American Society of Military Comptrollers' Annual Survey of Defense and Military Department Financial Management Executives

MAY 2010

Financial Management

ON THE BATTLEFIELD

About the American Society of Military Comptrollers

The American Society of Military Comptrollers (ASMC) is the nonprofit educational and professional organization in the field of military comptrollership. Established in 1948 and located in Alexandria, Va., ASMC is open to all uniformed and civilian financial personnel in the U.S. Military Departments, the Department of Defense and the Coast Guard. The Society promotes the education and training of its members and the development and advancement of the profession of military comptrollership. ASMC provides professional conferences to keep members abreast of current issues, operates a certification program, occasionally sponsors research and encourages the exchange of techniques and approaches. For more information on ASMC, please visit www.asmconline.org.

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Executive summary

Between January and April 2010, the American Society of Military Comptrollers (ASMC) sponsored Grant Thornton LLP in surveying 1,014 civilian and uniformed members of the Defense financial community, including in-person interviews with top executives. This is the eighth such annual survey since 2003.

Managing Defense resources

The Department of Defense (DoD) Planning, Programming, Budget and Execution (PPBE) System is out of sync with warfighting operations, say many survey respondents. PPBE is a well-defined process that is structured, logical and predictable and almost no one wants to see it go away. However, respondents say that PPBE is not fast and flexible enough, which makes it hard for the American military to adjust resources in a volatile world of unpredictable new threats. Although PPBE has changed somewhat since 9/11, unfortunately, the changes have not been uniform across the Defense community and some remain undocumented.

Another resource management problem arising since 9/11 has been the increased use of supplemental funding for overseas contingency operations (OCO). Supplemental funding is not subject to the same discipline and structure of PPBE, which has caused some problems in keeping funds visible and used as originally planned. Equally important, such funds were not always calculated using full life-cycle costs, leaving a legacy of unfunded operations and maintenance resource demands, which will plague defense budgets for years to come.

Improving PPBE and transitioning supplemental funding into baseline budgets requires streamlining and speeding up the former and adding more discipline and visibility to the latter. All funding decisions should be made with an eye to the near- and long-term baseline budget. When making the transition, the Defense community should follow a common approach and set priorities based on warfighter needs.

Financial management on the battlefield

Uniformed and civilian financial professionals deployed to Iraq, Afghanistan and other OCOs need better support in the field. This includes better training on how to handle problems in the field and more extensive communications and "reach-back" support from Continental United States (CONUS) colleagues.

21st century financial workforce

The structure of the current multisector Defense financial workforce needs to be rebalanced to use fewer contractors and more government employees, say many survey respondents. However, it is important to solve some of the problems that caused the imbalance, including hiring freezes and a cumbersome civilian personnel hiring system. An influx of new government workers to replace contractors could be threatening to current employees, who may fear the competition. However, staff growth also offers opportunities for advancement. The most critical skill that Defense financial personnel need now and in the future is how to use performance improvement methods to increase productivity, efficiency and effectiveness.

Increasing the value of financial information

The best way to make financial information more valuable to nonfinancial managers is to make it more understandable to them, say survey respondents. Such information needs to be clear, timely, consistent and dynamic. More attention needs to be given to analyzing financial data, not just reporting it.

Table of contents

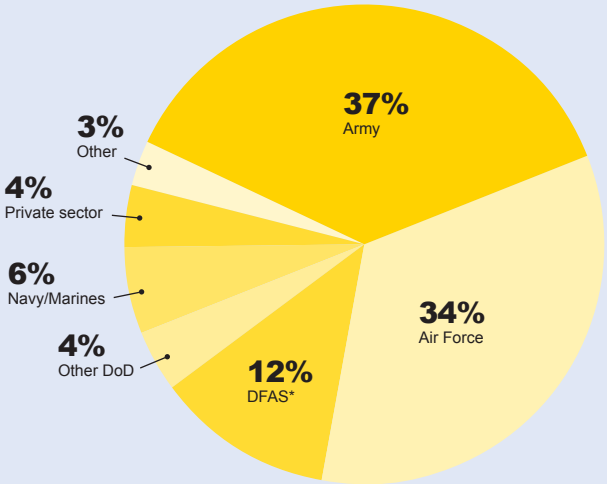
About the survey

Since 2003, the American Society of Military Comptrollers (ASMC) and Grant Thornton LLP have sponsored an annual survey of Defense community executives and staff on their opinions of trends and prospects in financial management. The Defense community includes the Army, Marine Corps, Navy, Air Force, agencies of the Department of Defense (DoD) and the U.S. Coast Guard. "Executives" in this survey are the 26 Defense financial leaders interviewed in person by Grant Thornton partners and directors. "Staff" refers to the respondents to an online survey of ASMC members.

Survey respondent profile

The distribution by organization of online survey staff respondents is shown in Figure 1.

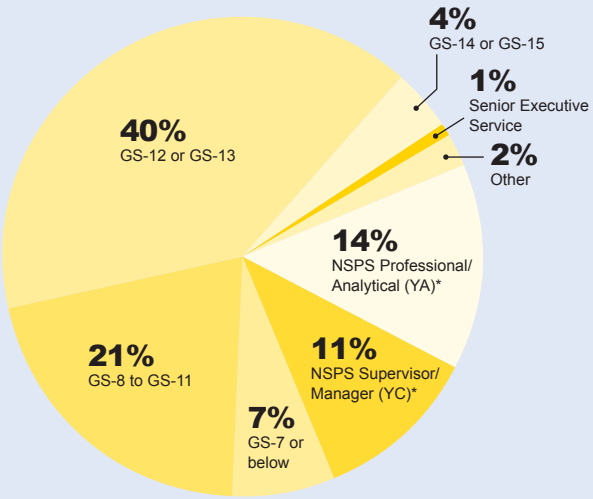
Figure 1: Online respondent distribution by organization



**DFAS: Defense Finance and Accounting Service*

Of the staff respondents who provided background information, 94 percent were ASMC members, 5 percent were active duty uniformed personnel and 89 percent were Defense civilian employees. Of the active duty respondents, two-thirds were officers. Figure 2 shows the level of each civilian staff respondent.

Figure 2: Grade level of civilian staff respondents



**NSPS: National Security Personnel System*

Grant Thornton used an interview guide/questionnaire to conduct one-on-one interviews with Defense uniformed and civilian financial executives who are representative of the highest echelon of financial professionals in government. Of the 26 executives, the breakdown was 11 Navy, 7 Army, 4 Department of Defense, 3 Marine Corps and 1 Air Force.

For copies of both the in-person and the online interview questionnaires, please go to www.grantthornton.com/publicsector and click on Publications.

Confidentiality

To obtain frank opinions from survey participants, we kept their responses anonymous. We did not share the names and affiliations of in-person interviewees with anyone outside the Grant Thornton research team. Only one person, the survey coordinator, saw e-mail addresses or other identifying information from online survey respondents.

Managing Defense resources

How the Defense community manages money is out of sync with operations, say many financial executives interviewed for the 2010 ASMC survey. This makes it harder to transition warfighter resources from supplemental to base funding, given the volatile world political climate that demands fast, flexible deployment and development. In this section of the survey report, we look at the Planning, Programming, Budget and Execution (PPBE) System now used in the DoD and the current effort to shift resources from supplemental funding to normal baseline budgets.

PPBE: What to keep, what to improve

In federal fiscal year (FY) 2011, President Obama's budget request to Congress included more than half a trillion dollars for defense. This exceeds the combined budgets of all civilian departments and agencies in the Federal Government. How does DoD justify such an enormous amount of money, particularly during an economic downturn that reduces tax revenues, a mounting national debt and pressing demands from the civilian side of government? A major part of the answer is PPBE, which is how DoD and its components do long-term resource planning and management and, as one of several results, produces the Defense budget request. But PPBE is more than simply budget justification. It is how DoD ensures that combatant commanders have the best mix of forces, equipment and support the nation can afford.

As shown in the box titled "What is PPBE?", the money management approach has four parts, with Planning, Programming and Budgeting set up in 1961 and Execution added in FY 2002

What is PPBE?

PPBE, the Defense-wide resource planning and management process, is a five-year cycle (six-year cycle until 2012) with the components described below.

Planning **involves determining requirements by defining and analyzing strategies, conditions, trends, threats, technology and economic assessments. PPBE also is a process in which planners come to understand change and the long-term consequences of choices made today.**

Programming **is a process used to meet priorities by balancing and integrating resources among different programs. Programming looks at alternative force structures, weapon systems, support systems, and their multiyear implications for resources and tradeoff options.**

Budgeting **includes processes that formulate the Defense budget, then communicate and justify it to the Office of the Secretary of Defense, the White House and Congress. After budget approval, budgeting processes include balancing the Defense program portfolio to the resources available and ensuring that money is spent in accordance with the law.**

Execution **monitors how budgets and programs are carried out in the field in order to determine program performance. Execution is about measuring and reporting performance.**

in order to answer the question, "Did we get the results we paid for?" Originally designed during the Cold War era that lasted until 1991, PPBE is now a five-year cyclical process in part because of the long time needed to develop major weapons systems and to shift doctrines.[1]

During our in-person interviews, we asked uniformed and civilian Defense financial executives (whom we will call "executives" for the rest of this survey) how effective they think PPBE is in supporting the tasks shown in Table 1. The table shows the mean score they gave to PPBE, with zero being "not at all effective" and four being "very effective."

Table 1: Executives opinions on effectiveness of PPBE

Task	Mean score*
Execution of funds supporting overseas contingency operations (OCOs)	3.1
Controlling cost growth in acquisitions	2.8
Communicating requirements to Congress	2.4
Measuring and reporting performance	2.4
DoD portfolio management	2.0
Budgeting for OCOs	1.7
Budgeting for joint programming	1.6

**Mean score on scale of 0–4, with 4 being very effective*

[1] For more on PPBE, see *Supporting the Warfighter: Linking Budget to Results*, the 2008 ASMC Annual Survey of Defense and Military Department Financial Management Executives.

Executives say PPBE is most effective in dealing with the *execution* of funds supporting OCOs (score of 3.1 out of four in Table 1), which are missions, support for peace operations, major humanitarian assistance efforts, non-combatant evacuation operations and international disaster relief efforts. Examples include Operation Enduring Freedom (Afghanistan), Operation Iraqi Freedom and Haiti disaster relief. Executives say that PPBE was much less effective in *budgeting* for OCO funds (1.7) and for joint programming (1.6). Joint programming, which calls for cross-service cooperation and resource sharing among several Uniformed Services, is often an important aspect of OCOs, and increased "jointness" has been an overall Defense goal for some years now.[2] The low score given to joint programming in Table 1 may not be directly because of PPBE, says one survey respondent, because ". . . many joint programs have been messy and fell apart."

PPBE is somewhat effective at controlling cost growth in acquisitions (2.8), communicating requirements to congress (2.4) and measuring and reporting performance (2.4), say respondents. It does less well at managing the portfolio or collection of all DoD programs (2.0), according to respondents.

[2] For more on "jointness," see *Driving Change: Defense Financial Management*, the 2006 ASMC Annual Survey.

Best and worst of PPBE

Although few executives think that PPBE is terrific, many say that it is a good way of managing resources. We asked survey participants to list the best and worst aspects of PPBE and show the results in Table 2.

Table 2:
Best and worst qualities of PPBE (executives)

PPBE's best qualities	PPBE's worst qualities
PPBE is a well-defined process that is structured, logical, sequential and predictable.	PPBE is not flexible, which makes resource adjustments harder.
PPBE is universal and transparent—everyone in the Defense community and Congress follows and understands it, which promotes communication through a common resource management language.	PPBE takes too long and is out of sync with real life military operations and their requirements.
PPBE promotes planning and provides a multiyear view of resources.	Although it is supposed to be a sequential process, in the past several years the Defense community has been doing PPBE's Planning and Programming components in parallel, resulting in increased workloads and unclear processes.
PPBE connects planning and budgeting.	There are often too many people involved in PPBE, so it is difficult to reach consensus.

In Table 2's "Best" column, the first two items show that PPBE is a well-defined and understood process, not surprising because it has been around for nearly half a century. The process may be confusing to newcomers and outsiders, but anyone in Defense who wants to rise to the executive (Flag/General Officer or Senior Executive Service level must understand and master it. Although the process may be lengthy, the discussion and buy-in that result are worth it, says an executive. In addition, PPBE provides a framework for a disciplined approach to multiyear planning and budgeting, which is essential for preparedness.

On the other hand, that same framework can cause PPBE to be too rigid to meet the rapid changes and immediate needs demanded by OCOs and others, say some respondents. A staff participant in the online survey (we refer to all online respondents as "staff") says, "I don't believe that PPBE adjusts well for unstable requirements. The budgets are prepared too far in advance, but our operational tempo and world events cause rapid changes, making earlier budget decisions irrelevant and not responsive to a changing world." This is why lack of flexibility and long ramp-up time rank as the Numbers 1 and 2 "worst" qualities of PPBE, as shown in Table 2's right column. Says an executive, "PPBE takes 18 to 24 months, while the warfighter needs 18 to 24 days' reaction time – and sometimes even a few hours. We need more flexibility to support the warfighter." A staff respondent says, "PPBE is so inflexible and takes so much time. It consumes a tremendous amount of man-years to complete, and then in the end it always comes down to critical, last-minute decisions made by a handful of people to make it balance. Even then, there is always a lot of broken glass that is left up to Execution year financial managers to fix." (Surprisingly, despite all the work expended on PPBE, budgets rarely change by more that 2 percent during the process.)

According to some respondents, another problem is that, although PPBE was designed to be a sequential process (P→P→B→E), since 2003 Defense groups have been doing Planning and Programming concurrently. This gives them less time to consider long-term implications of their

Planning decisions, say some respondents. Finally, a few survey participants say there are simply too many people involved in PPBE, which can slow things down and make it difficult to come to agreement. Of course, the trade-off for having fewer people involved is less buy-in, so perhaps the Defense community has not yet struck the right balance between the two factors.

Besides the best and worst categories of PPBE, a third problem deserves its own discussion: lack of discipline. Says an executive, "People don't stick to the process. PPBE takes a lot of 'sweat equity,' and people may abandon it because they do not have patience." Several respondents pointed out that PPBE is good for resource management only if people adhere to the process. Overall, these respondents think that the Defense community should do a better job at enforcing the discipline of PPBE and making sure that people use it correctly and efficiently.

Several executives say that during the last several years the PPBE process has changed. Resource Management Decisions (RMD) have replaced Program Budget Decisions (PBD). The major budget issue process, an annual fall ritual for old "budget warriors," has disappeared completely. Several senior-level management boards (often with overlapping membership) now replace many of the old processes. Not all survey participants agree that these changes have been for the best, and some say there is little or no documentation available to the field about what has changed.

PPBE as reflection of reality

Enough in-person and online respondents question the realism of PPBE to raise concern about the process. For example, a staff respondent says, "PPBE provides a plan… , but the money just keeps being spent. Where is it coming from?"

Concerning the use of life-cycle costing (a weak area of PPBE, say some executives), a staff respondent says, "From the top down in the past five years, I think PPBE has become something that sounds nice on paper but really never happens. How can programs prepare adequately when there are no stable budgets and not even funding in the Future Years Defense Program (FYDP)? How can there be a 'program of record' when there is no funding in the FYDP, yet we must still answer questions to Congress and non-DoD entities as if there were? Either there is or there is not money, but it cannot be both ways. We are programming for things that we need now for the war, but there is no plan to fund the maintenance tasks of these things. We are ill prepared to reset the force, but we keep hearing that OCO funding will go away, and indications are bleak that we will ever see those dollars in baseline budgets. We are told that we will 'fix it in execution' and in the meantime, the list to fix in execution grows beyond our means to fix it."

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Improving PPBE

To start, we point out that even the toughest critics of PPBE in this survey do not want to see this resource planning and management process go away completely. Instead, many want to improve the process. Improvement starts, according to several, by admitting that it is difficult, if not impossible, to apply a long-term

resource planning approach to all aspects of national defense. "We have to realize that the discipline of PPBE cannot be enforced during war time," says an executive, while a staff respondent says, "PPBE provides a plan, but every plan needs to have flexibility for emergencies." Says an executive, "We have to stop rewarding 'fire drill' budgeting, with the idea that it will be fixed during the Execution process. That is holding sound planning hostage to mission threats."

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One senior executive in the survey suggests adding a "rapid acquisition fund" to handle warfighter needs, while another would like to link PPBE more closely to force generation requirements or the warfighting cycle. Other executives say that DoD should develop a dual system for long- and short-term requirements – and both should instill planning, rigor, discipline and evaluating outcomes against objectives and costs.

Other suggestions for enhancing PPBE include:

- **Concurrency.** Several respondents would like to return to the pre-2003 sequential process of PPBE, where Planning comes before Programming, instead of the two happening at the same time. Should DoD retain this concurrency, Defense leaders need to give more thought to how this works and inject more discipline into the approach.
- **Coordination among components.** Several respondents say that, all too often, Defense components act as if they have their own PPBEs, instead of being part of the larger Defense resource process. More coordination among components would help to remedy this problem – but that will be difficult because they tend to battle each other for budgets just as they fight foes in wars. A step in the right direction, says a financial manager, is to eliminate all the PPBE tools other than the single program set up by the DoD Business Transformation Agency, and institute a zero deviation policy among all services and sub-service organizations in financial tracking.
- **Costs.** Many respondents say there are problems matching the budget structure to actual costs. For example, some respondents say, people are not using total life-cycle costs (acquisition and sustainment) very much and too often budgeters fail to identify clearly the enduring costs. As we will see in the next section on transitioning from supplemental to baseline budgets, this problem can come back to haunt Defense components for decades to come. Says an executive, "DoD has long had competent costing capabilities but programmers and budgeters choose to ignore them. The renewed emphasis on cost in the Department is a breath of fresh air, but we may not have nearly enough money in an already stressed budget to cover the 'real' costs of weapons systems."
- **Decision making.** Respondents would like to see budget decisions made earlier in the process, with more input from Combatant Commands (COCOMS) and other components of the Defense community. The Office of the Secretary of Defense (OSD) should focus on the big decisions and leave the smaller ones to the components. (One executive says that senior decision makers are likely to spend

as much time on a $30 million dollar issue as they do a $300 million issue.)

- **Execution.** This last phase of PPBE needs to be improved so it is better able to "tell us what we got for the money we spent," says an executive. A staff respondent says "Execution data are far too simplistic to provide adequate decision support and performance assessment information." Included in the "to do" list: better ways to measure results and match them with costs and to compare budgets to actual costs, clearer insights into enduring costs and more analytics and details to show what does and does not work.
- **Financial education.** Personnel involved in the PPBE process need more training in its use. More financial and nonfinancial managers (including in acquisitions) need to be trained to understand and apply PPBE in their work. Most PPBE training is geared toward the big picture; smaller offices need to know how PPBE applies to their level.
- **Guidance.** Give lower-level offices more time and guidance to develop accurate inputs into the PPBE process, which would prevent rework of hastily formed, incomplete inputs.
- **Simplify PPBE.** As noted in Table 2, many respondents say that PPBE is overly complex and requires too much work. Simplifying it would make the process more understandable, encourage its correct use and save time and labor. Solving systems problems such as interoperability and data sharing would speed the process and add more information to it.

Finally, several respondents say that PPBE is a peacetime process that is not perfectly suited for OCOs. Compounding the problem is the use of supplemental funds to finance OCOs, which tends to muddy the waters of PPBE's long-term planning and budgeting. Indeed, in the report of the 2008 ASMC survey we wrote that the effect of the 2002 changes to the original PPBS approach would not be known until the Defense community moves the costs of those wars into baseline budgets, so that all funding once again falls under PPBE. We discuss this more in the next section of our report.

Transitioning from supplemental funding to baseline budgets

Much of OCO funding comes through supplemental appropriations to the Defense budget, mostly for the wars in Iraq and Afghanistan. In June 2008, Congress provided DoD about $65.9 billion as a bridge supplemental for FY 2009 OCOs and subsequently passed about $80.0 billion more in a supplemental appropriation in June 2009 for OCO. FY 2010 and forward-year budget policy is to begin in earnest to transition supplemental funds used in OCOs to base budget funding and make these resources subject to the normal congressional appropriations process (and thus to PPBE).

When the supplemental budget had approximated an appropriated budget for such a long period, two things happened. First, Afghanistan and Iraq created enduring or long-term costs that should have been moved to the base budget. Second, some costs that should have been included in base budgets instead have migrated into supplemental funding. These two sets of costs will become more visible and will likely increase the *apparent* size of the Defense budget.

Lessons learned from supplemental funding

We asked in-person survey participants about the lessons they have learned after about nine years of supplemental funding for OCOs. Most respondents are clear about the need for supplemental funding. They point out that OCOs are unpredictable, such as the case of the Haiti relief effort in early 2010. There will always be a need for supplemental funding, especially when baseline budgets are set down to the dollar and are inflexible. Nevertheless, there have to be rules and discipline for requesting and using supplemental funding. Survey respondents say that those rules need to be informed by the following.

- **Abuse.** Supplemental funding can be subject to abuse, with some people trying to cover normal or long-term costs with contingency funds. Says an executive, "Never fund enduring requirements with supplemental money – it is a bridge to nowhere."
- **Need for systematic approach.** "Either fund everything in one budget or have two separate funding processes for base and supplemental, both enacted at the same time,"says an executive. As we said earlier, both processes need structure, rigor and discipline. Several respondents say supplemental funding should come earlier in the budget cycle than now, instead of at the end-of-fiscal-year rush to obligate money. In addition, consider multiyear supplemental funding. Contingency requirements tend to be less integrated than baseline budget requirements, which is not optimal and operates against effective programming and execution review.
- **Keep an eye on the baseline.** Too much focus on supplemental funding causes one to become good at developing requirements, but lose sight of the baseline budget. Says an executive, "We have confused supplemental and baseline requirements so much that we no longer really know what is in the baseline budget." This can cause future shortfalls, say several respondents such as this staff respondent: "Military installations have grown accustomed in recent years to depending on supplemental funding to augment their base operations and support (BOS) requirements. It has created significant shortfalls in BOS for FY 2010 and beyond." The same is true for assets, says another staff respondent: "OCO funding has been used to procure large quantities of equipment needed for the war effort. Many of these requirements were pushed

through without budgets for the follow-on support and repair of these items. It is easy to get funding for body armor and Mine Resistant Ambush Protected (MRAP) vehicles, but it has been nearly impossible to justify the long-term maintenance and repair of the same. Too much depot-level repairable equipment is sitting in OCO accounts and no one knows how much it will cost to fix. The demands for operations and maintenance (O&M) funding in the long-term keep getting larger, and there is little doubt that these kinds of requirements are not 'sexy' enough to make the cut for baseline budgets. This will put a significant strain on the O&M budget in the future."

- **Flexibility.** If the baseline budget allowed more flexibility, there might be less need for so much supplemental funding, say many respondents. Flexibility includes more ability to move funds around and to carry them over from year to year. Create withholds or reserves for unforeseen requirements, says a staff respondent, but be careful "… because this could give Congress the impression that the Defense community has flexibility that congressional staffers could later target for cuts."

How to make the transition (from a financial management perspective)

"Be methodical" when making the transition from supplemental funding to the baseline budget, say survey respondents. There are many issues to address at all levels of operations, so the process needs a comprehensive approach. In addition, the effort needs to define the desired outcome in terms of converting supplemental to baseline on a dollar-for-dollar basis (a good goal) or extracting savings during the process (a better goal), says an executive. Several respondents call for consistent definitions and types of assumptions to differentiate what is to be baseline versus supplemental, along with agreed-upon categories of enduring costs. In addition, it is important to learn the history of funds, execution rates, who audits use of the funds, where funds were applied and to what items.

Tools and methods that can help the transition

- **Activity-based costing and other cost accounting methods**
- **Decision support software that allows for advanced data mining and ad hoc query generation, as well as for supporting standing reporting requirements**
- **Risk analysis and risk management guidelines, tools and procedures**

Methodical does not mean slow, though. "First, stop the bleeding," says an executive. "Focus on things that present the greatest opportunity for savings, cost avoidance or risk management. Second, determine what must be done for the good of the warfighter instead of what we as financial management professionals would like to be done. Third, set priorities as to what bills have to be paid when."

Timing for the transition is important. Several executive respondents urge Congress and the Pentagon not to do the changeover all at once, but instead plan over the FYDP so that the transition does not happen just in FY 2012, for example.

Any significant change in demand on processes is an opportunity to improve them. Some respondents say to use the transition to simplify the Defense financial structure so that funding can be more readily transferred from one requirement to another. A nonfinancial corollary: "Eliminate non-value-added activities. Streamline processes so that a higher percentage of funding actually goes to the warfighter and not the support tail," says a staff respondent.

"There is a whole generation of officers and managers in the Defense community who have never heard 'no' when it comes to funding, and now they are hearing it or are about to."

Preparing people for the transition

After many years of receiving increasing amounts of supplemental funding whenever requested, it should be no surprise that the Defense community's financial mindset has changed somewhat since 9/11. Says an executive, "There is a whole generation of officers and managers in the Defense community who have never heard 'no' when it comes to funding, and now they are hearing it or are about to." That is going to make the money migration a bit more difficult and increase the need for top leader support and excellent communication. As well, people are going to have to be retrained (and some trained in the first time) in the discipline of PPBE and the baseline budget.

Preparing financial and nonfinancial managers for the transition, say several respondents, means giving them guidance and instruction. It is important managers understand what will be demanded of them for reporting purposes; what costs to track and how; how to identify the whole cost of an item or program; and whether they must track OCO expenditures in the same way as others. Resource managers need appropriate analytical skills for setting priorities on budget recommendations. Transition timelines need to be communicated to the lowest level of the Defense community.

Says a staff respondent, "Components need to provide appropriate financial management and legal support to managers during the transition. This includes ensuring that controls are in place to make it easy for managers to follow appropriation law. Also, make sure there is no undue pressure on managers to circumvent that law, and that they have adequate support to research how issues can be tackled quickly and efficiently."

There may be some dismantling and restructuring among resource management offices as the transition transpires. Says an executive, "There is a shadow infrastructure supporting OCO expenditure. Specifically, some Defense

components have hired personnel to process and monitor OCO supplemental funds. Reducing this shadow infrastructure will be a challenge."

What to watch out for

When supplemental funds become part of the baseline budget, the once-temporary money will likely be treated like all the rest – and that may not be pleasant for everyone. For example, OCOs will likely continue to have top priority, so there will be "borrowing" from the base budget of installations and other programs in order to support warfighters in the field. This may be the right thing to do, but it could exacerbate delays in O&M activities. On the other hand, unless funds are earmarked for a specific purpose, commanders may shift the money to uses other than originally intended. In addition, says a staff respondent, "Our base funding often is reduced after the first or second quarter by across-the-board cuts, which we nickname the 'mid-year tax.' Sometimes we are able to get the money back by justifying why the funds should not be reduced or through alternatives. We will have to keep this in mind for supplemental funds that will now be transitioned to base funding." Other advice for those making the transition:

- Planners will need to pay more attention to defining critical requirements in the Program Objective Memorandum (POM) submission year. During Execution, track costs formerly paid through supplemental funding associated with specific missions and use that information to support cost model construction for future planning and justification for continued funding.
- Programs tend to continue after they fulfill their mission, so leaders will need to learn when and how to turn off "surge" programs.
- Trust but verify. Says a staff respondent, "Transition helps ensure continuity of the funds because they are now in the baseline, but how do you ensure that those funds continue to be executed against OCO requirements? You must rely on the integrity of the executors, but there is no tracking mechanism." This is why monitoring the use of transitioned funds is so important.

How financial managers can help the transition

Executives interviewed in this survey recognize that the transition from supplemental to baseline budget funding is serious business. They see the core work of financial management during this period as capturing true costs, distinguishing between what is temporary versus ongoing (i.e., compare apples to apples), tracking costs over time and balancing flexibility and control.

It is imperative that financial managers keep the discussion going about how best to handle the transition. Says a staff respondent, "Defense needs to increase collaboration and direct communication at all levels of the organization instead of going up and down the chain of command. Because of the difficulty communicating among groups, problems cannot be addressed at the incipient stage of development. We wait until we have a crisis to form a Tiger Team to address issues that could be avoided with phone calls between activities. Because the issues are unexpected, current dashboard metrics do not capture the essence of what is occurring. We are failing to gather and analyze front-line intelligence. Corrective actions are slow to develop and are not communicated to all process stakeholders. Guidelines and ground rules for collaboration can be developed to allow technician-to-technician and supervisor-to-supervisor assistance. Chain of command should be limited to matters that require a senior management decision." At the highest echelons, says a senior executive, it is important to keep the discussion going between DoD and Congress, "… and hope that Congress will be forgiving."

Several executives see the transition as an opportunity to introduce more and better cost analysis, cost estimating and accounting tools to Defense financial management. They also would like to find ways to make funding more flexible and adaptable to changing needs.

Financial management on the battlefield

Civilian and uniformed financial professionals who deploy to Iraq, Afghanistan and other OCOs need better support in the field, say many survey respondents. This includes:

- Better training and briefing on what to expect and how to handle the special problems that arise when in a combat theater of operations. "Too many financial professionals are deployed because they volunteer, not because they have the requisite skills," says a staff respondent who has "been there." Training might include role-playing in a simulated operating environment that mimics how financial personnel will be deployed, says another manager. Also, have personnel who will be deployed engage in training exercises with their assigned units.
- Excellent communication and support from their CONUS colleagues, who should respond rapidly to requests from the field.
- Making sure they are paid on time and their families have the right support at home. Several online respondents say there are problems in processing travel vouchers for deployed civilians, so they have to carry credit card debt too long.
- Supporting the "shortcuts" and other exigencies that people in the field must use, so long as these are appropriate. "Most financial teams are understaffed and look to mission accomplishment, rather than meeting administrative requirements or reports," says a staff respondent.
- Using standard operating procedures for all deployed units so that financial personnel do not have to learn after they hit the ground.
- Watching out for medical and health care issues. For example, says an executive, no one is tracking post-traumatic stress disorder (PTSD) among civilians deployed in combat theaters.
- Performing operational updating extremely quickly because the situation in the field is volatile.
- Giving deployed personnel more "reach-back" capability to leverage CONUS people.

The 21st century financial workforce

One decade into the 21st century, it has become clear the structure of the Defense financial management workforce needs to change, along with the skill set of the financial manager. The structure has evolved into a multisector workforce with, according to some, too many contractors. The typical 20th century financial professional was very transactional and had a limited amount of information on which to make decisions. The 21st century professional has a wider breadth of data, available from more extensive information systems. However, all that information is of no value unless people understand how to interpret and use it.

Structure of the multisector workforce

This section of our report examines executive and staff opinions concerning the multisector workforce in the Defense financial management community. The community has three options regarding who will do its professional services work: uniformed military personnel, civilian employees and contractors. In the financial management field, there are relatively few uniformed financial officers and enlisted personnel compared to civilians and contractors.

Over the last few decades, the number of contractors who perform financial functions has grown. This is the result of necessity, expediency and government policy, as we will discuss later in this section. We start the section with a question we posed to executives: Has the Defense community as a whole outsourced or contracted out with the private sector too much of its financial management work (financial services, reporting, audits or information technology)? Yes, according to 7 in 10 of the executives. As shown in Figure 3, about the same percentage of executives say that their organizations (department, office or unit) contract out for service work, as do about half that percentage of staff in the survey. The executive/staff difference in Figure 3 is most likely because the organizations of individual executives tend to be larger than individual staff members'. Among those in Figure 3 who say their organizations outsource services, 53 percent of executives and 40 percent of staff say too much work has been given to contractors (see Figure 4). About 44 percent of all executives say their organization expects to start insourcing financial management positions within the next two years, 12 percent say there are no plans for this and 40 percent do not know.

Figure 3:
Does your organization outsource service work?

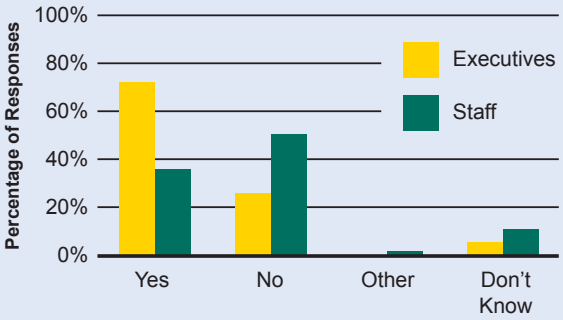
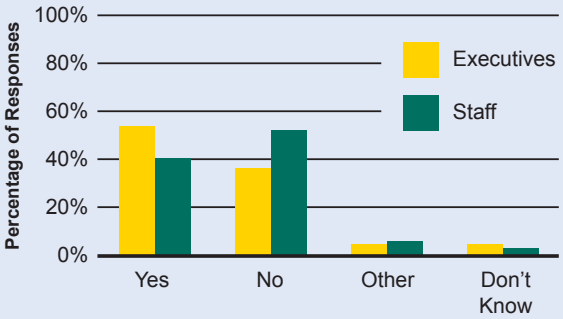


Figure 4:
Has your organization outsourced too much service work?



Issues with outsourcing

Survey executives see a positive role for outsourcing. They think it is good when applied to the right types of work and when used as part of a larger, balanced human capital strategy. The right types of work include short-term activities that are likely not going to be repeated, workload surges, needed skills that are, in the short term, lacking among employees, and noncore activities that are less expensive to obtain through contracting. Work that is inherently governmental in nature should not be contracted out.

Leading the list of negative aspects of outsourcing, say many executives, is that their organizations do not know how to do some of the work done by contractors, cannot manage that work and apparently are not building the internal capacity to do either. Most disturbing is that some executives say that, in their organizations, almost all the mid-level staff work for contractors. Says an executive, "This creates a vacuum in succession. Those who should be learning how to do my job are contractors now. When I retire there is no one to move up."

Survey executives tend to view the negative aspects of outsourcing as symptomatic of problems with the Federal Government hiring process and with human capital strategy. Hiring problems include official or unofficial head count freezes and the cumbersome, drawn-out nature of civil service hiring procedures. Several executives say it is easier to hire and fire contractors than employees, but a few said the contracting process is slow as well.

Several say there are problems with managing outsourced work because staff assigned to supervise it lacks the technical and managerial training. Few executives mention having formal human capital strategies that address the multisector workforce, even in situations where contractors outnumber employees two to one. This may change, though, through a White House Office of Management and Budget (OMB) initiative that "… requires agencies to begin the process of developing and implementing policies, practices and tools for managing the multi-sector workforce …"[3] Initiative requirements include:

1. Adopting frameworks for planning and managing the multisector workforce that are built on strategic human capital planning.
2. Conducting pilot human capital analyses in areas where agencies have concerns about overreliance on contractors.
3. When considering insourcing, using guidelines that help managers apply statutory requirements in a consistent and sound manner.

Finally, President Obama's administration, while calling for a balanced look at the multisector workforce, also is advocating a preference for using government employees whenever it is appropriate. We asked staff respondents what effect government initiatives to insource or hire more financial personnel will have on the financial workforce in their organization. Most are positive about the initiatives, but a significant minority is negative. Respondents said insourcing and new hire initiatives mean that:

- Operations will improve because the workforce will be more stable; have fewer conflicts of interest; and exhibit a stronger feeling of professionalism, ownership of results, continuity and trust. More people will put the mission first, versus pushing for new contracts.

[3] OMB Memorandum M-09-26, "Managing the multi-sector workforce," July 29, 2009.

- Work will benefit from better timeliness, predictability, stability, control, efficiency, accountability, security and internal controls.
- There will be a long-term increase in the knowledge base of the organization (although in the short term there may be knowledge loss as skilled and experienced contractors depart). Talented contractors who are not retired military or Defense civilians are less likely to be converted.
- Less time and money will be needed to manage contractors, freeing staff to focus on mission-related instead of administrative work.
- Young employees can be hired in time to benefit from workers who will retire in the next 5 to 10 years.
- Some staff respondents say that opportunities for professional growth and promotion will increase. However, more say that it will be harder to advance because of competition from new hires with college educations. In particular, older employees may not be able to compete with college-educated new comers for positions at the General Service (GS) Levels 7, 9 and 11, which are on the management track.

Several staff respondents are skeptical about the initiatives and say they will have little to no effect or a negative effect. These are government employee respondents, and their greatest fear is that, despite insourcing initiatives, the government will not be forthcoming with new hires or conversions. Staff respondents also warn that the Defense community will need more resources to train new personnel. One hopes that DoD will find those resources. However, says a staff respondent, "DoD is not doing a good job of projecting the additional 'tail' that will come with these people, either in training hours or in dollars. Funding for that just does not exist and I do not know where it is going to come from." On the other hand, say several staff respondents, right now they spend a good deal of time training new contractors who rotate in and out of assignments every few years or whose companies lose contracts and are replaced by other contractors.

Accomplishing major insourcing of existing contractor positions should be done gradually so as not to disrupt the ability of the current multisector workforce to conduct operations. Says a staff respondent, "[Insourcing] should be a money saver but we might lose experience and maturity because so many of the contractors are retired military and civilian employees who do not want to be civil servants. Also, the civilian hiring infrastructure is inadequate to handle a 'surge' of in-sourcing, increased acquisition positions and the elimination of the National Security Personnel System (NSPS) and the related GS classification and implementation challenges."

Where the converted or new employees go is important, say several staff respondents. "If the additional financial personnel are appropriately positioned to manage increased workloads, it will be a beneficial effect," says one, "But if they are randomly placed in areas that have sufficient personnel to handle workload, then that will increase overhead with no value added."

Several respondents also say that neither insourcing nor excellent human capital planning is the ultimate solution to what ails Defense worker productivity and effectiveness. There is yet still too much non-value-added work in Defense financial management (e.g., reports that no one uses) and too many malfunctioning information systems for even the most talented personnel to reach optimum performance.

Training for the future

Table 3 shows the financial management skills that executives and staff think financial professionals need now, and those that executives say will be needed in the year 2015. The table ranks current skill needs in order of the number of times executives mentioned them and displays staff and future skill needs in this order. The table gives some skills the same rank order because they were mentioned the same number of times for executives or nearly the same number for staff.

Executives and staff agree that the Number 1 skill needed is in the area of performance improvement methods, in order to increase productivity, efficiency and effectiveness. Executives and staff also agree that right now budgeting, controls, financial management systems, cost accounting, cost/price analysis and financial accounting are top skill needs. In the future, executives see an increased need for skills in cost accounting, program performance and measurement and evaluation, auditing, management and economic analysis. Staff says that the 21st century financial professionals need skills in procurement and contract management.

Table 3:
Financial management skills needed now and in 2015

Skill area	Rank order		
	Need now		Need in 2015
	Executives	Staff	Executives
Performance improvement methods (to increase productivity, efficiency and effectiveness)	1	1	1
Budgeting	1	2	4
Controls *(internal, management, funds, etc.)*	2	2	4
Financial management systems	3	2	4
Cost accounting	4	5	1
Auditing	4	*	1
Program performance measurement and evaluation	4	*	3
Cost/price analysis	4	4	5
Financial accounting	4	3	6
Management *(general management skill)*	5	*	2
Economic analysis	5	7	3
Strategic planning	5	*	6
IT systems management	5	*	*
Forensics	6	9	5
Internal audit	6	8	5
Risk management	6	6	5

** Mentioned by less than 1 percent of staff.*

Financial training for nonfinancial personnel

One of the goals of financial management is to improve the quality of decision making. Financial professionals know that nonfinancial managers make most of an organization's money decisions. Therefore, what financial skills do Defense nonfinancial managers need to make better decisions? Table 4 shows the opinion of survey executives and staff.

Table 4:
Executive and staff respondents' opinion on financial skills needed by nonfinancial personnel

Topic	Rank order	
	Executives	Staff
Measuring program performance	1	1
Budgeting	2	2
Risk management	3	4
Cost analysis	4	5
Cost accounting	5	6
Internal control	*	3

**Not mentioned.*

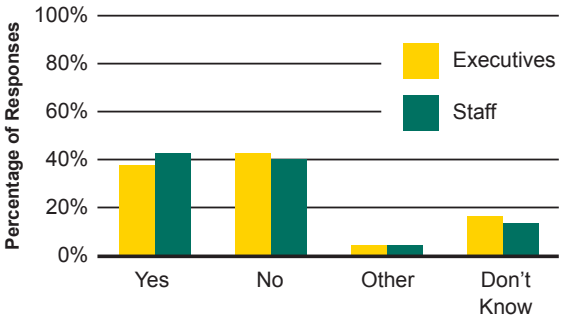
Says an executive, "Nonfinancial managers need to know about costs so that they can control them." They also need to know what their comptrollers and other financial managers can do to assist them with cost analysis and financial aspects of decision making. Measuring program performance and comparing it to costs is a critical skill needed throughout the Defense enterprise, say many executives. Nonfinancial managers also need to understand the nature of risk, especially in how it may affect the way costs change.

Career paths

In the 2007 ASMC Survey,[4] executives said that civilian employee career plans in the Defense financial community tend to lack a clear set of progressive qualifications and certifications needed to advance up the ranks of financial professionals. In 2007, executives said they would like to see career paths that are known and that have supporting education and training programs, including coaching and mentoring.

Four years later, respondents to the 2010 ASMC survey seem to be agreeing that not much has changed. As shown in Figure 5, the majority of executives (59 percent) and staff (54 percent) say their organizations do not have clear career paths for financial professional advancement or they are not aware of such paths.

Figure 5:
Respondents' opinions on whether financial personnel in their organization have clear career paths for professional advancement



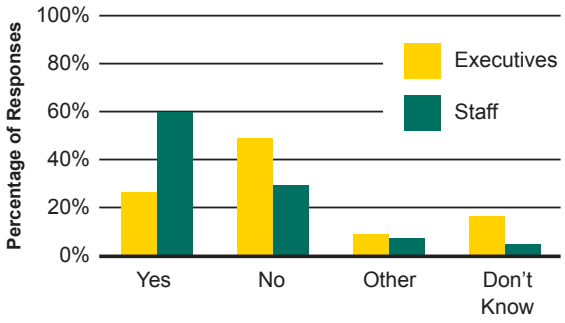
A few executive and staff respondents indicated some financial career tracks appear to be "stovepiped," with little opportunity to make lateral moves into or out of them from other positions.

[4] *Prepare Yourself for the Future of Financial Management*, the 2007 ASMC Survey.

Also, says an executive, "Organizations need to show career civilians a clear path for multifunctional roles versus strictly GS unilateral roles."

As shown in Figure 6, most executives (65 percent) say they do not have a clear career path or do not know if they do. In part, say many executives, this is because they have "topped out" in their career advancement, they can expect only lateral moves unless they take political appointments or their next steps have more to do with personal choice than following a set career framework. Table 8 also shows the majority of staff (60 percent) say they have a clear path. We suggest that, because virtually all staff respondents are ASMC members, they can be expected to be more professional and more aware of career paths, whether formal or not.

Figure 6:
Respondents' opinions on whether they have a clear path for their own professional advancement



A self-developed career path may be good for individuals, but not necessarily good for the Defense community. According to one staff respondent, "I'm forced to determine on my own what the best career path for me looks like. There is little help. I'm currently considering becoming a certified public accountant

and leaving public service for the private sector." With guidance and mentoring, this employee could be persuaded to stay in Defense. Unfortunately, as show in Figure 7, about two-thirds of executives say their organizations lack formal mentoring programs for employees, and 64 percent of staff say the same or that they are not aware of such programs.

Figure 7:
Respondents' opinions on whether their organizations have a formal mentor system (or related program) to help prepare financial professionals for the future

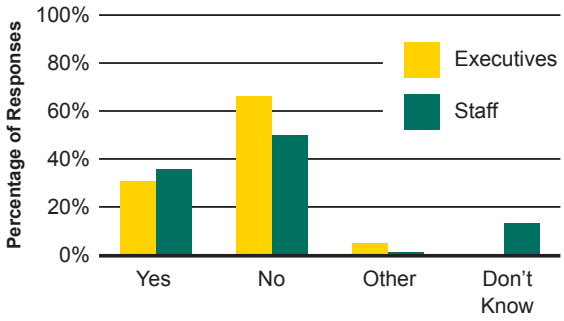
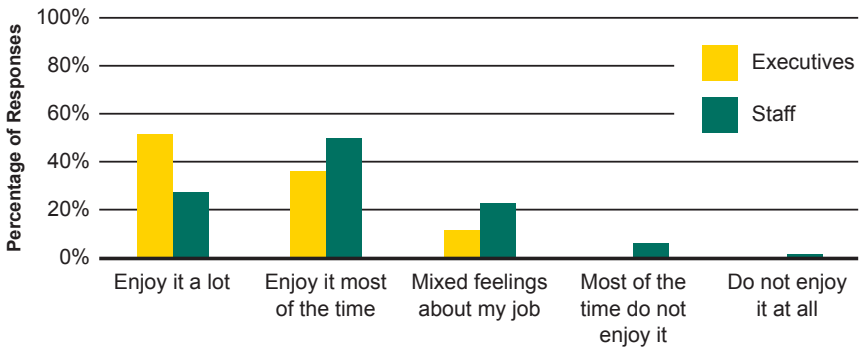


Figure 8:
Executive and staff opinions on how much they enjoy their current jobs



Job satisfaction

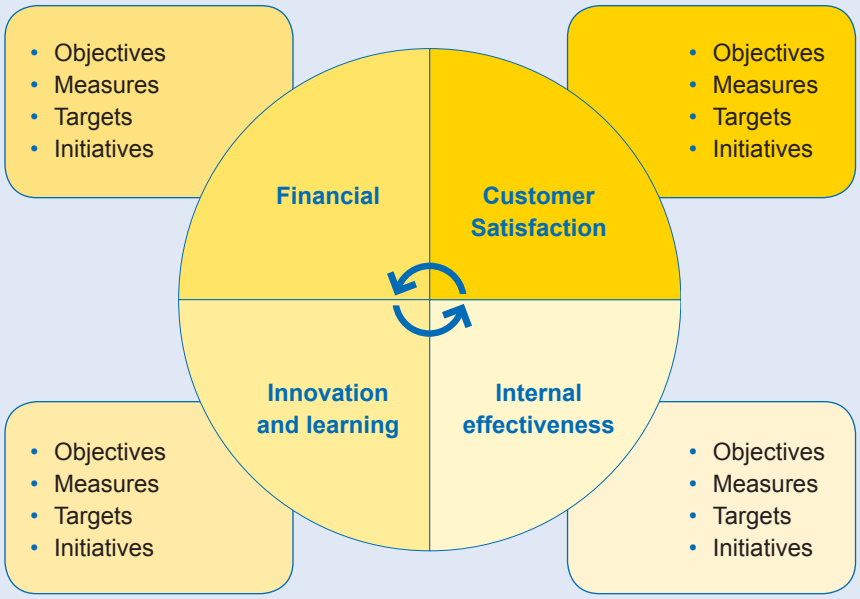
Although members of the Defense financial community may gripe sometimes, most like their jobs. We asked executives and staff "Taking into account both your job's professional aspects and effects of it on your personal life, how much do you enjoy your current job?" Figure 8 shows the results.

Roughly, one in four staff has mixed feelings about their jobs or most of the time does not enjoy it. However, almost all executives (88 percent) enjoy their jobs at least most of the time, as do three out of four staff respondents. This bodes well for the future financial professions in the Defense community.

Increasing the value of financial information

When we asked executives the most important thing they could do to make financial information more valuable to nonfinancial executives, one summed it up best as "Put it in their language." That means communicating financial information in ways that warfighters and others can understand, appreciate and apply to their own work. Executives say financial information for nonfinancial types should be simple and easy to understand, timely, consistent and dynamic. Says an executive, "The Office of the Secretary of Defense is very good at reporting the budget, but has few tools to help analyze what the numbers mean. They would like a better system with 'what-if' drills, scenarios and excursions. Backing this up would be data warehousing to make data more accessible and more databases that are easier to operate."

Figure 9:
Example of balanced scorecard



A balanced scorecard is a tool for measuring and managing the activities of an organization, especially those related to strategic goals and objectives. Typically, balanced scorecards cover a small set of important high-level topics related to customer satisfaction, finance, internal effectiveness (e.g., operations efficiency, productivity) and innovation and learning (e.g., R&D, percentage of budget for new initiatives, percentage of budget for training). Each topic has associated objectives and performance measures, so an executive can very quickly see how things are performing in key areas. Figure 9 is an example of the arrangement of a balanced scorecard.

We asked executives what financial measures they would like to see secretaries of military departments, major commands and other top nonfinancial leaders use in their balanced scorecards. Their response:

- Per capita costs for providing a service
- Health of trust funds
- Cost/schedule impact, instead of simply execution rate
- Audit quality and readiness
- Budget (accuracy, timeliness, whether executable)
- Cost visibility
- Late payments

All approaches to communicating financial information must accept that the Defense community is not necessarily a cost-conscious culture. Standard rules from the private sector or even the civilian agencies of the Federal Government do not apply to the Defense Department, say some executives. If the nation needs to send a ship to Haiti to aid in post earthquake relief or if national security demands an airbase be built in a remote country, it does not matter if there is money earmarked for that purpose – it is going to happen.

Conclusions

Eight years of war, a major downturn in the economy and a volatile world have combined to stress the Defense community's ability to manage money. The Planning, Programming, Budgeting and Evaluation System (PPBE) gave order, discipline and a common language to military management for more than half a century. Starting right after 9/11, Defense grew gradually more addicted to using supplemental funds to support OCOs and as a result lost the discipline of the PPBE framework. One reason is that, although PPBE should be praised for its good qualities, the system is apparently not fast or flexible enough to deal with warfighters' rapidly changing needs.

Right now, the Federal Government is gearing up to transition away from supplemental funding and back to PPBE-supported baseline budgeting. For this changeover to succeed, the government must improve PPBE to bring the main military resource management system more in line with today's warfighting tempo and the unpredictable nature of current and future conflicts. Even after succeeding with PPBE, the Defense community will still require at least some supplemental funding – but the supplemental process needs the same discipline as PPBE, if not the same schedule and rules. Otherwise, DoD will be facing unfunded 'tail' costs that will drain future base budgets. During the transition from supplemental to baseline budget funding, the Defense community will need to strive for consistency, transparency and priority, always looking for opportunities to improve warfighter support, reduce risk and maximize return on investment. This underscores the need for the skill that survey respondents say is most important to the Defense financial community now and in the future: how to use performance improvement methods to increase productivity, efficiency and effectiveness.

Hiring freezes in the 1990s left gaps in the Defense financial management workforce that were often filled by contractors. In order to fill the gaps in a reasonable period, DoD will need to develop better human capital strategy and repair dysfunctional hiring procedures that discourage both employer and employee alike. Part of this strategy should be based on achieving a balanced workforce of employees and contractors, with each group serving in roles appropriate to their responsibilities and skills.

Finally, a word to Defense financial professionals: Your world is going to change. In an environment where sound financial management skills will be at a premium, there will be challenges and opportunities. Train for that future, and you will be helping future warfighters meet their challenges.

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Additional Information

To request more copies of this survey or an opportunity to hear more about its findings, please contact ASMC or Grant Thornton at the addresses below. We will be pleased to discuss the possibility of providing your organization with a briefing or presentation of survey results at a conference or seminar.

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