan (Ref. 7, p. 9).

c. Step-3.

Assistant CSNs prepare staff estimates. More accurate intelligence estimates, personnel estimates, and logistics estimates are prepared by the respective Assistant CSN's. These should be done within five weeks after the issuance of NMP-MR.

d. Step-4.

Assistant CSN for Operations and Readiness prepares Mid-Range requirement estimates based upon the three estimates (Intelligence, Personnel, and Logistic). Five weeks are allowed for this.

e. Step-5.

Assistant CSN for Planning and Budgeting prepares Strategic Mid-Range

Plan based upon the Mid-Range requirement estimates.

This should be done within seven weeks and is submitted to CSN by the last week of April, and then to the Minister of Defense-Security.

The steps in Strategic Planning are shown in Figure A4 (Ref. 12, p. 24).

	DEC	JAN	FEB	MARCH	APRIL
CSN	NMP-MR				REVIEW (1 W)
GEN. STAFF (I, P, L)	STA	FF ESTIMATE (5 W)			
GEN. STAFF OPS/ READINESS			REQUIRE M (5 W)	R	
GEN. STAFF PLANNING/ BUD.				STRAT.	PLAN (5 W)

Figure A4. The steps in Strategic Planning

5. The Major Steps of the Capabilities Planning are listed as follows:

a. Step-1.

CSN issues Navy Management Policy Short- Range (NMP-SR). Based upon the Strategic Plan (Navy) and the Capabilities Plan (Department of Defense-Security), CSN issues NMP-SR containing guidance and determination of program priorities.

b. Step-2.

Assistant CSNs prepare Staff Estimates (Short- Range) in their respective fields. This should be done within three weeks from the second week of May.

c. Step-3.

Assistant CSN for Operations and Readiness prepares the Capability Study. This plan, based upon the Staff Estimates and its supplement "Battle Structure," should be done within three weeks. These documents are distributed to the Commandants of the Prominent Commands and Offices.

d. Step-4.

Prominent Commands and Offices prepare "Activity Proposal List" and/or "Projects Proposal List." These should be done by the end of July.

e. Step-5.

Assistant CSN for Planning and Budgeting prepares the Capability Plan and the Mobilization Plan. These should be submitted to CSN by the end of August and CSN will submit it to the Minister of Defense-Security by September 15. The Capability Plan has two supplements:

(1) Battle Structure:

Describes and identifies strength, command structure and personnel disposition, unit and equipment for the coming year.

(2) Program and Budget Plan.

Steps in the Capabilities Planning process are shown in Figure A5

(Ref. 12, p. 28).

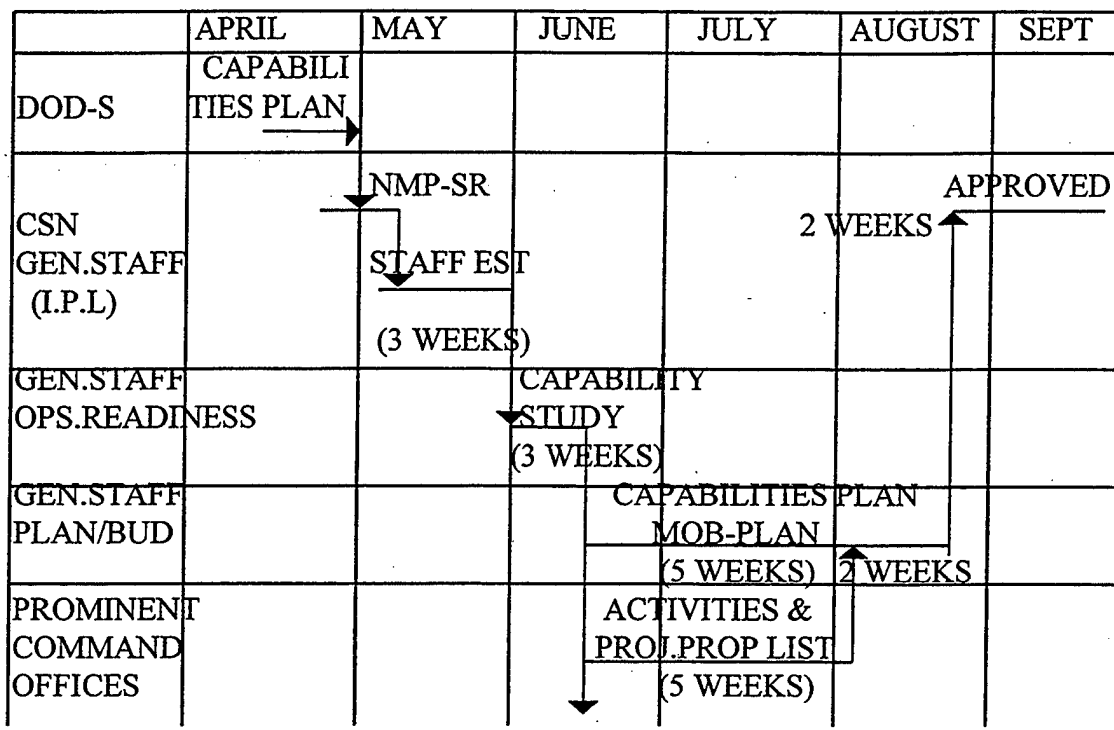


Figure A5. Capabilities Planning Process (Ref.12, p. 28)

APPENDIX B
AUTHORIZATION, FUNDS AND REPORTING MECHANISM OF THE
INDONESIAN NAVY

A. PROGRAM MANAGEMENT

The roles of the key personnel in managing the program are as follows:

1. Program Coordinator

The Assistant CSN for Planning and Budgeting at each level is the Program Coordinator for that level and is responsible as follows:

- (a) The Deputy CSN is responsible for all programs in the Navy.
- (b) The Assistant Commandants for Planning and Budgeting of the major commands are responsible for programs in the major commands.

2. Program Supervisors

The Assistant Intelligence, Personnel, and Logistics and Finance Officers are program supervisors for their respective fields.

- (a) The Assistant CSNs and Navy Finance Officer are supervisors in the headquarters.
- (b) The Assistant Commandants and Finance Officer in the Commands are program supervisors in Major Commands.

3. Program Officers responsible for the entire program:

- (a) Commandant/Head of Major Commands for major commands.

- (b) Head of HQ offices for centralized programs.
- (c) Officers appointed by CSN for special programs.

4. Program Executioners

- (a) Heads of Offices, Type Commanders, Commanding Officers of stations or bases in major commands.
- (b) Heads of HQ sections in the HQ offices.
- (c) Officers appointed by Head/Commandant of HQ offices or Major Commands for special projects.

B. THE FLOW OF AUTHORIZATIONS

The distribution of the authorization to the administrators is as follows:

1. The Minister of Defense issues the minister's authorization letter (SKOM) for the Armed Forces.
2. The Commander of the Armed Forces issues the main authorization letters (SKOIN) for all five services.
3. The Chief of Staff of the Navy issues the authorization execution letters (SKOP) for Major Commands.
4. The Major Commands issue the execution authorization letters (P3) for their cost centers. They normally are issued quarterly as shown in figure B1.

C. THE FLOW OF FUNDS AND REPORTING

The flow of funds, based upon the authorization issued, is as follows:

1. The Minister's Transferring Fund Note (NPB-M) is issued by the Financial Office of Minister of Defense-Security.
2. The Main Transferring Fund Note (NPB-IN) is issued by the Financial Office of Commander of the Armed Forces to all the four services.

3. The Execution-Transferring Fund Note (NPB-P) is issued by the services financial office to the major command financial offices.

4. The Transferring Note is issued by the major command financial office to the unit financial office at the cost centers as shown in figure B1.

The financial responsibility report is submitted by the cost center to the unit financial office, which in turn reports all the way up to the major command. The major command then forwards the report up the chain of command to the financial office of Minister of Defense-Security as shown in Figure B1. The Cost Center also has a responsibility to report its programs to the program officer/program supervisor, who in turn evaluates the cost center programs' progress and reports to the program execution controller. The program execution controller then reviews, evaluates and forwards those program reports up the program officer/program supervisor at the HQ level. Finally, the program officer/program supervisor at HQ level reports to the Deputy Chief of Staff of the Navy as shown in Figure B1.

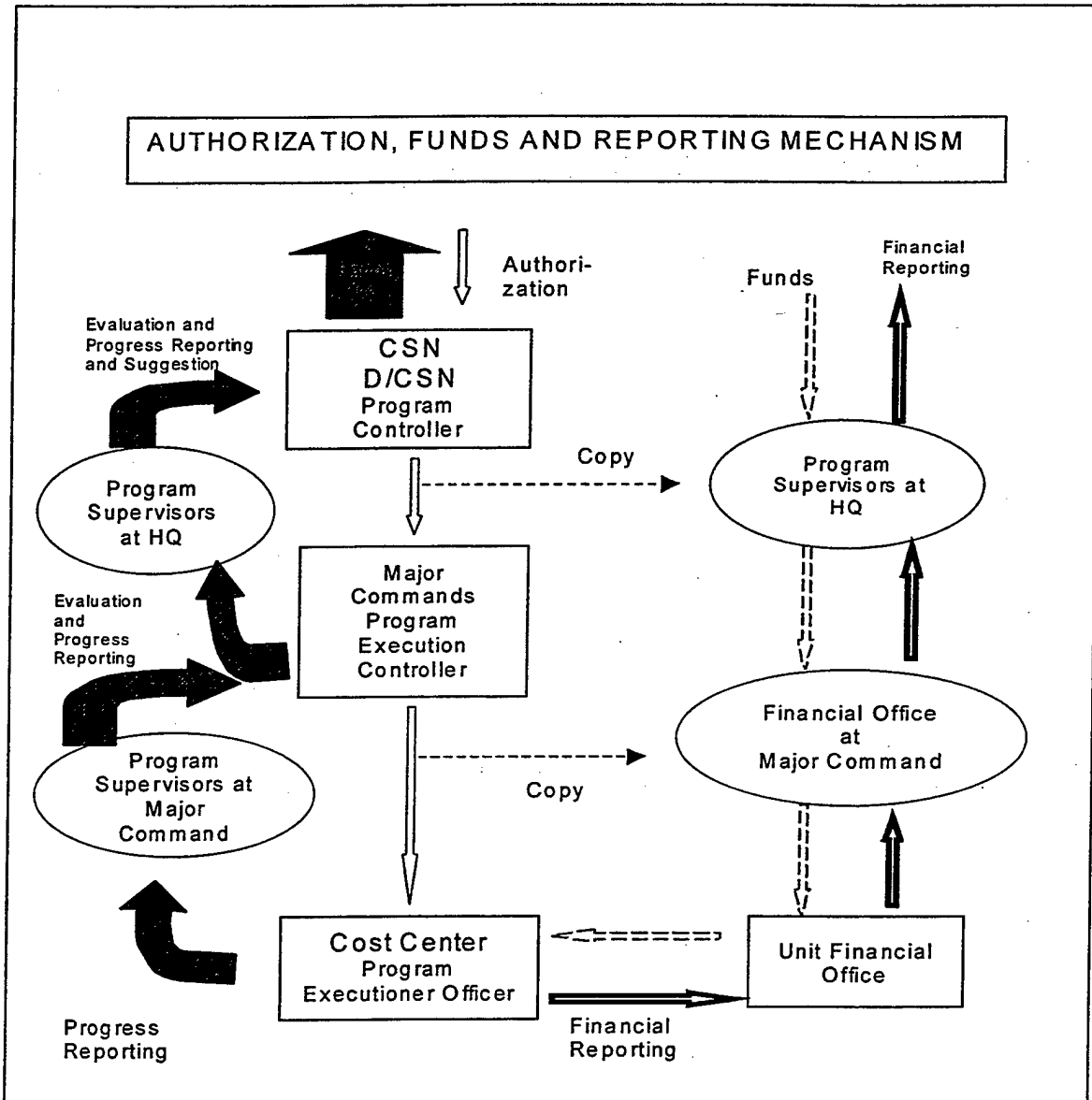


Figure B1.

APPENDIX C

THE U.S. NAVY BUDGETING ORGANIZATIONAL RESPONSIBILITIES

A. SECRETARIAT RESPONSIBILITIES

1. Comptroller of the Navy

By SECNAVINST 5430.99 of 5 August 1987, all DON comptroller functions, including budgeting, are assigned to the Comptroller of the Navy. The budget functions of the Comptroller of the Navy occur during all phases of the budget cycle and include formulation, presentation, and execution. The Comptroller, via the Director Office of Budget (FMB), provides substantive guidance and technical direction with respect to preparation and submission of the budget during the formulation phase and reviews and justifies the budget for submission to OSD/ OMB and the Congress during presentation (Ref. 13, I-17).

2. Director Office of Budget (FMB)

The Director Office of Budget through the Comptroller is responsible to the Secretary of the Navy for formulation, presentation, and execution of the DON budget. A description of the budget responsibilities of each division in FMB is discussed below. The responsibilities of the divisions within the Office of Budget are illustrated in the organizational chart in Figure C1 (Ref. 13, I-17).

a) *Appropriation Matters Office (FMBE)*

FMBE is responsible for coordinating matters with the House and Senate Appropriations Committees and the FMBE-counterpart offices of OSD, Army, and Air Force, for coordinating all matters related to DoN participation in Appropriation

Committee hearings, and for advising the Director Office of Budget and the division directors on the current status of appropriations requests (Ref. 13, I-17).

b) *Operation Division (FMB-1)*

FMB-1 is responsible for reviewing, recommending changes, and revising estimates for the active and reserve military personnel and operation and maintenance appropriations and for replenishment spares, Navy Working Capital Fund (NWCF) and other funds of the Navy and Marine Corps. It is also responsible for assisting in the justification of estimates before OSD/ OMB and the Congress, the continual review of program execution and adjustments to allocations, when required (Ref. 13, I-20).

c) *Investment and Development Division (FMB-2)*

FMB-2 is responsible for reviewing, recommending changes, and revising estimates for the investment and development appropriations, including procurement, research and development, construction, and base realignment. It is also responsible for assisting in the justification of estimates before OSD/ OMB and the Congress, the continual review of program execution, the recommendation of adjustments to allocations when needed, and the reporting of selected acquisition costs and data to the Congress (Ref. 13, I-20).

e) *Program/Budget Coordination (FMB-3).*

FMB-3 is responsible for the development, coordination, and issuance of budget and funding policy and procedures, the appraisal of financial systems, the development and administration of audit management procedures and management evaluation of issues of financial consequence (Ref. 13, I-20).

d) Business and Civilian Resources (FMB-4)

Reviewing, recommending changes, and revising estimates for civilian personnel and Contracted Advisory and Assistance Services (CAAS) for inclusion in the budget, the justification of these estimates to OSD/ OMB and the Congress, the allocation to DON major manpower claimants of civilian personnel resources and CAAS funding levels, and the continual review and adjustment of such allocations during execution are the responsibilities of FMB-4 (Ref. 13, I-20).

B. RESPONSIBILITIES OF THE OFFICE OF THE CHIEF OF NAVAL OPERATIONS (OPNAV)

OPNAV is responsible for the development and justification of program requirements for the Navy. A description of the responsibilities of the staff offices during the budget process is discussed below (Ref. 13, I-21).

1. Assistant/ Deputy Chief of Naval Operations (A/DCNO)

A/DCNOs are responsible for development and justification of program requirements for specific warfare and supporting areas within the Navy during the formulation stage. The justification of requirements at NAVCOMPT, OSD/ OMB, and congressional review levels is their primary role in the budget process (Ref. 13, I-21).

2. Deputy Chief of Naval Operations (Resources, Warfare Requirements and Assessment) (N8)

N8 integrates planning, programming, and budgeting within the Office of the CNO. Representing the CNO in resolving Navy budget issues of a programmatic nature

when necessary, including the accommodation of program adjustments is the primary budget function of N8 (Ref. 13, I-21).

a) General Planning and Programming Division (N80)

The programming process for the CNO is the responsibility of N80. With respect to budget formulation, it assists NAVCOMPT in the translation of both the NAVY POM and the PDM from programmatic terms to budgetary terms (Ref. 13, I-21).

b) Fiscal Management Division (N82)

The fiscal management of Navy appropriations is the responsibility of N82. This includes integrating programming and budgeting actions by coordinating reviews of budget estimates within OPNAV to ensure conformance with the POM, controlling and suballocating funds which have been allocated by NAVCOMPT, ensuring reporting of program status and funds availability, and reviewing execution of allocated funds to ensure program objectives are satisfied. It is also the appropriation sponsor for the O&MN and OPN appropriations (Ref. 13, I-21).



Figure C1

C. RESPONSIBILITIES OF THE HEADQUARTERS, MARINE CORPS (HQMC)

Development and justification of program requirements for the Marine Corps is the responsibility of Headquarters, Marine Corps. The responsibilities of the staff offices during the budget process are described below (Ref. 13, I-22).

1. Deputy Chiefs of Staff (DCS)

Development and justification of program requirements for specific Marine Corps warfare and supporting areas are the responsibilities of the DCS. They also assist in the justification of programs before various review levels and assist in the resolution of budget issues under their cognizance (Ref. 13, I-22).

2. Fiscal Division (MC-RF)

Similar to the OPNAV Fiscal Management Division (N82) described above, the fiscal management functions relating to the Marine Corps appropriations are the responsibility of the Program & Resource Department (Fiscal Division) (Ref. 13, I-22).

D. OTHER ORGANIZATIONAL RESPONSIBILITIES

1. Office of Management and Budget

OMB assists the President in the organization and management of the Executive Branch. Primary functions include preparation of the budget, formulation of the government's fiscal program and supervision and control of the administration of the budget. The OMB reviews the DoN budget submission jointly with OSD, makes recommendations to the President regarding significant issues not resolved during the joint review and forwards the President's budget to the Congress. After appropriating legislation has been enacted, OMB apportions funds and monitors the execution of appropriations (Ref. 13, I-22).

2. Office of the Secretary of Defense (OSD)

The primary office responsible for DOD budgeting is the Office of the Under Secretary of Defense (Comptroller). This office is composed of staff advisors to the

Secretary of Defense on various areas such as budget, manpower, and research and development. This office is responsible for conducting a budget review with the OMB and recommending adjustments as appropriate. This office reviews funding plans, releases funds to the Military Departments, and monitors execution during the budget execution phase (Ref. 13, I-22).

3. Defense Planning and Resources Board (DPRB)

The DPRB is chaired by the Deputy Secretary of Defense and is comprised of the Under and Assistant Secretaries of Defense, the USD(C), the Secretaries of the Military Departments and the Chairman of the JCS. As matters on the agenda of the DPRB dictate, other senior military and civilian officials will be called upon to participate in its deliberations including, as appropriate, the Service Chiefs, CINC's, and representatives of other OSD offices. Representatives of the Director of the Office of Management and Budget and the Assistant to the President for National Security Affairs will participate in the DPRB on a regular basis. The DPRB is the ultimate decision board before major issues are presented to the Secretary of Defense (Ref. 13, I-23).

4. Program Executive Officer (PEO)/ Direct Reporting Program

Program Executive Officers (PEOs) and Direct Reporting Program Managers (DRPMs) have authority and are responsible for all major programs within their area, as well as other programs designated by SECNAV. The PEO reports directly to the Naval Acquisition Executive (NAE) who is the Assistant Secretary of the Navy (Research, Development and Acquisition) ASN (RD&A) with regard to his programs. Some large, complex or critical programs are managed by DRPMs, who also report directly to the NAE (Ref. 13, I-23).

5. Appropriation Sponsor

The Deputy Chief of Naval Operations (DCNO), Assistant Chief of Naval Operations (ACNO) or Deputy Chiefs of Staff (DCS) responsible for supervisory control over a designated appropriation is the appropriation sponsor. The appropriation sponsor becomes the DON spokesman on matters dealing with the resource requirements, when a program is defined that provides for force level requirements and program objectives. This involves assisting program and resource sponsors in solving funding deficiencies during budget formulation, testifying before Congress, and recommending the reprogramming of funds within the appropriation during budget execution (Ref. 13, I-23).

6. Resource Sponsor

The Deputy of Naval Operation (DCNO) or a Director of an OPNAV Staff Office (DSO) responsible for an identifiable group of resources constituting certain warfare areas and supporting warfare tasks, such as air, surface, or subsurface warfare is a Navy Resource Sponsor. A Resource Sponsor is responsible for interrelated programs or parts of programs in several mission areas. Ensuring the existence of an effective and balanced program within assigned fiscal controls is one of the resource sponsor's responsibilities during the Programming process. Correspondingly, the resource sponsor provides assistance when program changes are required to accommodate fact-of life pricing and other funding increases or decreases in order to maintain a balanced program, during the internal budget review. Meanwhile the Marine Corps does not have designated Resource Sponsors per se, the Deputy Chiefs of Staff (DCS) who are the appropriation sponsors for Marine Corps appropriations and the D/CS (Programs and Resources) Department perform much the same functions as Navy Resource Sponsors with respect to achieving an effective and balanced program within fiscal constraints and making program adjustments to accommodate pricing and other funding increases when required (Ref. 13, I-23, I-24).

7. Program Sponsors

The DCNO, DSO or D/CS responsible for determining program objectives, time-phasing and support requirements, and for appraisal of progress, readiness and military worth for a given weapon system function or task is a Program Sponsor. The Program Sponsor is the primary Navy or Marine Corps spokesman on matters related to that requirement for the particular weapons system or program. Program Sponsors assist Resource Sponsors in resolving funding problems in order to help justify programs during the budget process (Ref. 13, I-24).

8. Responsible Office

That organization assigned fiscal management responsibility for all programs financed by a particular appropriation or fund is called the Responsible office. Fiscal management consists of three basic elements: (a) Fiscal management integrates programming and budgeting action by coordinating the review of budget estimates prepared by cognizant organizations with headquarters staff elements to ensure conformance with programmatic decisions reflected in the approved Program Objectives Memorandum; (b) It provides fiscal control of funds which have been allocated by NAVCOMPT, including the sub-allocation of funds to administering offices; and, ensures accurate and timely reporting of program status, funds availability, commitments, obligations and expenditures from the appropriate executing organization; (c) Finally, it provides for the review of the execution of allocated funds to ensure that program objectives are satisfied; and, identifies the need to reprogram funds (Ref. 13, I-24).

9. Budget Submitting Office

Those administering offices or claimants responsible for preparation, compilation, and submission of budget estimates and supporting material directly to NAVCOMPT for

the NAVCOMPT, OSD/OMB, and President's Budget submissions are under Budget Submitting Offices. These offices are in charge of preparing the budget estimates within the program, fiscal, and policy guidance provided in the POM and other guidance. They also arrange for the necessary personnel to attend budget hearings and provide any follow-up information requested to justify estimates. They are responsible for submission of these estimates via the appropriate budget exhibits and for ensuring that subordinate offices submit material in time to meet prescribed due dates. Finally, they are responsible for reviewing budget adjustments made by NAVCOMPT, OSD, and Congressional Committees, preparing reclaims or appeals as necessary, and ensuring the necessary attendance at subsequent reviews (Ref. 13, I-24).

10. Administering Office

Fiscal management of an entire appropriation/fund or a specifically assigned portion of an appropriation/fund is the responsibility of an Administering Office. Its responsibilities also include budget preparation. These offices compile, review, and forward estimates to NAVCOMPT during the formulation phase. Additionally, representatives of these offices assist program managers and sponsors at DON, OSD/OMB, and Congressional reviews (Ref. 13, I-25).

11. Claimants

Major claimants are responsible for portions of the Navy operation and maintenance, active and reserve personnel accounts and selected procurement appropriations (Ref. 13, I-25).

12. Project Managers

The project manager is the individual responsible for executing an approved project. He provides pricing, schedule, and other data for inclusion in the DON budget

and justifies project estimates at budget review hearings. He is also responsible for ensuring that allocated funds are effectively used and in accordance with authorized purposes (Ref. 13, p. I-25).

APPENDIX D

THE BUDGET REVIEW PROCESS OF THE U.S. NAVY

A. THE ACTIVITY LEVEL AND MAJOR COMMAND BUDGET REVIEW

The budget process usually commences prior to the receipt of official control numbers. After the control numbers are received, the cost center budget figures must be adjusted to bring them within the prescribed limits. The review process varies depending upon the activity's size.

In larger commands, the review normally is conducted by a formal resource allocation committee or board to prioritize unfunded requirements, recommend civilian personnel allocations and to convene periodically for continuing review as priorities change throughout the year.

At the smaller activities, on the other hand, the review is done internally by the comptroller's office, calling on department heads only for specific information. The executive officer reviews the comptroller's compilation prior to the commanding officer's review.

When the commanding officer signs and forwards the budget package to the major command or sub-claimant, the budget review at the activity level is completed.

At the major command all of the budget packages from its cost centers are compiled and reviewed. The major command then sends its budget estimates to NAVCOMPT for review and inclusion in the Department of the Navy Budget Submission(Ref. 13, p., B-39-40). Figure D1 shows key players in the budget review process.

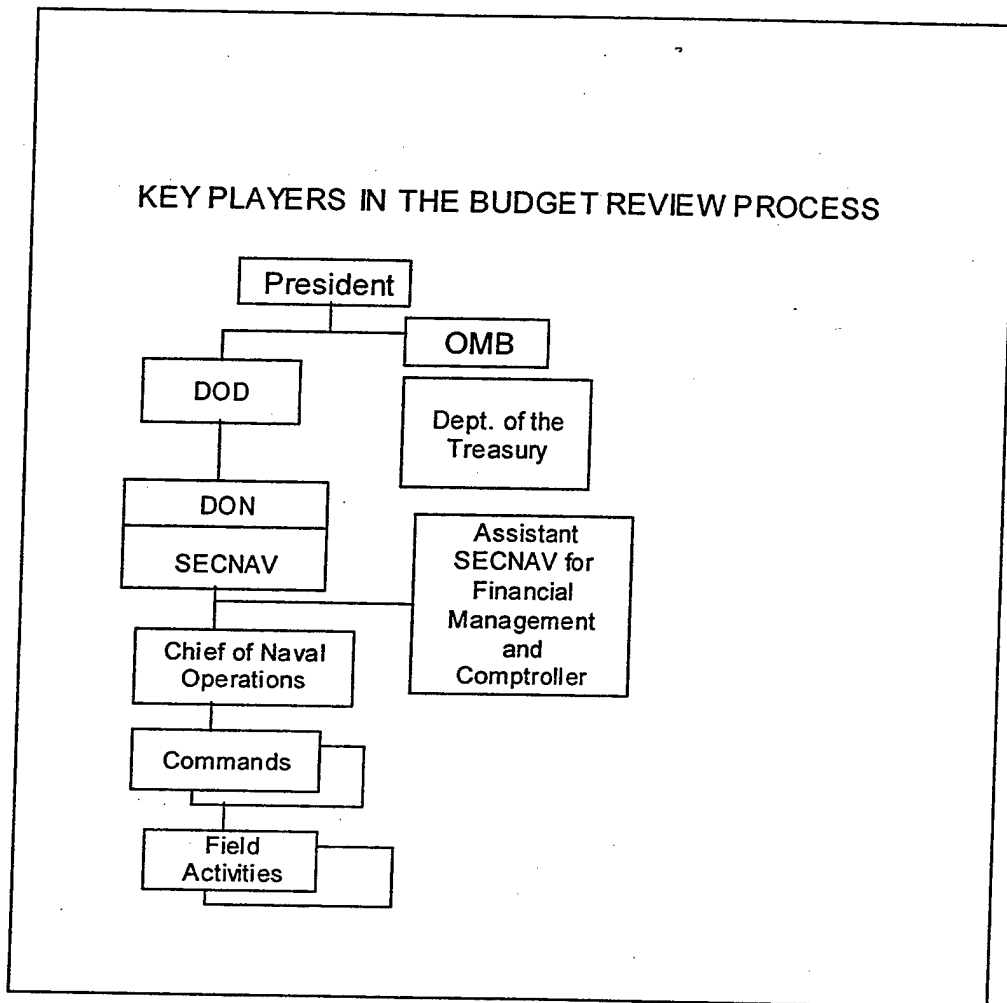


Figure D1.

B. NAVCOMPT BUDGET REVIEW

In the NAVCOMPT budget review, there are three important events that take place: budget submission, budget hearings and marks and reclaims. The first event, submission, begins when the major commands submit their budgets to NAVCOMPT based upon the approved POM and the guidance contained in NAVCOMPT Notice 7111. NAVCOMPT reviews the submissions for proper pricing and executability of programs.

Hearings are conducted by the Director Office of Budget (FMB) to ensure that budget estimates:

1. Are in agreement with the POM, SECNAV guidance and available decision documents;
2. Contain current and valid costs and pricing;
3. Are well justified and consistent;
4. Maintain financial feasibility and balance;
5. Are executable;
6. Conform to legal requirements.

The budget review examines procurement requests, production schedules, lead times, status of funds, prices, etc., in more detail than during the programming phase.

When NAVCOMPT disagrees with a claimant's budget submission, a mark is made, which is a proposed line item adjustment to the claimant's budget submission. The claimant can then submit a reclama, appealing for funds that they want to have restored. They must revise their budget as marked by NAVCOMPT, if they do not develop reclamation (Ref. 13, p., B-40).

C. OSD AND OMB BUDGET REVIEW

The same events as in the NAVCOMPT review also take place in the OSD and OMB budget review; submission, hearings, adjustments and appeals. The budget analysts from OSD and OMB conduct a joint review. When the military departments have competing plans, however, OMB makes the final decisions.

SECNAV receives tentative documents, Program Budget Decisions (PBDs) from SECDEF. SECNAV may develop PBD Reclamation, if he does not agree with the PBDs. After considering the reclamation SECDEF then make his initial decisions. The Major Budget Issues (MBI) meetings may then be held if the SECNAV, CNO or CMC have problems with the SECDEF initial decisions. Following the MBI meetings, SECDEF makes his final decisions.

The SECDEF's budget becomes the President's Defense Budget and the President presents it to the Congress as part of the national budget in February (Ref. 13, p., B-41-42). Figure D2 shows the NAVCOMPT and OSD/OMB budget review cycles.

NAVCOMPT and OSD/OMB BUDGET REVIEW CYCLES

DATE	<i>NAVCOMPT BUDGET REVIEW EVENTS</i>
April-May	Budget guidance issued
May-July	Exhibits are prepared and submitted
July-August	Exhibits are reviewed and analyzed
July-August	Hearings are conducted
July-August	Marks (adjustments) are recommended
July-August	Reclamas (appeals) are submitted and reviewed
August	Decisions are made
August	SECNAV presentation
September	DON budget submitted to OSD
	<i>OSD/OMB BUDGET REVIEW EVENTS</i>
August	Budget guidance is issued
September	Exhibits are prepared
September-October	Exhibits are reviewed and analyzed
September-October	Hearings are conducted
October-December	Program Budget Decisions are issued
October-December	Reclamas (appeals) are submitted and reviewed
November-December	Decisions are made
November-December	Major Budget Issues (MBI) meetings are held
December	SECDEF discussion with President
February	President's Budget submitted to Congress

Figure D2

D. CONGRESSIONAL BUDGET REVIEW

This review also involves submission, hearings, adjustments and appeals. The defense portion of the President's budget is undertaken from the separate standpoints of authorization of programs and appropriation of funds. The DON may appeal to a legislative body whose position is more favorable to the DON when there are differences in opinion between the two authorization committees or the two appropriation committees (Ref. 13, p., B-42).

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