

ARMED FORCES

# Comptroller

Vol. 55, No. 4 Fall 2010



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# How to Increase Financial Productivity and Performance on the Battlefield

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*Between January and April 2010 Grant Thornton surveyed 1,014 civilian and uniformed executives and staff members. Our survey methods included both in-person interviews and an online survey of ASMC members. All responses were kept anonymous. "Executives" in this 2010 survey are the 26 defense financial leaders interviewed in person by Grant Thornton partners and directors. "Staff" refers to the 988 respondents to an online survey of ASMC members. This is the eighth Grant Thornton-supported survey since 2003.*

**M**anaging financial productivity and performance for overseas contingency operations (OCO) is more complex than ever in the twenty-first century wartime environment. Today the name of the game is change, as financial managers strive to balance long- and short-range priorities while placing renewed focus on cost analysis and control, training, resources, and support for military and civilian personnel. Nowhere is this more vital than on the battlefield, where rapidly changing needs clash with unwieldy systems that work best in times of peace, not war.

These are some of the conclusions of the 2010 survey of the defense financial community recently conducted by Grant Thornton LLP on behalf of the American Society of Military Comptrollers (ASMC). This annual survey of trends and prospects in financial management includes the Military Services in the Department of Defense (DoD) as well as the United States Coast Guard.

The messages in responses to this year's survey come through loud and clear! Staff members and executives alike say the catchword for the future is "flexibility"—within the framework of improved systems for budgeting, allocating resources, cost control, and performance management. How does one achieve more agility in operations? It starts, respondents say, with developing an overarching strategic framework to guide system development and performance management.

## **War and Peace and PPBE**

The old ways of doing business had longer lead times and less volatility. Before 9/11, Iraq, and Afghanistan, the Planning, Programming, Bud-

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geting, and Execution (PPBE) system functioned adequately, according to survey respondents. Today, PPBE is falling behind in meeting the demands of a world political climate—and the resulting operational environment—that depends on flexibility and speed. A common theme is that PPBE is out of sync with real-life military operations and their requirements. One executive says, “PPBE takes 18 to 24 months, while the warfighter needs 18 to 24 days’ reaction time—and sometimes even a few hours.” A staff-level respondent says PPBE “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.”

### Out with the Bathwater, but Please Keep the Baby

These are not idle complaints. Behind the frustration and discouragement is a real passion for productive change. Even the toughest critics of PPBE do not want to see it eliminated. “We have to realize that the discipline of PPBE cannot be enforced during war time,” says an executive. One staff-level respondent says, “PPBE provides a plan, but every plan needs to have flexibility for emergencies.” Other executives suggest that the DoD needs to develop a dual system for long- and short-term requirements. Both tracks should use planning, rigor, discipline, and analysis of outcomes compared to objectives and cost.

### The Squeeze on Supplemental Funding

Another challenge facing financial managers in the DoD is the transition from supplemental funding to capturing all requirements in baseline budgets. Since 9/11, much of OCO funding has come through supplemental appropriations to the defense budget, mostly for the wars in Iraq and Afghanistan. For the fiscal year 2009 budget alone, about \$146 billion was provided by Congress for OCO. The problem is that operations in Afghanistan and Iraq have created long-term costs that should have been included in base budgets, not emergency funding. In addition, predictable costs, such as new equipment maintenance and sustainment that normally would have been in base budgets, were not included, thus putting tremendous pressure on existing maintenance accounts. All this will change, and soon. With the current budget policy to transition supplemental funds for OCO to base budget funding, the PPBE must wrestle with how to maintain and sustain large supplemental equipment buys, in addition to previously purchased equipment. This task is made all the more difficult, given that mandated reductions must be taken in these accounts.

Many respondents say that DoD operations will always need some supplemental funding. They point out that even though contingency operations are unpredictable (as in the case of the Haiti relief effort in early 2010), they are more flexible in execution than baseline budgets.

So what do executives and staffs see as a way ahead?

Above all, says one executive, “Never fund enduring requirements with supplemental funding. It’s a bridge to nowhere.” Several respondents say supplemental funding should come earlier in the budget cycle instead of at the end-of-fiscal-year rush. Another option: Consider multi-year supplemental funding.

One executive acknowledges, “We have confused supplemental and baseline requirements so much that we no longer really know what is in the baseline budget.” The transition to baseline budgeting already is leading to shortfalls, says one staff-level respondent, as financial managers scramble to shift resources. “Military installations have grown accustomed in recent years to depending on supplemental funding to augment their base operations and support requirements.”

The same is true for assets, says another staff-level respondent. “OCO funding has been used to procure large quantities of equipment needed for the war effort.” A real problem is long-term maintenance and repair. Damaged and war-worn equipment is piling up for depot-level repairs and servicing, with no budget in sight to support that work.

### Emergency Medicine

So what is the DoD financial manager to do? It may be a matter of triage. “First, stop the bleeding,” says one 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 [and] when [they must be paid].”

Survey respondents say that, over the longer term, one must look at the big picture and develop a comprehensive approach by examining issues at all levels of operation. One executive advises to use cost accounting methods either to define the desired outcome in terms of converting supplemental requirements to baseline requirements on a dollar-for-dollar basis (a good goal) or to extract savings during the process (a better goal). Get comfortable with the definitions and assumptions about the differences between baseline and supplemental budgets and establish consensus on the categories of enduring costs. In addition, learn the history

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of funds, that is, their execution rates, who audits use of those funds, where funds were applied, and to what items.

Timing matters as well. Several executive respondents urge that the Congress and the Pentagon phase in the changeover, rather than doing it all at once. For example, they say, plan over the Future Years Defense Program instead of making the transition happen in a single year. In the end, the watchword is flexibility, say survey respondents. Find ways to make funding more adaptable to changing needs.

## Better Support in the Field

Make no mistake: Most defense financial professionals like their jobs and are ready to do whatever is necessary to support the warfighting force. However, while they shift gears and prepare for changes in systems and processes, some training needs emerge. It starts with making sure that new staff members understand what wartime operations are all about. One executive says, “We’ll send anyone willing to go to Afghanistan, and then they’re dropped in without the requisite skills.” A little advance training would make a difference, such as role-playing in a simulated operating environment.

## Top Three Technical Skills

Overall, survey respondents say there are three critical areas of technical training needed now in the financial workforce (see table). These are performance improvement methods, budgeting, and controls (internal, management, and funds). Executives say that the most needed skills in 2015 will be performance improvement methods, cost accounting, and auditing along with general management skills and economic analysis. In the table, note that staff-level respondents, who are ASMC members who participated in an online version of the survey, rank their training needs in a way that is similar to that of the executives. Most important, staff members and executives alike agree that the number one training need is for performance improvement methods.

### Table: Financial Management Skills Needed Today and in 2015

For nonfinancial personnel, training needs are slightly different. Enhanced skills are needed for program measurement and budgeting. “Build the culture to make those decision makers understand metrics and performance drivers,” says one executive. Risk management is cited as an additional area of concern. “The number one need is to educate nonfinancial personnel about what ‘S’ curves mean and how they should be used and analyzed,” says another executive.

With all the number crunching, one thing should not be ignored, and that is the people aspect of serving overseas in dangerous conditions. All staff, whether civilian or military, are away from home with unique needs. “Remember, it is people first,” says one executive. “Pay attention to taking care of their families back home. Relieve their concerns so they can focus on their jobs.” The same executive notes that civilians can also experience post-traumatic stress syndrome and cautions there is “trouble lurking there.”

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 (for example, internal, management, funds)	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
Information Technology 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

## Rapid-fire Recruitment

The current push to hire more permanent staff and rely less on contractors has challenges as well. Contractors now occupy many middle management positions. The fear is that once older people retire, there will be no knowledgeable government employees available to move up. One executive says, “There are many employees with less than five years’ experience, and many who have more than 20 years, with not many in the middle. How are they going to deal with that?”

The DoD has an answer for one of its professional communities: Increase the in-house acquisition workforce by converting 11,000 contractor personnel to government positions and hiring an additional 9,000 staff by 2015. Still, there are skeptics. One executive says, “Our personnel system is broken. It can’t keep pace with our requirements. We need help in figuring out how to get the personnel system to rapidly hire these people.”

Even so, speed is not the only factor. Already, signs are clear that the twenty-first century financial professional needs a different skill set than in the past. In the old days, financial management tended to be transactional, and certainly less information was available on which to base budget decisions. Today, the twenty-first century professional has a limitless array of information, resulting in a need for analytical skills and big-picture thinking. As one executive states, “All of the information is of no value unless the twenty-first century professional understands how to interpret the information.”

Other financial skills and competencies most needed today are cost/price analysis and life-cycle costing, as well as financial management in general. “Courage and leadership” are necessary, too, says one executive. “Integrity,” says another.

Nevertheless, no matter how fast people get on board, and in what capacity, survey respondents say there will be an ongoing need for contractors, especially for noncore activities and during workload surges. Contractors can also provide skills that are, in the short term, lacking among employees.

### Is Readiness All?

Change centers on people. With continually shifting OCO priorities, defense financial management needs to staff up and be ready for an increasingly volatile world ahead. The readiness mandate has demands of its own. It requires more training, resources, and support so financial managers can fulfill warfighter needs. In addition, in order to keep pace, the defense financial community needs big thinkers who can look at the whole picture and apply strategic planning. Getting caught up in minutiae will lead to stagnation and inevitable failure.

The jury is still out on how change management works with slow-moving government systems and bureaucracies. The bellwether may be the financial community's skill in marshalling its workforce and simply moving ahead no matter what. The challenge is to sidestep procedural hurdles while maneuvering courageously forward.



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## Test Your Knowledge Questions & Answers

1. 31 U.S.C. 1342 states: "An officer or employee of the United States Government . . . may not accept voluntary services for . . . [the] government or employ personal services exceeding that authorized by law except for \_\_\_\_\_."
  - a. when they must do so to avoid charging excessive overtime hours
  - b. when the services will be reimbursed in future years appropriations
  - c. emergencies involving the safety of human life or the protection of property
  - d. when directed to do so by an immediate supervisor
2. What is the acronym for disbursing office identification numbers?
  - a. DSSN
  - b. OAC
  - c. OIN
  - d. DIN
3. Name the major function(s) in DoD finance.
  - a. Certification and payments
  - b. Collections
  - c. Control of public funds
  - d. All of the above
4. To move a career-conditional employee from one agency to another without a break in service of one workday is considered a:
  - a. promotion/demotion
  - b. reassignment
  - c. detail
  - d. transfer
5. A(n) \_\_\_\_\_ is an appropriation act that allows stop-gap funding.
  - a. short apportionment
  - b. continuing resolution
  - c. temporary apportionment
  - d. all of the above

1. c, 2. a, 3. d, 4. d, 5. b