

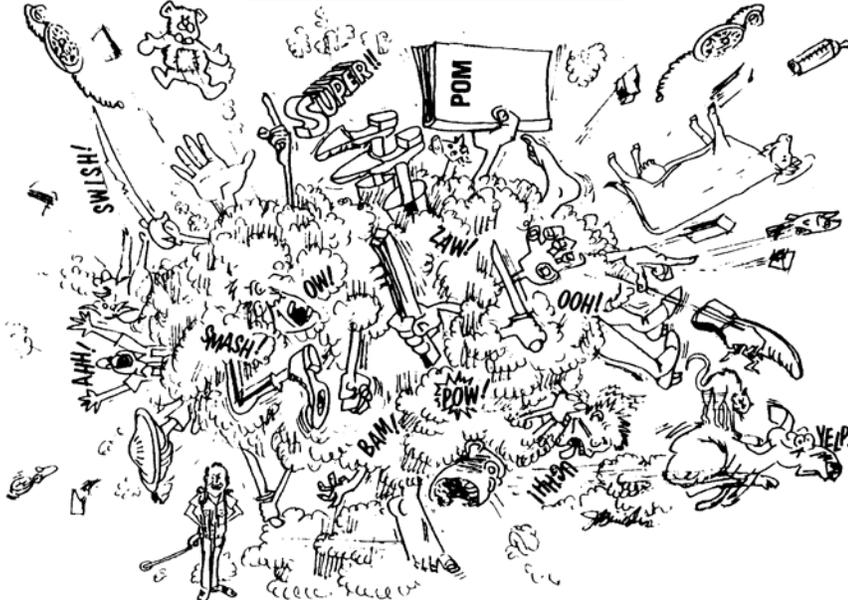
Defense Planning, Programming, Budgeting and Execution (PPBE) Process

The purpose of the **Planning, Programming, Budgeting, and Execution (PPBE)** process is to allocate resources within the Department of Defense. The PPBE process was established in 2003 and evolved from the Planning, Programming, and Budgeting System (PPBS) which was first introduced into the Department of Defense (DoD) in the early 1960's during Robert McNamara's tenure as Secretary of Defense (SECDEF). The PPBS was a cyclic process consisting of three distinct but interrelated phases: planning, programming, and budgeting. These phases were essentially sequential until 2001 when the department began conducting the programming and budgeting phases concurrently. PPBS established the framework and provided the mechanisms for decision making for the future and provided the opportunity to reexamine prior decisions in light of the present environment (e.g., evolving threat, changing economic conditions, etc.). The PPBE process retained these same features but includes more emphasis on the department's **execution** of the budget authority provided by Congress in response to the DoD budget requests generated by the PPBE process. This is an attempt to better evaluate whether the programs the department has funded are providing the expected benefits. This is intended to drive better resource allocation decisions, supporting the ultimate objective of the PPBE process, which is to provide the Combatant Commanders with the best mix of forces, equipment, and support attainable within established fiscal constraints.

Objectives

1. Define the main purpose of the PPBE process.
2. Identify the stages and products of each PPBE phase.
3. Describe the relationship of the major command POM to the PPBE process.
4. Recognize the role of the PPBS in acquisition management.
5. Identify the five major appropriations associated with defense acquisition management
6. Define the purpose of the Future Year Defense Program.
7. Recognize that an appropriations bill generates all funds.
8. Recognize that DOD budget are prepared or defended periodically.
9. Recognize the difference between incremental and full funding policies and to which appropriation each applies
10. Outline the basic flow of funds in the financial management process.
11. Recognize the process for allocating the Budget Authority granted by the enactment process.
12. Name the specific obligation and expenditure "windows" for the five appropriations associated with defense acquisition.
13. Recognize the major provision of the Misappropriation Act and Anti-Deficiency Act and what they are designed to prevent.

PPBE/PPBES



THE ART OF DISTRIBUTING RESOURCES EQUITABLY

Program Structure

Future Years Defense Program (FYDP)

The vitality of the PPBE process is captured in the **Future Years Defense Program (FYDP)**, a computerized database that summarizes all forces, resources, and equipment associated with programs approved by the SECDEF for the DoD; it also summarizes the changes that occur throughout the process. The FYDP contains resources and force structure information for the prior year, current year, the biennial budget years, and the following four years (the **outyears**). It also includes force structure information for an additional three years. The FYDP is currently updated two times during the PPBE cycle: in August/September to reflect the Service combined POM/BES submission; and in January to reflect the President's Budget submission. It displays the total DoD resources programmed by fiscal year.

The FYDP is considered an internal DoD working document and is generally "closely held" within DoD. Since the FYDP outyear programs reflect internal planning assumptions, FYDP data beyond the budget years is not released outside the Executive Branch without the permission of the Under Secretary of Defense (Comptroller) (USD(C)). However, in response to a 1987 statutory requirement, Congressional oversight committees and the Congressional Budget Office receive a special publication of the FYDP including procurement and RDT&E annexes, all containing prior, current, budget, and four outyears, within 120 days of the submission of the President's Budget.

The FYDP is structured in three basic dimensions as reflected in **Figure 1**. For internal DoD program management the FYDP is categorized into 11 Major Force Programs. In its second dimension, the FYDP is arranged by appropriation for use by Congress when reviewing budget requests and enacting budget authority through the authorization and appropriation process. The third dimension displays resources by DoD components (e.g., Navy, DLA, etc.)

Future Years Defense Program (FYDP) Structure

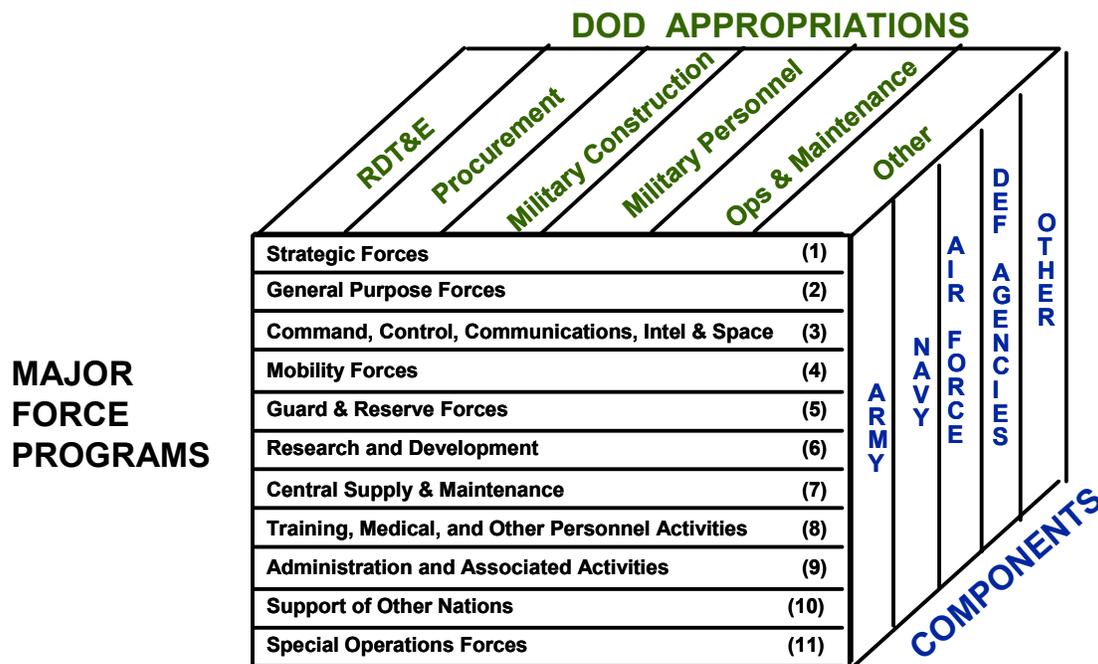


Figure 1

Major Force Programs

A **Major Force Program (MFP)** reflects a macro-level force mission or a support mission of DoD and contains the resources necessary to achieve an objective or plan. It reflects fiscal time phasing of mission objectives to be accomplished and the means proposed for their accomplishment. Each MFP consists of a number of program elements, discussed in the next paragraph.

Program Elements

The **program element (PE)** is the primary data element in the FYDP and normally the smallest aggregation of resources controlled by the Office of the Secretary of Defense (OSD). It generally represents a collection of functional or organizational entities and their related resources. PEs are designed and quantified to be comprehensive and

mutually exclusive. There are over 3600 active PEs. As the building blocks of the programming and budgeting system they are continually scrutinized to maintain proper visibility into the multitude of defense programs. They may be aggregated in a variety of ways:

- To display total resources assigned to a specific program
- To display weapons systems and support systems within a program
- To select specified resources
- To display logical groupings for analytical purposes
- To identify selected functional groupings of resources

Program element symbology consists of a seven-digit number with an alphabetical suffix that identifies a program, organization or office (see DoD 7045.7-H, FYDP Structure Management Handbook). The alphabetical suffix identifies which Service or Defense Agency has cognizance over a particular program element. For example, "A" indicates an Army program, "F" an Air Force program, "N" a Navy program and "M" a Marine Corps program. The first two digits identify the MFP that contains the program element. Thus, the PE "0203123A" would indicate an Army program within MFP 2 - General Purpose Forces. It is this PE structure that facilitates the compilation of the FYDP for different purposes such as an appropriation review.

Research and Development Categories

To assist in the overall planning, programming, budgeting, and management of the various R&D activities, Major Force Program 6 is sub-divided into categories that further identify the nature of the R&D effort, as shown in **Figure 2** and described below. These categories are used throughout DoD.

Category 01 - Research includes scientific study and experimentation directed toward increasing knowledge and understanding in physical, engineering, environmental, and life sciences related to long-term national security needs. It also furnishes part of the base for future exploratory and advanced developments of new or improved military functional capabilities such as communications, detection, tracking, surveillance, propulsion, mobility, guidance and control, navigation, energy conversion, materials and structures, and personnel support. The DoD Financial Management Regulation (FMR) (DoD 7000.14-R) refers to this as Budget Activity (BA)-1 and calls it Basic Research.

Category 02 - Exploratory Development translates basic research into solutions for broadly defined military needs, short of major development projects, with a view toward developing and evaluating the feasibility and practicality of proposed solutions to technological challenges. It includes studies, investigations, and non-system specific development efforts. The FMR refers to this as BA-2, Applied Research.

Major Force Program 6 - RDT&E

| <u>CAT#</u> | <u>ACTIVITY</u> | <u>BA*</u> | <u>PURPOSE</u> | <u>WHO</u> | <u>FUND MANAGED</u> |
|-------------|---|------------|--|---------------------------------|---|
| 01 | Basic Research*/ RESEARCH # | BA-1 | EXPAND KNOWLEDGE/ STUDIES / EXPERIMENTS | UNIV / LABS | RDT & E COMMANDS / SERVICES |
| 02 | Appl Research*/ EXPLOR DEVEL # | BA-2 | DEVELOP & EVALUATE TECHNICAL FEASIBILITY | UNIV / LABS / CONTRACTOR | RDT & E COMMANDS / SERVICES |
| 03 | Adv Tech Devel*/ ADV DEVEL # | BA-3 | PROOF OF CONCEPT/ BRASSBOARDS | LABS / FIELD / CONTRACTOR | RDT & E COMMANDS / SERVICES |
| 04 | Adv Tech Devel & Prototypes*/ DEM / VAL # | BA-4 | SPECIFIC WEAPON SYSTEM | LABS / CONTRACTOR | PMO |
| 05 | Sys Dev & Demo*/ ENGR DEVEL # | BA-5 | PROTOTYPE / EMD | CONTRACTORS / FIELD ACTIVITY | PMO |
| 06 | RDTE Mgmt Spt*/ MGMT & SPT # | BA-6 | TEST RANGES / CIVILIAN RANGES | TEST RANGES | RDT & E COMMANDS / HEADQUARTERS |
| | Operational Systems Devel# | BA-7 | IMPROVE PERFORMANCE OF PRODUCTION SYSTEM (R&M) | CONTRACTOR/ FIELD ACTIVITY | PMO (FUNDING IS NOT ALWAYS RDT&E, THE MFP IS <u>NOT</u> 6, R & D) |

Per FYDP Structure Mgt Hnbk (DoD 7045.7-H) * Per FMR (DoD 7000.14-R)

Legend
FYDP = Future Years Defense Plan
FMR = Financial Management Regulation

Figure 2

Category 03 - Advanced Development includes all efforts that have moved into development and integration hardware for field experiments and tests. The primary result of this effort is a proof of design concept, rather than the development of specific hardware for service use. Advanced development efforts have direct relevance to identified military needs and are system specific (particularly for major platforms; i.e., aircraft, ships, missiles, tanks, etc.) This category includes projects used to demonstrate the general military utility or cost reduction potential of technology when applied to different types of military equipment or techniques. It also includes proof-of-principle demonstrations in field exercises to evaluate system upgrades or provide new operational capabilities. Program elements (PEs) with a code lower than 0603850 are usually Advanced Development. The FMR refers to this as BA-3, Advanced Technology Development.

Category 04 - Demonstration/Validation includes efforts necessary to evaluate integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. This category is system specific and also includes advanced technology demonstrations that help expedite technology transition from the laboratory to operational use. PEs in this category is those involving efforts during Component Advanced Development (or Program Definition and Risk Reduction for grandfathered programs). PEs with a code ranging from 0603850 to

0603999 is usually Demonstration/ Validation. The FMR refers to this as BA-4, Advanced Component Development and Prototypes.

Category 05 - Engineering Development (04) includes projects related to System Development and Demonstration (or Engineering and Manufacturing Development for grandfathered programs) programs in which the item is being engineered for Service use (the Army refers to this as “type classified”), but has not yet been approved for full-rate production. The FMR refers to this as BA-5, System Development and Demonstration.

Category 06 - Management Support includes support of installations or operations required for general research and development use, such as operation and support of test ranges, laboratories, and test aircraft and ships. The FMR refers to this as BA-6, RDT&E Management Support.

Although all of the MFP 6 categories above are funded with RDT&E appropriations, not all RDT&E spending is included in MFP 6. R&D efforts directed toward development, engineering, and testing of systems already approved for production (i.e., upgrades to vehicles, weapons, etc) are funded with RDT&E appropriations, but the PE would be linked to the MFP of the system being modified or tested, e.g., MFP 1 if a strategic system is being modified.

The result is that over an acquisition program’s life cycle, that program may have multiple PEs and have funding contained within several appropriations as illustrated in Figure 3.

| MULTIPLE PROGRAM ELEMENTS AND APPROPRIATIONS | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| PROGRAM XYZ | | | | | | |
| | FY 1 | FY 2 | FY 3 | FY 4 | FY 5 | FY 6 |
| <i>PE 060nnnnF</i> | | | | | | |
| RDT&E | \$\$\$ | \$\$ | \$ | | | |
| <i>PE 010nnnnF</i> | | | | | | |
| Aircraft Procurement | | | \$\$\$ | \$\$\$ | \$\$\$ | \$\$\$ |
| MILCON | \$ | \$\$ | \$\$\$ | | | |
| O&M | | | | \$ | \$\$ | \$\$\$ |
| MILPERS | | | \$ | \$\$ | \$\$\$ | \$\$\$ |

Figure 3

Process Overview

The following sections describe the phases of the PPBE. Note that the PPBE process described is intended to be a *biennial* process (i.e., conducted every two years). This concept is consistent with DoD's submission of a biennial budget that is part of the President's Budget request to Congress for even-numbered fiscal years (e.g., the FY04 President's Budget contained DoD budget justification material for FY04 and FY05). To support this, Planning would commence in an odd-numbered year, be completed in the following even-numbered year, and be followed by Programming, Budgeting, and Execution review in that same even-numbered year. In this process, the even-numbered years are referred to as the **on-years**, while the odd-numbered years are called **off-years**.

In practice, however, Congress does not provide DoD with biennial appropriations. Thus, amended budget justification must be submitted for the second year of the original biennial budget request so that Congress can appropriate the funds for that second year. Differences in the off-year of the biennial cycle are noted in the paragraphs below.

A concurrent programming and budgeting process was implemented with POM/BES FY03-07, which was submitted in Fall 2001. The Program Objectives Memorandum (POM) is the submission sent to OSD for an internal review by the PA&E programmers. The Budget Estimate Submission (BES) is scrutinized primarily by OSD(C) budget analysts. Prior to the FY03-07 POM/BES, these reviews happened in sequence. Now, the reviews occur at the same time. In May 2003, the process was further revised and an execution review was added, concurrent with the program/budget review. Though dates may change in the future, we expect the concurrent program/budget/execution review process to continue beyond the current administration.

Planning

Planning is the first step in the DoD resource allocation process (shown in Figure 4). This phase ends with the issuance of the *Defense Planning Guidance (DPG)* in the on-years. (The SECDEF may decide not to issue a DPG during the off-years.) The planning phase identifies the capabilities required to deter and defeat threats. It defines national defense policies, objectives, strategy and guidance for the upcoming programming phase regarding resources and force requirements to meet the capabilities and objectives. The planning phase begins about three years in advance of the fiscal year in which budget authority will be requested. Thus, since the FY04 budget request was submitted in FY03, the planning to support this began in FY01.

The first activity is a review of previous guidance. USD (Policy) is the lead for the Planning Phase, with the participation of the Chairman of the Joint Chiefs of Staff (CJCS), the Services, the Joint Staff, the Combatant Commanders, and other Government agencies such as Department of State, CIA, etc. This review incorporates the evolution in required capabilities and changes in military strategy and policy as documented in the *National Military Strategy (NMS)*, issued by CJCS and informed by the OSD *Quadrennial Defense Review (QDR)*. The *Joint Planning Document (JPD)* provided by

the Joint Staff supports the NMS by providing concise programming priorities and requirements. The Future Capabilities section of the JPD addresses present and future operational capability deficiencies and potential technology exploitation opportunities that require major Science and Technology or Systems Acquisition efforts. Additionally, the Joint Requirements Oversight Council (JROC), supported by the Joint Staff, OSD, Military Services, Defense Agencies, and Combatant Commanders, conducts annual *Joint Warfighting Capability Assessments (JWCA)* of warfighting mission areas.

The information from the JWCA process is used to provide the *Chairman's Program Recommendations (CPR)* as an input to the DPG. The CPR is an attempt to get the Combatant Commanders' warfighting capabilities and priorities reflected in the DPG. The DPG, the principal DoD planning document, reflects the President's prioritized National Security Objectives from the *National Security Strategy (NSS)* and the military strategy articulated in the NMS and the QDR. The DPG establishes policies that provide the Services guidance for planning for peacetime, crises, and wartime strategies and provides the basic guidance for program development. It dictates the criteria and assumptions for structuring forces and establishes priorities for committing resources for modernization, readiness, and sustainability initiatives. The Director, Program Analysis & Evaluation (D, PA&E) assists USD (Policy) in the preparation of the DPG. *Fiscal guidance* to be used in the *Program Objectives Memorandum (POM)* development is provided by the Office of Management and Budget (OMB). In early March, D, PA&E distributes the draft DPG to the Services, CJCS, and defense agencies for final coordination. A dialogue is established between the principal parties encouraging joint participation in establishing DoD policy while facilitating resolution of cross service issues. The final version of the DPG is issued in April or early May.

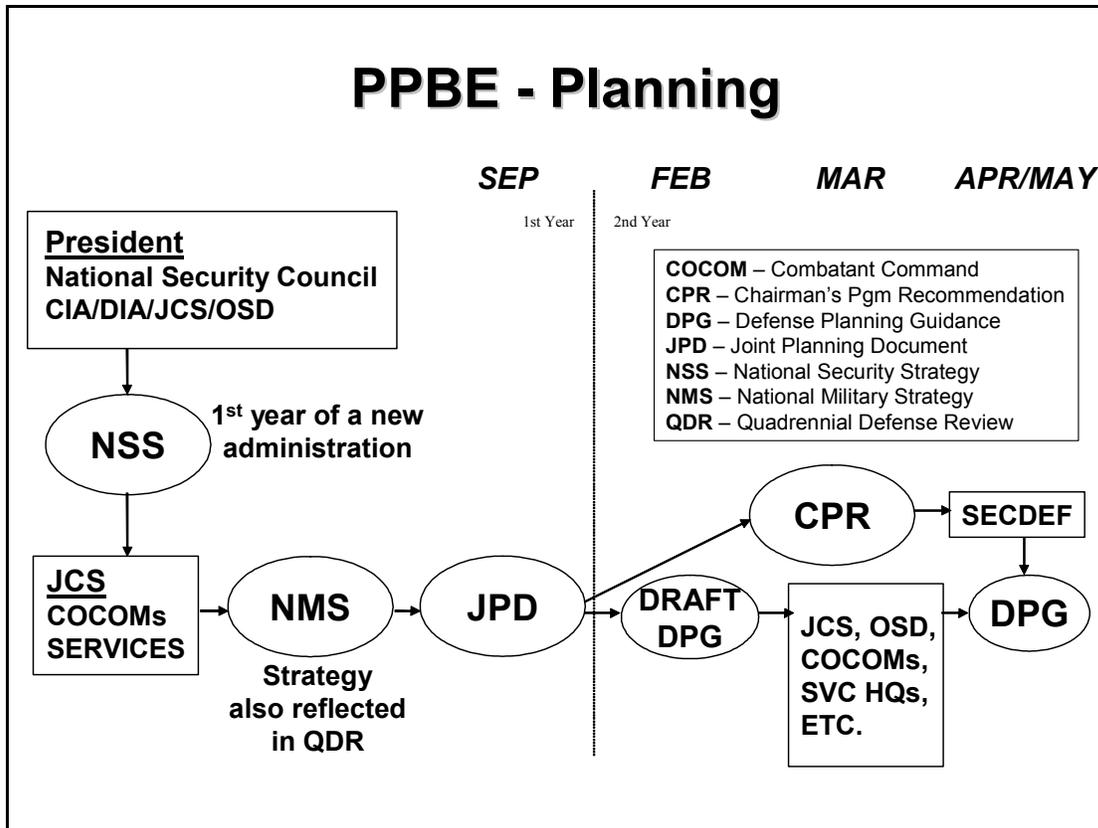


Figure 4

Programming in the On-Year

The purpose of programming at the Service and OSD level is to allocate resources to support Department of the Navy and Marines, Army, and Air Force roles and missions. Programming translates planning decisions, OSD programming guidance, and Congressional guidance into a detailed allocation of time-phased resource requirements including forces, personnel, and funds. This is accomplished through systematic review and approval processes that "cost out" force objectives and personnel resources in financial terms six years into the future. This gives the SECDEF and the President an idea of the impact that present day decisions have on the future defense posture. The Director, Program Analysis and Evaluation (D, PA&E) is responsible for overall coordination of the programming review.

Program Development

In August of the even-numbered year (called the on-year), each Military Department and Defense Agency submits a combined *Program Objectives Memorandum (POM)* and *Budget Estimate Submission (BES)* to SECDEF. The POM/BES covers the 6-year FYDP and presents the component's proposal for a balanced allocation of all available service resources within specified constraints to satisfy the DPG. Significant force structure and

end strength changes, as well as major system new starts must be identified. Likewise, program imbalances and shortfalls in meeting DPG and warfighter objectives are highlighted.

Program Review and Decisions

Upon receipt of the combined POM/BES submission (see Figure 5), the Joint Staff conducts a review of the POM portion of the Services' and Defense Agencies' submission to assess compliance with the DPG, the NMS, and the QDR. The document resulting from this review, the *Chairman's Program Assessment (CPA)*, is issued during the fall.

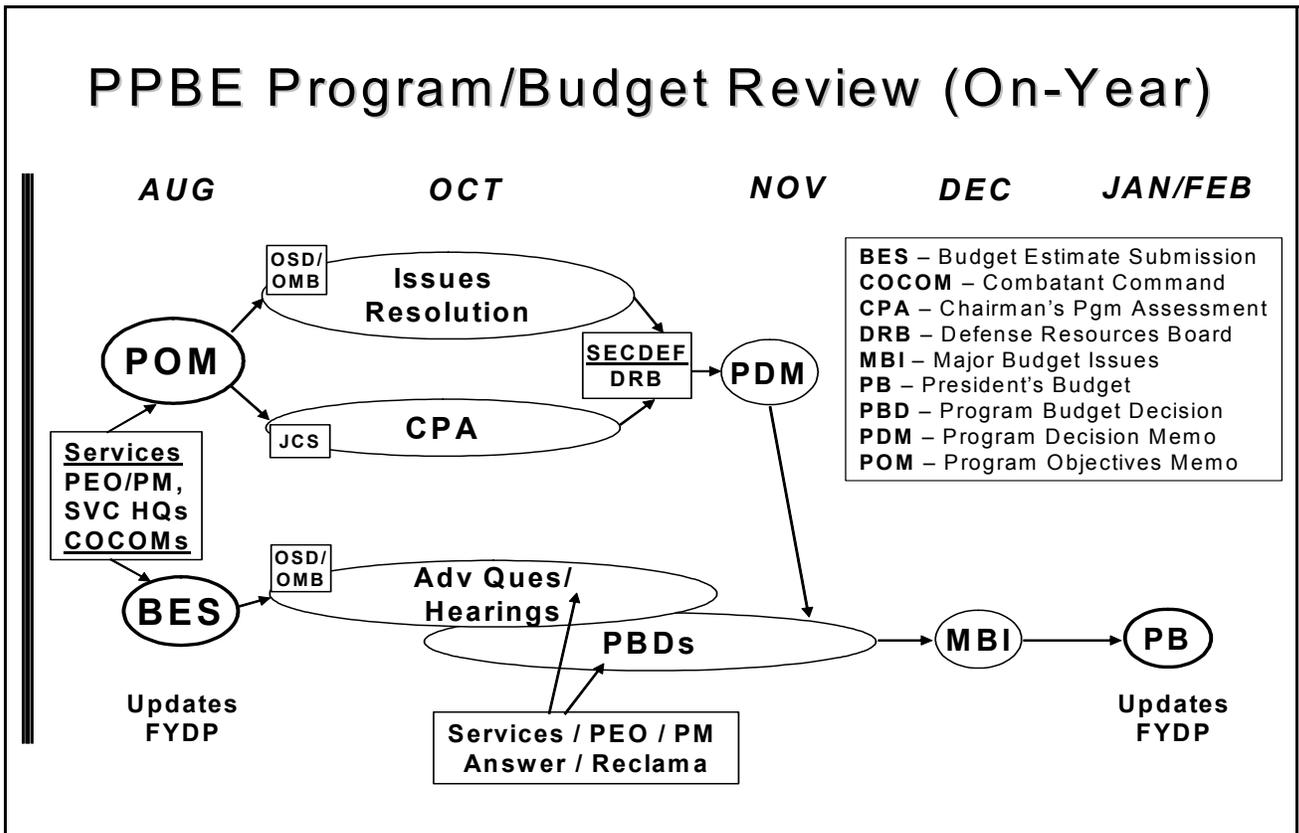


Figure 5

Concurrently with this Joint Staff review of the POM portion of the POM/BES, program analysts in the D,PA&E office conduct a detailed review of the Services' and Defense Agencies' POM submissions and make program change recommendations through *POM Issue Papers*. These documents define specific issues to review by comparing the proposed program to the objectives and requirements established in the DPG. The issue papers present alternatives and evaluate the implications of each alternative including cost and personnel changes. The Services, Joint Staff, and OSD directorates may comment on or reclama each issue with justification supporting the Service POM submission.

About mid-November, the DEPSECDEF issues the *Program Decision Memoranda (PDMs)* for the Military Departments and Defense Agencies that summarize the program decisions of the current cycle. These PDMs approve the Service/Agency POMs, with changes.

Budgeting in the On Year

The budgeting phase of the PPBE process occurs concurrently with the programming phase. Upon receipt of the combined POM/BES submission (see Figure 5), budget analysts in the USD (Comptroller) office and the Office of Management and Budget (OMB) conduct a review of the BES portion of the Services' and Defense Agencies' submission. Emphasis of the Comptroller and OMB review is on proper budget justification and execution; however, these analysts must also consider program alternatives being developed on the programming side. OSD decisions relative to program issues (i.e., PDMs issued during the concurrent POM/BES review) must also be incorporated into other decisions being made during the budgeting phase at the OSD level. Concurrent review of a combined POM/BES from each Service rather than sequential reviews of the previous separate POM and BES is thought to be more efficient in that the same or similar issues are not addressed in programming and then revisited in the budgeting phase.

The product of this review and decision process will become the Defense portion of the President's Budget. Continuing a practice that began with the FY 1988 budget submission to Congress, DoD submits a biennial budget in which the **first two years** of the six-year FYDP period are submitted to Congress as fully supported "stand alone" budgets. However, as noted earlier, Congress has yet to approve a two-year appropriation for DoD. Thus, during the second year of the biennial cycle (the odd year) DoD reviews its previous year's budget submission and submits an updated one-year budget request for the second year of the biennial budget.

Budget Process

Prior to submission of the combined POM/BES to OSD, operational organizations and field activities begin developing their individual budgets as a prelude to the headquarters' call for budget estimates. The Services each conduct a summer budget review. The intent of this process is for the service to internally address budget display/justification problems before submitting the combined POM/BES to OSD in August. They are generally trying to put together a balanced request for funding within published fiscal constraints. The combined POM/BES must also include adjustments for pay and pricing policies developed between OSD and OMB. The FYDP is updated at the POM/BES submission.

OSD Budget Review

Budget analysts from USD(C) and OMB normally conduct a joint review of the POM/BES from October to early December. OMB retains the authority to submit separate decisions on the reviews, but in practice rarely does. The USD(C) budget analysts usually issue *advance questions* to obtain written responses from the program offices and/or Components. After reviewing these responses, the budget analysts hold hearings to review appropriations or specific programs. Appropriate Service functional staff and OSD program advocates provide information as necessary during those hearings. During this review, the budget analysts examine the BES from each Service and Defense Agency to assess conformity with other higher level guidance.

There are four areas considered by the USD(C) and OMB analysts as principal issue areas during the review and “scrub” of the budget submission from the Services and agencies: program pricing, program phasing, funding policies and budget execution.

- Program pricing - Examines whether the specific program has been priced out properly (e.g., that the budget was prepared on the basis of “most likely cost” of the work to be done and that the proper escalation index has been applied to the constant-year budget estimate to determine the then-year funding requirement).
- Program phasing - Examines the compatibility between the approved acquisition strategy and the funding necessary to pay for the requirements shown in that strategy (e.g., have Procurement funds been phased properly to coincide with program plans for production).
- Funding policies - Examines the compliance of the budget request with the proper policy for each specific appropriation category (e.g., RDT&E has been budgeted on an incremental basis; procurement and MILCON on a full funding basis; and O&M and MILPERS on an annual basis).
- Budget execution - Examines the efficiency with which an organization has executed (i.e., obligated and expended) currently available funds and the effect of current year execution on budget year submissions. As an example, has the organization met established goals for obligations and expenditures during the current fiscal year? If not, can those “excess” funds from the current fiscal year be allowed to slip into a future year and, therefore, allow a decrease in the funding requirement in that future year?

Of the four budget review issues, budget execution is the primary concern during this portion of the process; this focus is intended to stretch the limited number of dollars available to satisfy as many requirements as possible.

Program Budget Decision (PBD) and Reclama Process

Following a thorough review of the POM/BES and the questions/answers from the OSD/OMB Budget Hearings, the USD(C) analyst normally prepares one or a series of *Program Budget Decisions (PBDs)* for the appropriations and/or programs under his/her oversight. These PBDs are used to adjust the POM/BES. PBDs primarily address the

budget year(s), although effects on the current year and the four outyears may be included.

Normally, before a PBD is issued, a “draft” or “advance” version is coordinated throughout the OSD staff. This draft PBD is also provided to the Services and Defense Agencies for comment (i.e., a **reclama** and, if desired, an alternative position). The affected Service Secretary or Head of Defense Agency thus has an opportunity to disagree with the PBD recommendation and provide supplemental or new information that addresses the basic argument and assumptions of the PBD. Any interested DoD organization may respond to the draft PBD during the PBD reclama coordination process, which is normally limited to 96 hours for submission of an alternative position. For example, in addition to the affected component, USD (Acquisition, Technology & Logistics) and D, PA&E will often develop reclusas or alternative positions pertaining to draft PBDs impacting acquisition programs.

After considering the information in the reclusas (and alternative positions, if any) submitted, the USD(C) analyst may choose: (1) not to go forward with the PBD; (2) to submit the PBD after modifying it in some way; or (3) to submit the PBD as originally drafted. If the analyst decides to submit the PBD, a summary document is prepared that lays out all the information regarding the draft PBD and the reclusas submitted. This is provided to the Deputy Secretary of Defense (DEPSECDEF), who makes the final decision and signs the final PBD. The DEFSECDEF will usually decide on either the OSD(C) analyst recommendation or one of the alternative positions. In a few cases, when the PBD affects items considered non-controversial, the USD(C) will sign the final PBD.

After a review of the PBDs, the Services have one last opportunity to identify issues serious enough to warrant a **Major Budget Issue (MBI)** meeting between the Service Secretary and SECDEF. Decisions resulting from these meetings are usually announced in revisions to signed PBDs. Services are usually required to provide funding offsets from other programs within that Service to “buy back” programs cited as MBIs. MBIs usually occur in December.

President's Budget

The Services revise their budgets to support the decisions resulting from the concurrent program and budget review process (signed PBDs and PDMs) for inclusion in the *President's Budget (PB)*. Following a top line meeting with the President, the PB is finalized by early January and submitted to Congress through OMB by the first Monday in February. The FYDP is updated to reflect the PB. This ends the budget formulation phase of the PPBE and begins the Congressional Enactment phase.

Key Budget Documentation

To support the budget request, the Services submit many *budget exhibits* to USD(C) and to the DoD oversight committees of Congress immediately following the transmittal

of the PB. Some of the exhibits of interest to acquisition program personnel are described below.

- The R-1 document provides a breakout of all RDT&E appropriations by program element. It displays each program's title, budget activity, and dollars for the prior, current and budget year(s). In addition, the R-1 includes DoD component summaries by appropriation, budget activity and MFP.
- R-Forms greatly expand narrative and numerical detail from the R-1 document. Various R-forms include: a mission description and justification; program accomplishments and plans; an eight year funding profile, plus cost to completion; funding changes since the last PB; funding from other appropriations; a schedule of major acquisition and testing milestones; program cost detail by work breakdown structure (WBS); and contracting data for development, support and testing.
- The P-1 document provides a breakout of all procurement appropriations by line item. It shows each program's title, unit cost, quantities and dollars for the prior, current and budget year(s). Additionally, the P-1 includes DoD component summaries by appropriation and budget activity.
- P-Forms, or procurement exhibits, are prepared to support the transition from the Service POM to the Service budget for all procurement programs. P-forms provide detailed program information reflecting the FYDP.

The exhibits described above reflect the overall status of a weapon system program. They keep OSD and the Congress informed of the progress and problems in program execution, schedule, and cost projections. DoD Regulation 7000.14-R, Financial Management Regulation, Volume 2, provides the basic guidance for the documentation. Program managers should also consult Service-specific instructions and guidance for preparing these documents.

Programming/Budgeting in the Off-Year

As noted earlier, programming/budgeting is intended to be a biennial process. The off-year review typically adjusts the remaining five years of the POM to reflect "fact-of-life" changes to programs. Incorporation of new requirements or major program changes is usually restricted to the regular on-year POM process. In May 2003, DEPSECDEF announced that there would be no off-year DPG or POM/BES submission for FY05-09. In place of the POM/BES, the Services, Defense Agencies and Combatant Commanders will submit *Program Change Proposals (PCPs)* and *Budget Change Proposals (BCPs)*. The off-year reviews will focus on assessments concerning current and previous resource allocations and performance of on-going programs.

Off-Year Program Change Proposals (PCPs)

During the off-year, in place of the POM, Services and Agencies may submit a limited number of PCPs in August, as shown in Figure 6. Each PCP should address a single issue that has significant impact to the FYDP and must be fully resourced, i.e., it must include offsets. Dollar thresholds for PCPs are determined by D, PA&E for each PPBE off-year review. For FY05-09, that threshold was \$250 million across the FYDP for each PCP. PCPs for smaller issues may be considered if they involve serious programmatic or policy implications. Combatant Commanders may also submit up to six PCPs (no dollar limitation.) The PCP review process is similar to the POM issue review with at least one exception: OSD evaluates all PCPs received, either “accepts” or “rejects” each submitted PCP and notifies the Services and Defense Agencies. “Accepted” PCPs are “approved” for further detailed justification and are processed at OSD and resolved through PDMs. “Rejected” PCPs are returned to the submitter with no further action required.

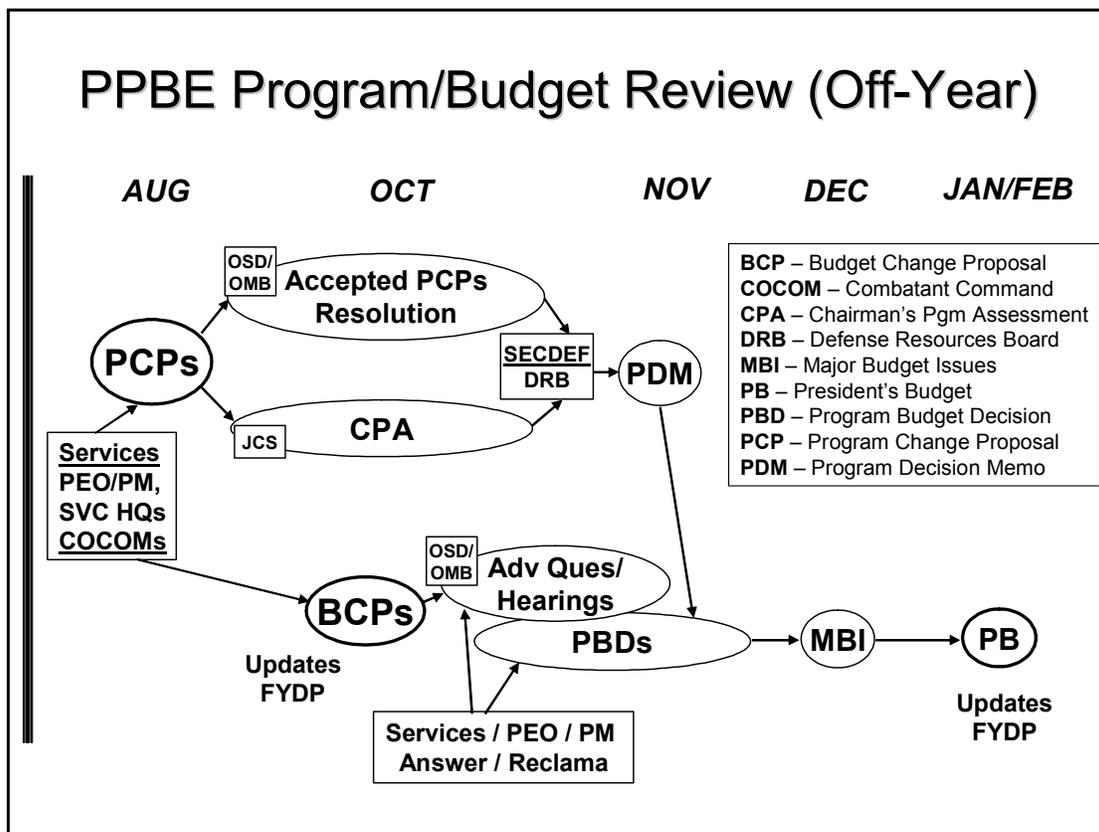


Figure 6

Off-Year Budget Change Proposals (BCPs)

In place of the BES during the off-year, BCPs are submitted in October (not simultaneously with PCPs). BCPs are focused on the budget year and cover fact-of-life

changes such as cost increases, schedule delays, management reform savings, workload changes, and changes due to congressional actions. Review of BCPs is similar to the on-year review of the BES – the USD(C) staff reviews and resolves BCP issues through Program Budget Decisions, as shown in **Figure 6**.

Execution Review

The final activity in PPBE is the Execution Review, which occurs concurrently with the Program and Budget reviews. While the purpose of the program review is to prioritize the programs which best meet military strategy needs and the purpose of the Budget review is to decide how much to spend on each of these programs, the purpose of the Execution Review is to assess what is received for the money spent, i.e., actual output versus planned performance. Performance Metrics will measure program achievements and attainment of performance goals. Over time, these metrics will be analyzed to ascertain whether resources are appropriately allocated.

Summary of PPBE

DoD uses the Planning, Programming, Budgeting, and Execution (PPBE) process to determine priorities and allocate resources. In Planning, determinations are made of the capabilities required to counter and defeat threats to national security, and the forces needed to provide those capabilities. In Programming, these force needs are prioritized and resources allocated to best meet the needs within fiscal, manpower, and force structure constraints. In Budgeting, the components and OSD scrub their programs to ensure efficient use of scarce budget authority. Finally, in the Execution Review, program output is assessed against planned performance to determine the best return on investment. The Program, Budget, and Execution Reviews occur concurrently.¹

Now that we have an understanding of the PPBE process and how it work, it is important to have a working knowledge of flow of funds and defense appropriations.

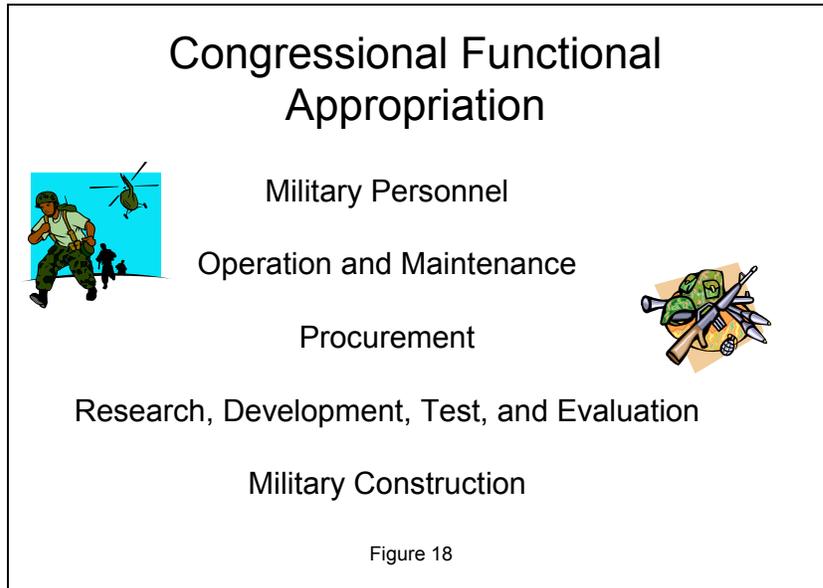
Legislation

The Appropriation act is the result of a long Congressional examination of the Defense Establishment. Congress, which operates mainly through its committee system, utilizes the Appropriations Act to control the level of expenditures in DOD. Budget requests for DOD are made as appropriation requests to Congress. The budget document is the President's plan for DOD regarding obligation authority and expenditures. However, before the Appropriations Act is passed by the House and the Senate and signed by the President, Congress must first approve the purpose for which funds are requested. This approval process within Congress is called authorization. The committees that present authorizing legislation to their colleagues for their approval are known as the Armed Services Committees. Both the House and the Senate have Armed Services Committees. Appropriations do not represent cash actually set aside in the U.S. Treasury.

¹ Defense Acquisition University, PPBE TN-July 03

Rather, appropriations represent limitations on amounts that agencies may obligate during a specific timeframe. Before funds are spent, the President must sign the Appropriations Bill.

Defense Appropriations



Military Personnel
- These appropriations provide funds for pay, allowances, individual clothing, permanent change of station travel, and expenses of temporary duty travel between permanent duty stations for those members on active duty. Funds are also provided for retirement pay of military personnel, including reserve components. These are one-year,

operating appropriations. They are available for obligation only during the year for which they are appropriated. They are managed at department headquarters level (Army, Navy, and Air Force). Estimates of the amounts needed are based on personnel strengths and are, therefore, accurate. The most unpredictable part relates to the cost of permanent change of station travel. Estimating the number of moves that personnel in the armed Forces are going to incur during the year is difficult to foresee. The Appropriations Act stipulates the amount of new obligation authority available to cover military personnel costs. In addition, the active duty military personnel strength, showing the number of officers, enlisted men, midshipmen, and cadets is present in the act. The act serves as a control mechanism because Congress is able to stipulate the size of military force structures.

Operation and maintenance - These appropriations finance the cost of operating and maintaining the Armed Forces including the Reserve Components. For example, it is used to pay for expenses necessary for daily operation and maintenance, including administration and medical and dental care of military personnel. These funds are commonly referred to as consumer funds because they are managed and utilized by the operating level (installation) to finance its daily consumer requirements of goods and services. Management and control of these funds presents a challenge to the service because of the wide variety of activities they finance. All major commands have responsibilities for one or more of the activities financed by the operation and maintenance appropriation. Therefore, each command echelon controls its respective amount of funds received. They may establish additional limitations on the use of these

funds in attempting to preclude violation of the Anti-Deficiency Act. For example, before a Fund Authorization Document (response to a budget request) for an installation or ship is approved, each command echelon has had their say as to how much is spent for what purpose. Consequently, the user at the operating level has limited flexibility in determining use of these funds even though they are allotted to him by total amount for the appropriation. The Operation and Maintenance Appropriations, along with the Military Personnel Appropriations, comprise the annual operating costs for the defense establishment. The Operation and Maintenance Appropriations are available for obligation only during the fiscal year for which they are appropriated and remain available for disbursement for two additional years.

Procurement - These appropriations provide funds for Aircraft, Army; Missiles, Army; Weapons and Tracked Combat vehicles, Army; Ammunition, army; and Other Procurement, Army. There are comparable appropriations for the other services. These provide for certain construction, procurement, production and modification of major items of equipment, including aircraft, missiles, weapons, and tracked combat vehicles, ammunition, shipbuilding, spare parts and other equipment. Congress now provides separate appropriations for each procurement category. They have become more specific in their requirements placed on the military for utilization of procurement funds. Procurement appropriations are multiple year appropriations. All are available for obligations for three years except shipbuilding and conversion (Navy) that has a five-year obligation limitation. Each service justifies the annual budget requests for obligation authority for procurement by the items contained in the services long-range Materiel Requirements Plan. The justification is based on line item requirements. Considerable backup justification is prepared for high-dollar value and unique items.

Research, development, test and evaluation (RDTE) - This appropriation provides funds for basic and applied scientific RDTE, including maintenance, rehabilitation, lease, and operations of facilities and equipment. Funds are used for weapon systems analysis, developmental engineering, and fabrication of experimental models and prototypes. It includes procurement, production and modification of end items, components, and materiel under development. Operation and maintenance of facilities and installations (including those operated by contract) that are engaged in RDTE are also financed by this appropriation.

(1) One appropriation for RDTE activities is provided for each service. These are multiple year appropriations, available for obligation for two fiscal years. Justification of RDTE funds is based on individual projects and tasks.

(2) To affect better decision-making, Congress is continually informed of the concepts and desired objectives regarding force structure and weapon systems being developed by the planning and programming processes within DOD. Considerable congressional control exists in the transfer of funds from one project to another. In most instances, Secretary of Defense (SECDEF) approval is required before any transfers are made by the services.

Military construction - This appropriation provides funds for acquisition, construction, installation, and equipment of temporary or permanent public works, military installations, and facilities. Family housing expenses are financed by this appropriation, to include construction, acquisition, replacement, alteration, operation and maintenance activities. Congress provides a separate appropriation for each service. These funds are primarily managed at service level. They are five-year appropriations. The exception to the five-year availability in Military Construction, Army, is Family Housing Operation and Maintenance Funds. These funds are available for only one year. Budgetary requirements for funds under these appropriations are requested and justified by line item or project. A project includes not only the building itself, but all work to be performed at one time on a single real property facility. It also includes such auxiliary facilities that are required to produce a useful instrument of construction (e.g., roadways and certain installed equipment).

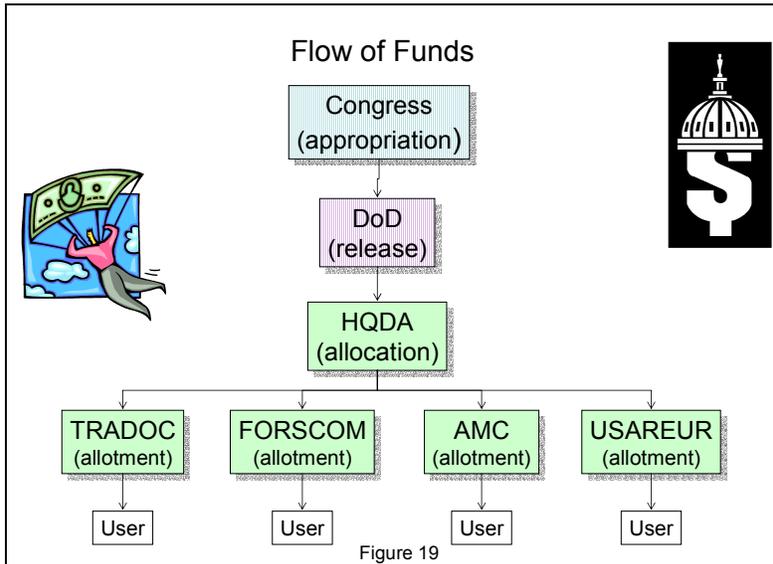
Funding Policies

As a measure of fiscal discipline and control, Congress specifies funding policies or rules for each particular appropriations category. These policies specify how the DOD computes the budget request for each appropriations category in a given year. These funding policies are called annual, incremental and full funding.

| Appropriation | Funding Policy |
|----------------------|-----------------------|
| • MILPERS | • Annual |
| • O&M | • Annual |
| • Procurement | • Full |
| • RDT&E | • Incremental |
| • MILCOM | • Full |

Annual funding policy governs MILPERS and O&M. The annual policy rule states – request the budget authority necessary to cover all expenses for goods and services for that fiscal year. Incremental funding policy governs the RDT&E appropriations category. The annual increment for RDT&E program element or project will be limited to the budget authority necessary to cover all cost expected to be incurred to support work to be performed during a 12-month period. Full funding policy governs the Procurement (including Shipbuilding and Conversion, Navy). The full funding rule states that each year’s appropriation request must contain the funds estimated to be required to cover the total cost to be incurred in completing delivery of a given quantity of usable end items in a 12-month funded delivery period.

Flow of Funds



Once an Appropriations Act is passed by a joint session of Congress and made law by Presidential acceptance, funds can then be made available to the executive agencies (DOD Health and Human Services, Commerce, etc.). There are several major steps used in distributing funds appropriated by Congress. These steps are mechanisms by which the funds are administered at each command echelon.

That is, obligation authority granted by Congress to an agency or department is converted into expenditures used to finance programs and activities. An appropriations warrant is sent to DOD when the Appropriations Bill is enacted. An Appropriations Bill is an act of Congress that provides budget authority and permits Federal agencies to incur obligations and make payments from the U.S. Treasury. An agency reviews and revises its budget in light of the approved Appropriations Bill and submits a request for apportionment to the Office of Management and Budget (OMB). Apportionment makes a designated portion of an appropriation available for obligation. The obligation authority can be used at the rate. The apportionment process is a mechanism for the president to exercise financial control over the execution of programs in almost any manner he sees fit as long as he does not apportion funds in excess of that appropriated, or he does not authorize the use of funds for which there is no legal basis. It also allows the President to regulate obligations by the agencies to avoid the need for deficiency or supplemental funds during the fiscal year. By law, the OMB exercises the apportionment authority. This law also authorizes apportionment of funds by time periods, program, activity, or by item. The obligation authority is usually apportioned by quarters over the period of the fiscal year.

Within DOD, similar devices control the use of the obligation authority apportioned by the OMB. DOD releases the apportioned funds to the services. The services, in turn, allocate funds to their special and general operating agencies. For example, allocation in the Army is an authorization by which the Comptroller of the Army makes funds available to special operating agencies such as the U.S. Army Materiel Command (AMC). These agencies sub-allocate funds to general operating agencies, such as the U.S. Army Tank-Automotive and Armaments Command (TACOM).

Allotment is usually the final method that is used to make funds available for obligation. A special or general operating agency can allot funds to itself or to some installation or activity under its command. For example, the U.S. Army Training and

doctrine Command (TRADOC), will allot funds to all of its installations. An allotment is the breakdown of an allocation by organizational unit.

The installation or activity can now incur obligations. An obligation is a legal reservation of funds. The activity using obligation authority will purchase goods and services to accomplish its mission (i.e., an installation commander purchases goods from local economy with appropriated operating funds or, AMC enters into a contract agreement to purchase end items from a civilian corporation). Incurring an obligation does not mean immediate cash expenditure. The actual expenditure of funds often lags behind the obligation of those funds.

One other area of important is Security Assistance. Although, it is not a part of US Government budgeting process it can have a big impact in the acquisition of US weapons and items. Security Cooperation is founded on a tradition of cooperation between the United States and other sovereign nations with similar values and interests in order to meet common defense goals. It consists of a group of programs authorized by the U.S. Foreign Assistance Act of 1961, as amended, and the Arms Export Control Act, as amended, and related statutes by which DOD or commercial contractor provide defense articles and services in furtherance of national policies and objectives. Foreign Military Sales (FMS) and International Military Education and Training (IMET) are two key programs included within Security Cooperation. IMET is conducted solely on a grant basis. FMS can be conducted using cash or FMS Financing (FMF).

FMS is managed and operated by DOD on a no-profit and no-loss basis. Countries participating in the program pay for defense articles and services at prices that recoup costs incurred by the United States. This includes a fee (three percent of item and service cost in most instances) to cover the cost of administering the program. When defense articles or services are required, the requesting country's representative in the defense establishment of the country or stationed at the embassy in the U.S. provides a Letter of Request (LOR) to the representative's U.S. counterpart. The U.S. counterpart forwards an information copy of the request to the Department of State (DOS) Bureau of Politico-Military Affairs and the Defense Security Cooperation Agency (DSCA). The original is furnished to the DOD Military Department (MILDEP - Army, Navy, or Air Force) or Defense Agency which will prepare the response. FMS is accomplished in two ways; FMS cash purchases whereby the purchaser (foreign government) pays in cash (US Dollars) all cost that may be associated with the sale; Foreign Military Financing wherein USG grants/non-repayable and repayable loans are involved. These credit/loan arrangements are negotiated by the foreign government and the US Government. In either situation cash purchases of financing-the funds that are require to implement the Letter of Offer and Acceptance must be paid or transferred to DFAS-DE/I where they are closely accounted for in the FMS Trust Fund. The FMS Trust Fund – is a fund established by each FMS customer country for recording all financial transactions for use in carrying our specific purpose and programs in accordance with an agreement

A response to FMS requirement may be in the form of Price and Availability (P&A) information or a Letter of Offer and Acceptance (LOA). Due to a shorter preparation and

staffing cycle, P&A is normally used only for preliminary planning purposes. The LOA is a formal offer which, when accepted, forms the basis for the U.S. to provide the materiel and services offered.

Under Security Assistance Programs, the following are available - Defense articles, including major defense systems, subsystems, support equipment, repair parts, and publications are provided under SA. Services, including training in U.S. military schools or through mobile training teams, construction, engineering, contract administration, program management, technical support, and repair are also provided. Due to interest in encouraging standardization and interoperability among U.S. and SA countries, FMS normally involves the transfer of those items, which have been fielded with U.S. forces. While available through FMS, nonstandard articles or services are normally acquired commercially. Under certain conditions, cooperative programs such as co production and co-assembly under international agreements, technical assistance services, technical data, and leases of defense items are available.

Management of Security Assistance Programs - The U.S. Congress establishes the laws, authorizes programs, appropriates funds, and has an oversight role in Security Assistance. Within the Executive Branch, DOS, National Security Council, Office of Management and Budget, Department of Treasury, Department of Commerce, and others have responsibilities concerning SA. Aside from the President, the principal legislated responsibilities fall to the DOS and DOD. The Secretary of State provides continuous supervision and general direction for Security Assistance, including determining whether there will be a program for a country and, if so, its scope and whether, and when, a particular sale will be made.

Number of major sources of public laws that have affected the financial management structure of DOD is shown in the table below:

| | |
|--|--|
| Misappropriation Act (Title 31, U.S. Code, Section 1301) | Requires that funds be used only for the programs and purposes for which the appropriation is made. |
| Bona Fide Need Rule (Title 31, U.S. CODE, Section 1502) | Requires that appropriated funds be used only for those needs or services that arise in the year/s of the appropriation's obligation availability period. |
| In 1906, Congress passed the Anti-Deficiency Act | This act prohibited the expenditure of funds in excess of the amount authorized and appropriated by Congress. To enforce the law, the Congress charged the executive branch to fix responsibilities for any over expenditure that did occur; and provide: (1) Administrative penalties for those who inadvertently exceed an appropriation. (2) Criminal penalties for those who exceeded an appropriation knowingly and |

| | |
|---|---|
| | willingly. |
| The Budget and Accounting Act of 1921 had three main provisions: | <p>(1) Provided for a comprehensive presidential budget.</p> <p>(2) Provided the President with the Budget Bureau to assist him in preparation of the budget and to strengthen his authority over the executive departments.</p> <p>(3) Assigned responsibility for accounting to a General Accounting Officer under a Comptroller General.</p> |
| The 1949 Amendments to the National Security Act of 1947 Public Law 216 | <p>(1) Section 401. The Office of the Assistant Secretary of Defense (Comptroller) (ASD [C]) was established. The comptroller was given the responsibility of preparing the defense budget.</p> <p>(2) Section 403. This section provided for the performance budget technique. The narrative of the law stated that, "budget estimates of the Department of Defense shall be prepared, presented, and justified in such form and manner so as to account for, and report, the cost of performance of readily identifiable functional programs and activities</p> <p>(3) Section 404. This section gave the Secretary of Defense the authority to scrutinize and approve the rates of obligation of the services. The specific intent of this provision was to prevent overdrafts and deficiencies of the appropriations made available to DOD by Congress. It put the hands of the Secretary of Defense directly on the purse strings.</p> |
| The 1974 Congressional Budget and Impoundment Control Act. | Created a Congressional Budget Office. It also, established budget committees in both Houses of Congress and changed the fiscal year to 1 October through 30 September. |
| Goldwater-Nichols DOD Reorganization Act of 1986. | Implemented the DOD Biennial Budget process. It reorganized the Department of Defense. Designated the Chairman of JCS, as the principal military advisor to the president, the Secretary of Defense, and the National Security Council. |
| Chief Financial Officers Act of 1990 | Required the preparation of five-year financial management systems improvement plans. This act required the annual reporting to the President and Congress on the status of general and financial management in the Federal Government. |
| Government Performance and Results | Required the development of strategic plans |

| | |
|--------------|---|
| Act of 1993. | focused on long-term goals. It required the development of annual performance plans with specific performance measures. |
|--------------|---|

Although these legal sources of DOD financial management structure certainly do not constitute our entire legal environment, they constitute the most significant items.

Review Questions

1. Describe the Four phases of PPBE process and the products of each. ([answer](#))
2. Where does the POM fit in the PPBE process and who is responsibility for preparing them POM. ([answer](#))
3. List the Congressional appropriations that are relevant to defense acquisition management. ([answer](#))
4. Future Years Defense Program is key to PPBE, what are the main building blocks in the FYDP? ([answer](#))
5. Define how appropriations generate funds. ([answer](#))
6. Describe the funding policies used in system acquisition. ([answer](#))
7. Describe the financial management funds flow process. ([answer](#))
8. What is budget authority and how it works with the enactment process. ([answer](#))
9. List each appropriation and the expenditure window for each. ([answer](#))
10. What are the major provisions of the Misappropriation 10/1/2003Act? ([answer](#))
11. State the purpose of the Ant-Deficiency Act. ([answer](#))
12. Explain each of the key documents in the PPBE. ([answer](#))

Key PPBE Documents

| | |
|--|--|
| Budget Estimate Submission (BES) | Detailed costing of the Program Objective Memorandum (POM) as modified by the Program Decision Memorandum (PDM) by appropriation and major force program. |
| Chairman's Program Assessment (CPA) | An assessment of the composite Program Objective Memorandum (POM) force recommendations to assist the Secretary of Defense in decisions on the defense program subsequent to receipt of the POMS. The CPA summarize the views of the chairman on the balance and capabilities of the POM force and the levels to attain US national security objectives. |
| Contingency Planning Guidance (CPG) | The SECDEF's statutory duty to provide annually to the CJCS, written policy guidance for contingency planning. The CPG focuses the guidance provided in the NMS and DPG and directly impacts on the JSCP. |
| Defense Planning Guidance (DPG) | The DPG provides a strategic framework for developing the Service and DOD Agency program requests. The DPG is the result of planning efforts by the Joint Staff, Office of the Secretary of Defense (OSD), and the services/agencies. |
| Issue Books (IB) | A series of ten documents containing major issues or |

| | |
|---|---|
| | alternatives to programs contained in the Program Objective Memorandum (POM). The ten issues books are: Policy and Risk Assessment, CINC's Issues, Nuclear Forces, Conventional Forces, Modernization and Investment, Readiness and Other Logistics, Manpower, Intelligence, Management Initiatives and the Offset book. |
| Joint Planning Document (JPD) | The JPD supports the NMS by providing concise programming priorities, requirements, or advice to the SECDEF for consideration during preparation of the defense planning guidance. |
| Joint Strategy Review (JSR) | The JSR assesses the strategic environment for issues and factors that affect the National Military Strategy (NMS) in the near-term of the long-range. It is a process that continuously gathers information; examines current, emerging and future issues, threats, technologies, organization, doctrinal concepts, force structures, and military missions; and reviews assesses current strategy, forces, and national policy objectives. The JSR facilitates the integration of strategy, operational planning, and program assessment. |
| National Security Strategy (NSS) | The NSS details the top-level political, economic, and security strategy for the United States. |
| National Military Strategy (NMS) | The National Security Strategy provides input for the National Military Strategy. To produce the NMS, the Joint Chiefs of Staff (JCS) assess the evolution of the global threat, and changes in U.S. military strategy and policy. From this analysis, the JCS establishes military goals and objectives to meet the NSS. |
| Program Budget Decision (PBD) | Derived from the BES, represents the Dep/SecDef's decision on the Service budgets, approving them for inclusion in the President's Budget. |
| Program Decisions Memorandum (PDM) | SECDEF's approval of each Service's Program Objective Memorandum (POM) which forms the basis for developing the Budget Estimate Submission (BES). |
| Program Objective Memorandum (POM) | The memorandum which the Secretary of a military department or the Director of a defense agency submits to the Secretary of Defense to recommend the total resource requirements within the parameters of the fiscal guidance published by the SECDEF. |