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Examination of DoD Comptroller RDT&E Execution Review Process at USSOCOM

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About This Publication

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We remember and honor our friend and colleague, Jim Dominy, who passed away during the study.

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Executive Summary

Background

Each year, during the Department of Defense (DoD) budget development process, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C) or "Comptroller") reviews the budget execution from the previous year. The review process aims to avoid congressional action to remove DoD funding and to identify programs that may have excess funding that could be moved to meet other DoD budget priorities. Comptroller may remove funding from the budget proposals of components that failed to meet Comptroller's benchmarks for first-year obligations or expenditures of funds. United States Special Operations Command (USSOCOM, or SOCOM) is concerned about the impacts that Comptroller's execution review process has on its ability to efficiently manage its Research, Development, Testing, and Evaluation (RDT&E) programs. SOCOM tasked the Institute for Defense Analyses (IDA) to examine these concerns.

Comptroller has implemented a preliminary screening tool for assessing RDT&E appropriations. Specifically, they use a benchmark requiring that 55 percent of appropriated funding for a program must be expended in the first year of execution. Programs that do not meet the benchmark are further scrutinized and may be subject to "rephasing," which removes program funding in the budget year and restores it over the following two years. Rephasing can have fiscal, contractual, and schedule impacts on a program. Organizations will typically commit time and manpower to defending their programs in an attempt to have the rephasing reductions reduced or reversed.

A 2012 memorandum jointly signed by the Undersecretary of Defense (USD) (Comptroller), Hon. Robert Hale and the USD (Acquisition, Technology, and Logistics), Hon. Frank Kendall addressed this issue of benchmarks. The main messages from the memorandum include:

- Not meeting benchmarks is not a failure.
- Benchmarks carry the risk of providing incentives to make poor contracting and expenditure decisions.
- Managers should negotiate and issue contracts with an eye toward efficiency, not meeting benchmarks.
- Management of funds should be made only in the best interest of the taxpayer and in support of the Warfighter.

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The 2012 Hale-Kendall memorandum provides valuable context for assessing the current process and developing recommendations for improving outcomes.

Objective

Assess the Comptroller execution review process and, where possible, provide recommendations for reducing negative impacts while assuring that funding is expended in the manner approved by Congress and DoD leadership. SOCOM asked that the study focus on the 55 percent expenditure benchmark for RDT&E.

Approach

The IDA study team pursued four lines of effort to assess the execution review process and to develop observations and recommendations.

First, we examined the steps in Comptroller's execution review process, conducting interviews with Comptroller and SOCOM personnel and gathering documentation that describes the process.

Second, using financial data from Comptroller and SOCOM, we looked at how well the 55 percent benchmark supports that process as a screening tool for RDT&E programs. We determined that an effective screening tool needs to efficiently identify programs with funding potentially available to move to other DoD priorities.

A good screening tool should efficiently identify programs with funding potentially available to move to other DoD priorities

Third, again using financial data, we studied the impacts of the benchmark and execution review on RDT&E programs. We sought to understand how often rephasing occurs, how much funding is rephased, and what programmatic and workload impacts rephasing creates for the Budget Submitting Offices (BSOs) and for Comptroller.

Finally, we investigated potential improvements to the process with an eye toward improving outcomes for stakeholders.

Observations

1. **The 55 percent benchmark provides Comptroller a straightforward tool, but it may come with a cost.**

The benchmark quickly identifies a pool of funding to consider for rephasing to critical budget requirements and the data do not show that the current execution review process places an excessive workload on BSOs. However, if BSOs are committing resources to defend programs that are healthy and expending funds as expected, DoD is paying potentially unnecessary opportunity costs.

2. Evidence suggests that the 55 percent benchmark is not efficient.

We consider a benchmark efficient if it effectively discriminates between programs that are in a good position to have funding rephased and those that are not. The 55 percent benchmark doesn't consider efficient business practices. For example, most SOCOM RDT&E projects are "procurement-like"; that is, they are structured to pay contractors a large portion of their fees later, upon satisfactory delivery of a prototype or other product. This structure incentivizes contractors to complete work on time, on budget, and according to specifications; it also results in slower expenditure rates, frequently below 55 percent. Procurement-like programs are not exempted from the benchmark and can become false positives in the screening process. Also, over 90 percent of SOCOM non-exempt RDT&E programs fail to meet the benchmark, but only 15 percent ultimately receive rephasing adjustments, indicating that more programs than necessary are scrutinized, which is inefficient.

3. The data do not show that Comptroller's execution review process places an undue burden on SOCOM.

In SOCOM's budget proposals for fiscal years 2013–2024, the average rephasing was $19 million per year, which represents 3.2 percent of SOCOM's non-exempt (from the benchmark) RDT&E budget. IDA asked SOCOM for examples of how Comptroller's execution review process impeded its RDT&E programs and management. In response, SOCOM provided one example of a project that experienced significant delay because of rephasing. SOCOM also estimated the workload for defending programs at about 250 staff-hours per year. So, while there has been some administrative burden and programmatic impact, the data do not indicate that the execution review process is a major impediment to SOCOM.

Potential Improvements

A screening tool based on spending plans could be more efficient. At project initiation, every SOCOM project generates a spending plan that is shaped by the nature of the project and its contractual structure. A screening tool based on spending plans would be more firmly grounded in project characteristics than the current benchmark and would, therefore, reduce false positives and better identify programs that aren't expending as expected.

Another screening tool to consider is one based on obligations rather than expenditures. For procurement-like programs, Comptroller could apply a benchmark similar to the one applied to programs in the procurement appropriations and require that funding be 90 percent *obligated*—rather than 55 percent *expended*—in the first year of availability. This change would also reduce the number of false positives and concentrate scrutiny on programs that aren't following their plan.

An expenditure-based screening tool with a lower benchmark could also be considered. A threshold of 38 percent would capture approximately half of DoD's non-exempt RDT&E programs; the current 55 percent benchmark captures about three-quarters.

A better screening tool and process would allow a greater number of projects that are executing according to contract expectations to avoid scrutiny. Those projects and programs that aren't executing as expected could be evaluated to determine if they are in a position to have funding rephased.

Recommendations

IDA offers six recommendations to improve the efficiency of the rephasing process and lessen the negative side effects. Each recommendation would entail implementation costs that should be considered.

For Comptroller:

Consider using spending plans as a screening tool. BSOs could provide spending plans to Comptroller to serve as the basis for the execution review.

Consider using an obligation benchmark as a screening tool for procurement-like RDT&E programs. This would be similar to the benchmark used for programs in procurement appropriations.

Provide additional guidance regarding simplified ways for SOCOM to defend its programs. Additional guidance would enable SOCOM to improve its submissions and reduce workload.

Consider applying reductions at the Budget Activity (BA) level rather than at the Program Element (PE) level. Budget Activities contain associated PEs. Comptroller currently rephases RDT&E programs at the PE level during execution review. If Comptroller were to rephase funding at the BA level, BSOs could apply the reductions to the PEs in the least disruptive manner.

Consider implementing an accommodation for Continuing Resolutions (CRs). A preliminary IDA analysis suggests that expenditures at the end of the first year of availability tend to be reduced by 2.5 percent per 100 days when there is a CR. A more in-depth analysis should be performed prior to establishing a firm guideline.

For SOCOM:

Work to bring expenditures and spending plans into better alignment with each other. SOCOM's expenditures fell short of spending plans by an average of 22.5 percent from FY 2020 through FY 2022. SOCOM should identify why the shortfalls occurred and consider adjustments that will improve alignment.

Contents

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1. Introduction

A. Background

During the annual preparation of the Department of Defense (DoD) budget, the budget-submitting offices (BSOs) within the Military Services and Defense Agencies develop budget proposals that request funding by appropriation, budget activity (BA), program element (PE), and project. Funds in each appropriation category are legally constrained to be obligated and expended within specified time periods. The Office of the Under Secretary of Defense (Comptroller) (OUSD(C) or "Comptroller") has developed benchmarks that specify desired rates of obligations and expenditures in the first year of fund execution. Comptroller's benchmark specifies that 55 percent of Research, Development, Testing, and Evaluation (RDT&E) funds should be expended in the first year of execution. The benchmarks are not part of any formal DoD or Comptroller instruction, regulation, policy document, or manual. However, the BSOs, Comptroller, and even Congress are familiar with the benchmarks and their use. A comprehensive list of targets for obligating and expending funds is presented as Appendix A.[1] These benchmarks are imposed by Comptroller even though, by Federal statute, BSOs have two years to obligate RDT&E funds and seven years to expend them.[2] The year of the genesis of the benchmarks is lost to antiquity, but we know that a study was suggested in 1996 to review them; we found no evidence that changes were subsequently made.[3] During an interview with Comptroller staff, we were told that no one was aware of any study to review or update the benchmarks.

During its review of the Components' budget proposals, Comptroller assesses obligations and expenditures from the previous year. In the case of RDT&E, the focus is on expenditures. Programs that did not meet the 55 percent benchmark for expenditures may have funds "rephased"; that is, funding will be removed from the budget year (BY)

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1 The document in Appendix A appears frequently in open-source material. The version we include as Appendix A was downloaded from a Defense Acquisition University (DAU) website. DAU publishes it with the name *OUSDC Rule of Thumb Acquisition Obligation and Expenditure Rates*. We did not receive confirmation that it is a Comptroller product.

2 Descriptions of appropriated funds availability periods are found in 31 U.S.C. 1553(a) and DoD 7000.14-R, *Financial Management Regulation (FMR)*.

3 "Notes from meeting of Integrated Process Team for Budget Execution Measures," Office of Undersecretary of Defense (Comptroller), 6 August 1996, Washington, DC.

and added back in the following two years' budgets.[4] After Comptroller provides an initial set of adjustments, the Components can present arguments, termed "reclamas," aimed at reducing or reversing the amount of funding that is rephased. After assessing the Components' reclamas, Comptroller issues final adjustments and completes the rephasing actions. Comptroller stated that they designed the execution review process to ensure that programs don't have excess obligational authority in a given year. Also, Comptroller stated that Congress uses the same benchmarks to assess DoD programs and that the execution review process can prevent congressional action that would remove funding from DoD. The execution review process also identifies resources that can be applied to other defense programs in the budget year.

Most DoD programs funded under the RDT&E appropriation do not achieve the Comptroller benchmark for first-year expenditures and are therefore subject to Comptroller review. Some programs are exempt from execution review (Science and Technology (S&T), classified programs, small business funding). From FY 2011 through FY 2022, approximately 76 percent of non-exempt RDT&E programs failed to meet the first-year benchmark.[5] The United States Special Operations Command (SOCOM) is a BSO with an annual RDT&E budget of over $800 million. For the years we studied, approximately 90 percent of SOCOM's non-exempt RDT&E programs failed to meet the benchmark, over 50 percent received an initial rephasing recommendation, and 15 percent received a final rephasing adjustment.[6] Rephasing program funding can cause not only financial disruption, but also scheduling disruption. Also, organizations that receive adjustments to their programs often invest significant effort to defend their programs in an attempt to have the rephasing amounts reduced or reversed. Final adjustments are determined in the context of Comptroller's need for additional funds for other DoD priorities after SOCOM has an opportunity to respond to the initial adjustments.

SOCOM believes that the Comptroller execution review process impedes its ability to manage its RDT&E programs efficiently. In particular, SOCOM believes that, compared to its peers, an unusually large proportion of its programs involve more procurement-like activities than traditional research. Execution in the procurement appropriations is

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4 The standard for rephasing is that 60 percent of the funding removed from the program's budget is restored in the following budget year (BY+1) and the remaining 40 percent is restored in the year after that (BY+2).

5 Some projects and programs are exempt from the execution review. Exempted projects include Science and Technology (S&T) projects, Small Business Innovation Research (SBIR) projects, classified projects, and others. These exemptions are discussed in more detail in Chapter 4. "Non-exempt" refers to the remaining projects that are subject to review.

6 The failure to meet the benchmark percentage and final adjustment percentage are based on data from FY 2011–FY 2023; initial adjustment percentage data were available only for FY 2016 and FY 2018–FY 2021.

reviewed based on an *obligation* benchmark. SOCOM's RDT&E programs perform much better against an obligations-based benchmark than against one based on expenditures.[7] Since few of SOCOM's RDT&E programs meet the *expenditure*-based RDT&E benchmark, most (up to 90 percent) are subject to Comptroller review, which creates additional workload for SOCOM.

B. Approach

SOCOM asked the Institute for Defense Analyses (IDA) to examine Comptroller's execution review process and provide recommendations to reduce negative impacts on SOCOM programs while ensuring that funding is being expended in the manner approved by Congress and DoD leadership. This paper focuses almost entirely on RDT&E execution, since that is SOCOM's primary concern. To better understand the impact of the execution review process on SOCOM projects, we pursue four lines of effort. First, we examine Comptroller's execution review process. Second, we look at how the 55 percent benchmark supports that process as a screening tool. Third, we look at the impacts of the benchmark and execution review. Finally, we investigate potential improvements to the process with an eye toward improving outcomes for stakeholders.

C. Data Sources

The study team used information and data provided by SOCOM, Comptroller, Comptroller's website, and other open sources. Comptroller provided information on the execution review process and met with the study team to answer questions about the process. Still, we were unable to obtain detailed data from the execution review for all BSOs and were unable to obtain historical DoD decisions on rephasing actions.

SOCOM provided full access to their financial records, including some examples of the Comptroller worksheet that guides the execution review process for the BSOs. SOCOM's records did not include worksheet data for all the years of the study, which covers the period FY 2011 through FY 2024. Accordingly, comparisons across the years were limited. SOCOM provided access to Program Budget Decision (PBD) documents in their historical files, but not all years were available in an unclassified format. The study team requested historical versions of the worksheet as well as declassified historical PBD documents from Comptroller but were unable to obtain them.

Comptroller publishes execution reports, called "1002 Reports," on Intelink. The team used the 1002 Reports to harvest data relating to actual execution by BSOs. We used

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[7] The benchmark for execution in procurement accounts is 80 percent of funds *obligated* at the end of the first year; this is compared to the RDT&E benchmark of 55 percent of funds *expended* at the end of the first year. There is also an obligations benchmark of 90 percent for RDT&E; it is currently not used for review.

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budget documents from the Comptroller website to collect account codes and discern the BSOs' lines of funding in the 1002 Reports. We supplemented account code data with Treasury Fast Book account names to identify each line's category (i.e., RDT&E). The resulting dataset was validated against execution data provided by SOCOM, the Defense Advanced Research Projects Agency (DARPA), and the Defense Threat Reduction Agency (DTRA). The team also made use of budget data and Financial Management Regulation (FMR) data from the Comptroller website.

The study team wanted to provide a detailed analysis of all rephasing actions across DoD for all years from FY 2011 through FY 2024. We were able to access a significant amount of relevant data from SOCOM and from the Comptroller website. However, detailed information regarding Comptroller's recommended rephasing and final rephasing, by program, was not made available, leaving gaps in the study team's analysis that will be discussed in Chapter 4.

D. Terminology

Some of the terms we use in this paper have definitions that vary among different offices in the DoD. One particular term needing clarification is "program." Since this paper concerns the Comptroller's execution review process, we will use "program" as Comptroller uses it in guidance and documents that are part of that process. For example, Comptroller assesses execution and implements rephasing actions at the "program" level. In the SOCOM RDT&E account, Comptroller's use of "program" is equivalent to the "Program Element," or "PE" level, which is one level below "Budget Activity" (BA) and two levels below "Appropriation." At SOCOM, the term "program" is used at a lower level, to describe components of projects, which are components of PEs. We do not use "program" in that sense. We do use "projects" to mean components of PEs.

In this paper, the term "program" will typically be synonymous with "Program Element" and "PE." Exceptions will be identified on an individual basis.

Also, we use the term "available funding" to mean that a program could be in a position to have funding rephased to meet other DoD priorities with minimum harm to the program.

E. Outline

The next chapter, Chapter 2, provides more detail on current practices and processes. It describes the process from budget preparation through execution, documents the legal requirements for obligations and expenditures, and delves more deeply into Comptroller's execution review process. Chapter 3 discusses the characteristics of a good benchmark and whether the current RDT&E benchmark has them. The chapter also compares DoD organizations with respect to how well they meet the benchmark. Chapter 4 describes the impacts of the execution review process at SOCOM, covering the recent history of program reductions and describing some of the impacts to SOCOM programs. Chapter 5 presents IDA's suggestions for how the process might be improved. It considers additional categories for exempting projects that have valid programmatic reasons for failing to meet the benchmark. It investigates the possibility of modifying the use of the benchmark, including an examination of how well programs meet their initial plans for expenditures. It also considers whether the process by which SOCOM responds to Comptroller's rephasing adjustments (the reclama process) could be simplified and standardized. The final chapter (Chapter 6) contains IDA's observations and recommendations.

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2. Current Practices and Processes

SOCOM's BSO role and its budget and acquisition authorities reflect the agency's hybrid nature within DoD. SOCOM is a combatant command with command and control authorities over Special Operations Forces (SOF). But SOCOM is also similar to a military Service, with BSO responsibilities and acquisition authority over the development and procurement of SOF-specific equipment. Like a military Service, SOCOM RDT&E programs operate under its Acquisition Executive, while related budgeting issues are conducted under the auspices of the SOCOM Comptroller. For RDT&E accounts, SOCOM acquisition organizations submit their planned budgets to the SOCOM Comptroller for submission to the DoD Comptroller. These submissions are part of the DoD *Planning, Programming, Budgeting and Execution* (PPBE) process in which all DoD BSOs participate.[8]

Like the Services' budgets, the SOCOM budget becomes part of the annual President's Budget Request (PBR), which is reviewed and modified by the Congress before final approval as appropriated funds. It is at the end of the first year of execution of these appropriated SOCOM funds that DoD Comptroller conducts an execution review in anticipation of the congressional review during the next budget cycle. This review of the previous years' execution has the potential to change SOCOM's acquisition plans and expectations for future years. This change can be both unexpected and disruptive.

Although the specific issues highlighted in this paper occur during the last phase of PPBE (*Execution*) for a set of congressionally appropriated budget resources, they affect the *Programming* and *Budgeting* phases shaping future SOCOM resource requests. For this reason, this chapter discusses the DoD PPBE process and general SOCOM processes such as acquisition, budgeting, and execution.

A. Programming, Budgeting, and Execution

SOCOM, as a BSO, participates in all four phases of PPBE. The following discussion bypasses the *Planning* phase (it is less relevant to this study) and begins with *Programming*.

The PPBE phases are overseen by various activities within the Office of the Secretary of Defense (OSD). The OSD Office of Cost Assessment and Program Evaluation (CAPE)

[8] The PPBE process is governed by DoD Directive 7045.14 (1/25/2013), *The Planning Programming, Budgeting and Execution (PPBE) Process*.

oversees the *Programming* phase. The *Budgeting* and *Execution* phases of the process are under the purview of the DoD Comptroller. The SOCOM J8 (Force Structure, Resource and Assessment) and DoD Comptroller staffs are the respective SOCOM gateway offices for the acquisition community to present its RDT&E resource requirements to the PPBE system. First, the *Programming* phase is overseen by SOCOM J8. Then the *Budgeting* phase is overseen by the SOCOM Comptroller. These phases are followed by the *Execution* phase, with the SOCOM Comptroller acting as an interface with the DoD Comptroller, as the latter reviews obligation and expenditure rates.

1. Programming

The goal of the *Programming* phase is to develop a five-year spending plan and submit a Program Objective Memorandum (POM) to CAPE. On behalf of the Secretary of Defense, CAPE oversees the *Programming* phase of PPBE and evaluates POMs submitted by BSOs across DoD. POM submissions require that financial requirements be specified at the Program Element (PE) level. SOCOM's POM submission delineates its requested dollars, manpower, and forces for all five years of the Future Year Defense Program (FYDP). The *Programming* phase ends with the issuance of Program Decision Memoranda (PDM) signed by the Deputy Secretary of Defense and coordinated by OSD CAPE. Within the BSOs' POM submissions, the PEs typically contain multiple projects. While adjustments to the POM are discussed and made at the project level, decisions in the PDM are delineated at the PE level.

2. Budgeting

In the *Budgeting* phase, the BSOs generate Budget Estimate Submissions (BESs) that the OSD Comptroller reviews prior to incorporating them into the consolidated DoD PBR submission. To incorporate PDM decisions, the BSOs submit updated five-year FYDPs with the BES. In addition, the BES includes the BSOs' draft Budget Justification Books ("J-books") that provide important data for the DoD Comptroller's execution review occurring during this phase. The five summary years of the FYDP are included in the J- books but at a more detailed level. In addition to the five years of the FYDP, the J-books will include two years (the *prior year* and the *current year)* before the FYDP (J-books typically cover seven years, all together).

Of the seven years of budget data in the BSO's budget submission, three are of particular interest. The first is the *prior year*, which represents the funding that was available to the BSO in the most recently completed fiscal year. The funding included for the prior year is typically termed "actuals" in the J-books as it represents the funding actually executed during the fiscal year. In the case of the FY 2023 budget, the prior year is FY 2021.

The second year of interest is the *current year*. The "enacted" funds for the current year are included in the J-books to reflect the funding made available to the BSOs via enacted Congressional appropriations and legislation. Because the year is still in progress, and funding levels can change for various reasons, there aren't "actuals" for the current year. In the case of the FY 2023 budget, the current year is FY 2022.

The third year of interest is the *budget year* (also, "BY"). This is the year for which the BES documents and J-books are being constructed, with the goal of becoming congressional appropriations via the PBR. The J-books specifically identify price and program changes from the *current year* to "justify" the request for the *budget year* (hence, "J-books"). For the FY 2023 budget, the budget year is FY 2023.

Comptroller issues Program Budget Decisions (PBDs) at the end of the *Budgeting* phase, including PBDs that are a result of Comptroller's review of *prior year* execution. This execution review, for the SOCOM RDT&E program, is the primary focus of this paper. The PBDs that result from the execution review can affect SOCOM RDT&E contracts for the upcoming budget years.

The BES submissions typically take place in early fall and are preceded by formal guidance from the OSD Comptroller. Component preparation for the BES submission begins several months earlier. Following BES submissions, the *Budgeting* phase concludes with Program Budget Decisions (PBDs). PBDs document both changes to the upcoming budget year of the PBR and also the results of previous fiscal year's budget execution. This latter feature will be discussed below in the *Execution* section.

As the final stage of the *Budgeting* phase, Comptroller compiles submissions from across DoD to produce the PBR submission to Congress. Congress reviews and modifies the PBR as the basis of budget appropriations. However, Congress reviews not only future year plans but also the execution of the previous budget year's appropriations. According to Comptroller, the impending congressional review plays a significant role in its own deliberations of BSOs' prior year execution. Comptroller staff believe that their work in reviewing BSO execution–and subsequent rephasing of funds–protects DoD from having Congress reduce its budget because of under-execution.

The SOCOM RDT&E Budget

Knowing how the SOCOM RDT&E budget is structured helps in understanding execution review and is therefore relevant to this discussion. Comptroller evaluates execution and makes adjustments at the PE level. Of the 15 PEs currently active within the SOCOM RDT&E account, 13 are within Budget Activity 7 (BA 7), *Operational Systems Development*. These 13 PEs comprise around 80 percent, on average, of SOCOM's overall RDT&E account (the remainder is predominantly Science and Technology (S&T) activities, which are exempt from execution review). The RDT&E appropriation is further broken down, below the PE level, into projects. For example, as shown in Table 1, the *Aviation Systems* PE has six included projects in the FY 2023 budget.

Table 1. Projects in One SOCOM Program Element (FY 2023 Budget)

Budget Activity (BA)	BA Name	Program Element (PE)	PE Name	Project Code	Project
7	Operational Systems Development	1160403BB	Aviation Systems	SF100	Aviation Systems Advanced Development
				SF200	CV-22 Osprey
				SF300	Armed Overwatch/Targeting
				S750	Mission Training and Preparation Systems
				S875	AC/MC-130J
				D615	Rotary Wing Aviation

When SOCOM submits a J-book, it includes Comptroller adjustments from the preceding Budget Review. For example, during the FY 2023 Budget Review, the *Aviation Systems* PE in RDT&E was reduced by $22.5 million in the *budget year* (FY 2023) because of insufficient expenditures in the *prior year* (FY 2021).

3. Execution

The *Programming* and *Budgeting* phases of the PPBE process are focused on developing the PBR for a given fiscal year. In this section, we discuss the *Execution* phase—specifically, how SOCOM executes funding. OSD Comptroller will review this execution phase in conjunction with a newly begun PPBE cycle that focuses on a future fiscal year.

Comptroller distributes appropriated RDT&E funds to the SOCOM comptroller for further distribution to SOCOM acquisition offices. When funds are placed on contract, the RDT&E PE is credited with an *obligation*,[9] whose contractual language establishes the basis for the *expenditure* of contract funds.[10] The contractor submits invoices requesting payment to DoD accounting agencies supporting SOCOM. Once the Government has paid

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[9] An *obligation* is an amount representing orders placed, contracts awarded, services received, and similar transactions during an accounting period that will require payment during the same, or a future, period (Source: DoD 7000.14-R, *Financial Management Regulation (FMR))*.

[10] An *expenditure* is an actual disbursement of funds in return for goods or services. Frequently used interchangeably with the term "outlay" (Source: DoD FMR).

the contractor, the RDT&E PE is credited with an expenditure. Comptroller reviews the percentages of total funding obligated and expended to judge program execution.

B. Comptroller's Execution Review

1. Simultaneous Events

The PPBE process involves simultaneous events and multiple years' programs. For example, on or about October 1, 2022 (the beginning of FY 2023), as happens every year, three significant events occurred at roughly the same time:

- FY 2022 RDT&E programs were evaluated for *prior year* expenditures made during FY 2022 (the first year of the appropriation).
- FY 2023 RDT&E programs began *current year* execution by obligating funds to contracts and beginning to expend funds.[11]
- FY 2024 RDT&E programs were subject to the BES *budget year* review process as part of the development of the FY 2024 PBR.

It is worth noting that the execution review process will affect funding in the *budget year*, which is two years later than the year that is being evaluated (the *prior year*). This complicating factor will be discussed in more detail later.

2. Exempted Categories

Some categories of RDT&E programs are typically excluded from Comptroller's execution review. That is, they are not subject to screening or funding adjustments even if they have a shortfall in first year expenditures. Comptroller specifies exempted categories in its tasking to the BSOs, and states that additional exemptions may be considered. The IDA team did not receive a comprehensive list of exemptions, but Comptroller staff provided the following examples:

1. Congressional interest items
    a. Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR). These programs, created by Congress, are intended to strengthen the participation of small business concerns in Federally-funded RDT&E efforts.

[11] The start of current year execution can be delayed if Congress issues a Continuing Resolution rather than approving the Defense budget.

   b. Funding specified by the Congress for specific purposes in congressional language.

2. Science and Technology (S&T) programs[12]

   a. S&T programs include efforts within *Basic Research* (BA 1), *Applied Research* (BA 2), and *Advanced Technology Development* (BA 3)

   b. For fiscal years 2021 through 2023, S&T programs averaged 19 percent of SOCOM's enacted appropriations. In the FY 2024 SOCOM budget request, 17 percent of requested RDT&E funding is for S&T programs

3. Counter-drug programs

4. Classified programs

3. The Review Process

Figure 1 is an overview of Comptroller's execution review process. The study team developed this chart based on descriptions of the review process provided by SOCOM and Comptroller. The process begins when programs' expenditures are compared to a benchmark. The process is explained in the following paragraphs.

[12] Although S&T programs are exempt from execution review, we did observe examples of S&T programs subjected to rephasing actions. We did not receive a thorough explanation of why this happened. Comptroller, however, verified S&T exemption. We treated these anomalies as aberrations and did not include them in our calculations; we believe this treatment is consistent with good analytical practice.

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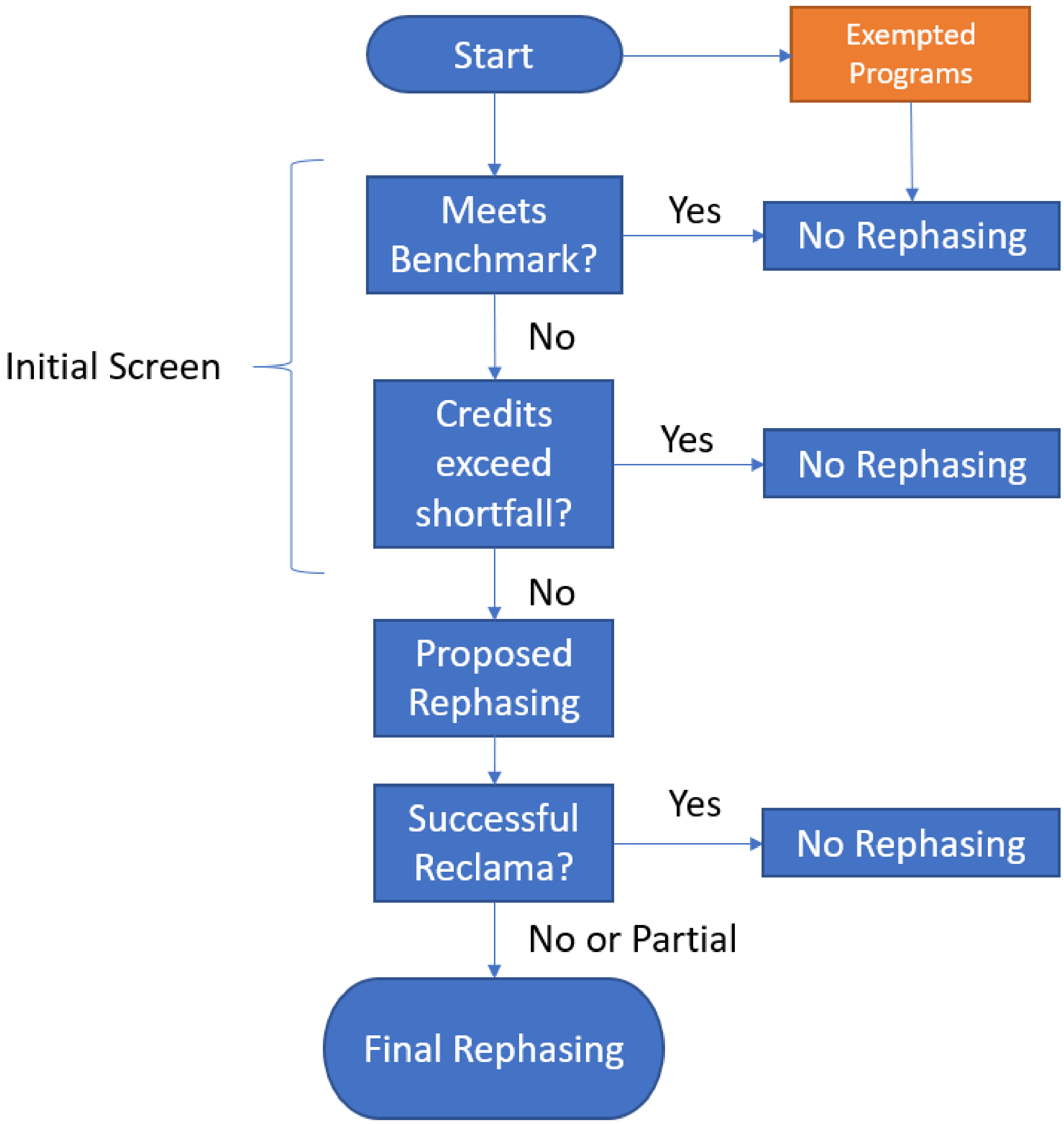

Figure 1. Comptroller Execution Review Process

In considering rephasing funds in RDT&E programs, Comptroller reviews expenditures after one year of budget execution. By law, appropriated RDT&E funds must be fully obligated within two years and fully expended within seven. In their review of budget year requests, Congress also reviews obligation and expenditure rates and might make reductions because of under-execution. In an effort to avoid potential congressional reductions, Comptroller applies a specific rule-of-thumb benchmark to determine whether funds should be rephased to fund other requirements in the budget. The Comptroller benchmark specifies a target of 55 percent total expenditures by the end of the first year for RDT&E programs. There is also has a target of 90 percent total expenditures by the end of the second year of execution; this benchmark is not used for execution review. It should be noted that the study team never observed an instance in which a program that met or exceeded the 55 percent benchmark was flagged for additional scrutiny or issued a rephasing adjustment. From this perspective, it appears that Comptroller is very attentive to ensure that programs that meet the benchmark are not rephased. However, we observed that there is little correlation between expenditure rate and available funding, so this process leaves open the possibility that a large amount of available funding is never considered. This possibility will be further explored in Section 3.B.

Comptroller issues a worksheet to the BSOs that shows all RDT&E PEs. The worksheet draws information from DoD's accounting system for all associated contracts with each PE and provides totals at the PE level. The worksheet displays obligations and expenditures in the *prior year's* appropriation in anticipation of adjustments to the *budget year*. Notional examples of elements of the Comptroller execution review worksheet are shown in Table 2 for one SOCOM RDT&E PE, *Aviation Systems*.

Table 2. Example of OUSD(C) Execution Review Process

FY 2023 Execution Review for Program Element 1160403BB - AVIATION SYSTEMS	
Prior Year Execution Data	**Value ($)**
Budget Authority in FY 2021	200,000,000
Actual Expenditures in FY 2021	65,000,000
Actual Expenditures in FY 2021 (Percentage of Budget Authority)	32%
Expenditure Goal (55% of Budget Authority)	110,000,000
Expenditure Variance (Goal - Actual)	**45,000,000**
Execution Credits	
Congressional reduction to the FY 2022 request based on execution	
Rescission in the FY 2022 bills	
Congressional additions to the FY 2021 request	5,000,000
Component execution adjustment in PB 2023	
Component execution adjustments in PB 2022	
Odd and unusual circumstances	
PB 2022 adjustment based on FY 2020 execution	7,000,000
Late 1415s[13]	
PBD for current FY 2022	
New Start	
Exemptions (S&T, Classified, SBIR/STTR, etc.)	
Total Execution Credits	**12,000,000**
Initial Reduction to FY 2023 Budget (Expenditure Variance - Credits)	**33,000,000**
Amount to rephase to FY 2024 (60%)	19,800,000
Amount to rephase to FY 2025 (40%)	13,200,000

Note: Values are notional.

As shown in Table 2, in its execution review, Comptroller uses the expenditure benchmark at the 12-month mark (55 percent) to assess execution and calculate preliminary reductions. The first step in those processes is determining the expenditure variance, which is the difference between the goal of 55 percent and actual expenditures. In the remainder of this paper, this variance will be termed the "shortfall" or "expenditure shortfall."

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[13] "1415s" are reprogramming actions submitted by DoD that use general or special transfer authority, exceed established reprogramming thresholds, or initiate new starts.

It is important to note again this review is at the PE, or program, level of detail. With some categorical exemptions (discussed in Section 2.B.2), programs that fail to meet the 55 percent first-year benchmark may become targets for initial rephasing. For those programs subject to initial rephasing, the BSO may provide justifications (known as "reclamas") for each program if they wish to retain the original budget. Comptroller then decides on its final adjustments.

The funding in Comptroller's final rephasing decision is removed from the *budget year* (BY), and typically (but not always) it is restored to the subsequent two years. The normal rephasing process adds 60 percent of the budget year reduction to the following year (BY+1) and the remaining 40 percent to the year after that (BY+2). The logic for rephasing program funding starts with the shortfall relative to the 55 percent benchmark. The logic can be summarized as, "you asked for it too early last time; this time, you'll have it when you need it." However, the promise of the funding in the two subsequent years is not guaranteed. There is no assurance that the funds will survive the subsequent PPBE processes all the way to appropriation.

4. Problems with Rephasing

A program often contains many projects, and in SOCOM it is common for projects to have relatively short lives—often less than one year. Consequently, by the time rephased money is made available one or two years down the road, a project that had funding reduced in the budget year may no longer exist. So, the rationale behind rephasing ("you'll have the money when you need it") may not apply. The projects that will be using the funding are likely to be quite different from the projects that lost the funding one or two years earlier.

In some cases—also because of the short-term nature of many SOCOM projects—the project that had a shortfall in the *prior year* is over by the time the *budget year* rolls around, two fiscal years later (e.g., FY 20*21* execution is reviewed, but funding in the FY 20*23* budget is rephased). So, the *budget year* program that gets reduced (at the program level) for the shortfall may not contain the same projects as the *prior year* program that had the slow expenditure.

One way to potentially reduce the impact of rephasing adjustments would be to enable BSOs to apply rephasing reductions in a manner that causes the least disruption. Currently, Comptroller makes rephasing adjustments at the PE level, and SOCOM is not empowered to change the PE that is rephased.[14] If BSOs were given latitude to move the

[14] Some Comptroller documents contain language that suggests rephasing adjustments can be moved to other PEs, but SOCOM reported that they are not allowed to change the PE that receives adjustments. Comptroller did not provide clarification.

adjustments to other PEs, they could assess their programs and ensure funds are used in the manner that best meets the command's mission.

In the next chapter, we present and discuss data on the relationship of the benchmark to actual spending patterns at SOCOM and elsewhere.

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3. The Benchmark in Assessment of RDT&E Execution

A. Expenditures Compared to the Benchmark

The blue curve in Figure 2 shows the median expenditure rate for the first 24 months of expenditure for all non-exempt DoD RDT&E programs from FY 2011–FY 2022. The study team chose to look at the median so that we would know the point that represents 50 percent of programs meeting the standard. The orange curve is the Comptroller RDT&E expenditure target. The figure shows that all DoD programs tend to have a significant shortfall from the target at the end of the first year and have caught up by the middle of the second year. Comptroller assesses execution and considers rephasing actions based on programs' expenditures at the end of the first year. The median expenditure rate was 38 percent at the end of the first year, 17 percentage points below the 55 percent benchmark. During the period FY 2011–FY 2022, only 24 percent of DoD RDT&E programs met the 12-month benchmark.

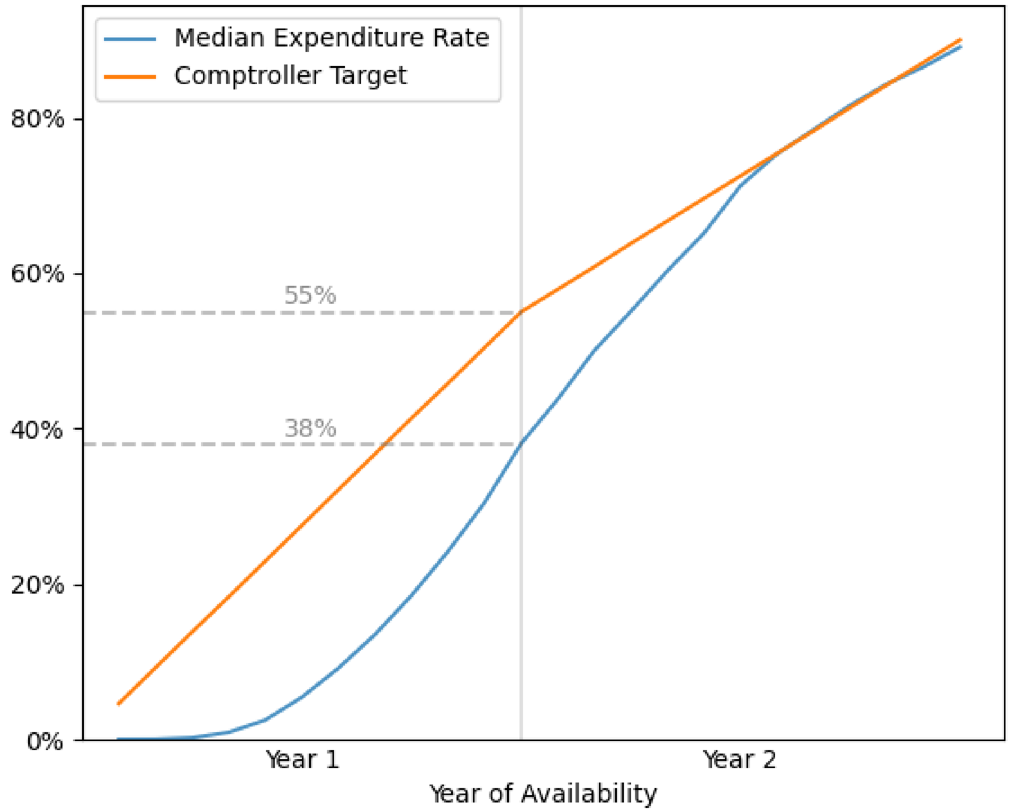
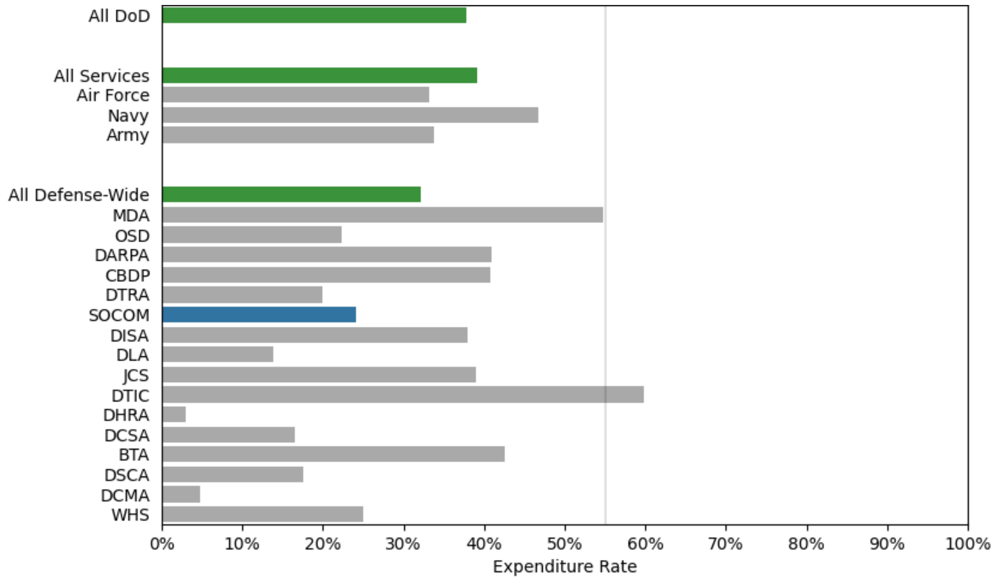


Figure 2. Median Expenditure Rate of All Non-exempt RDT&E Programs, All-DoD, FY 2011–FY 2022

Figure 3 shows the median first year expenditure rate for non-exempt RDT&E programs by BSO from FY 2011 through FY 2022.[15] Almost all BSOs' median rates fell below the 55 percent one-year benchmark. DoD-wide, the median one-year expenditure rate was 38 percent. The Services tend to have higher expenditure rates than do Defense-Wide organizations: 40 percent vs. 32 percent. The Services and Defense-wide BSOs are shown in descending order of the size of their RDT&E budgets.

SOCOM, the focus of the study, had a median first-year expenditure rate of 24 percent. This is not atypical for Defense-Wide organizations. Eight BSOs had higher median expenditure rates and eight had lower median rates.

[15] The median first year expenditure rate represents an expenditure percentage that half the BSOs' programs met and half failed to meet.



Note: The full names of the Defense-Wide agencies are as follows: MDA – Missile Defense Agency; OSD – Office of the Secretary of Defense; DARPA – Defense Advanced Research Programs Agency; CBDP – Chemical and Biological Defense Agency; DTRA – Defense Threat Reduction Agency; SOCOM – United States Special Operations Command; DISA – Defense Information Security Agency; DLA – Defense Logistics Agency; JCS – Joint Chiefs of Staff; DTIC – Defense Technical Information Center; DHRA – Defense Human Resources Activity; DCSA – Defense Security Cooperation Agency; DCMA – Defense Contract Management Agency; WHS - Washington Headquarters Service.

Note: Three Defense-Wide organizations are not included due to insufficient data: Defense Contract Audit Agency, National Security Administration, Test Resource Management Center.

Figure 3. Median First-Year RDT&E Expenditure Rates by BSO, FY 2011–FY 2022

SOCOM's expenditure pattern has varied from year to year, but Figure 4 shows that the total SOCOM program has always been significantly below the first-year benchmark, ranging from a low of 24 percent expended in FY 2012 and 2013 to a max of 41 percent expended in FY 2019. During the period FY 2011 through FY 2022, only 10 percent of SOCOM's non-exempt RDT&E programs met the 55 percent one-year benchmark. SOCOM expenditures have been much closer to the 90 percent two-year target.

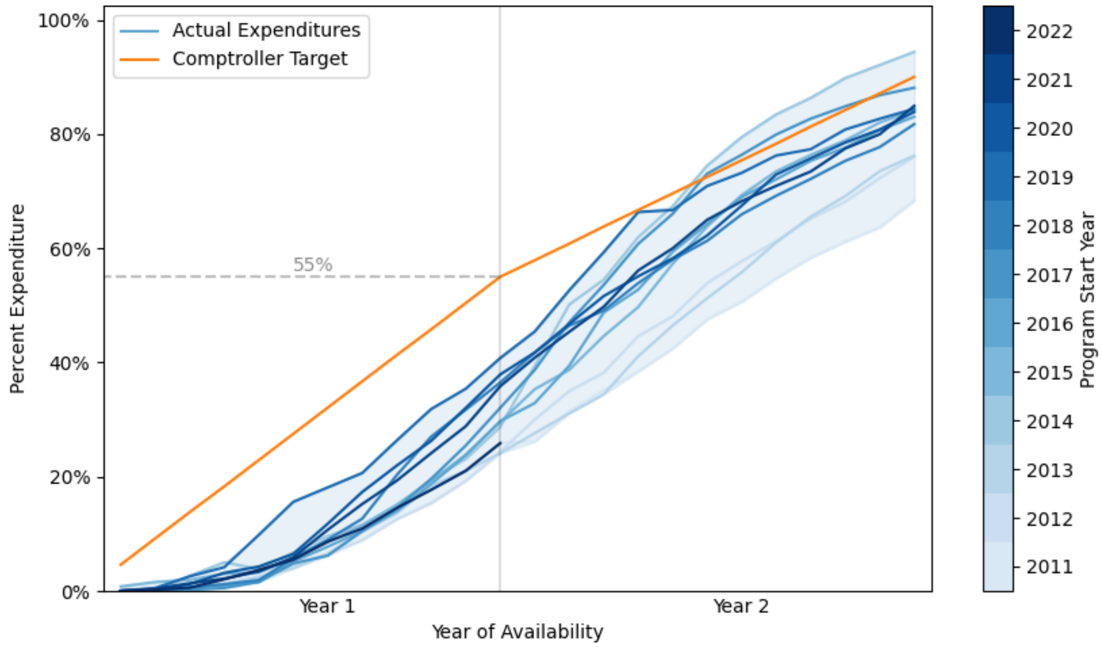


Figure 4. SOCOM Total RDT&E Expenditure Rate by Fiscal Year, FY 2011–FY 2022

We seek to determine whether DoD might be better served by modifying the benchmark or other aspects of the execution review process. Toward that end, we now consider the criteria a good benchmark should satisfy.

B. The Purpose of a Benchmark

In 2012, the USD (Comptroller), Hon. Robert Hale, and the USD (Acquisition, Technology, and Logistics), Hon. Frank Kendall, collaborated on a memo that directly addressed the use of benchmarks in assessing program execution. The full text of the memo appears as Appendix B. The focus of the memo is largely on obligations, not expenditures, but the overall message of the memo is maximizing the value of both obligations and expenditures, so the memo pertains to expenditure benchmarks where they are in use. Salient points of the memo include:

- Not meeting benchmarks is not a failure.
- Benchmarks can lead to poor contracting and expenditure decisions.
- Managers should negotiate and issue contracts with an eye toward efficiency, not meeting benchmarks.
- Funding management should be conducted in the best interest of the taxpayer and in support of the Warfighter.

The current Comptroller execution review process begins by identifying programs that didn't meet the benchmark and then calculating shortfalls in anticipation of rephasing actions. The shortfalls are then reduced by the amount of applicable credits.[16] Then, initial rephasing reductions are made against the programs that have a remaining shortfall. Only then does a discussion begin as to the health of programs, whether they are meeting expectations, or their ability to relinquish funding.

The current process assumes a program is a good candidate for rephasing if it doesn't meet the benchmark. However, we find that there is little correlation between a program's expenditure shortfall and the likelihood that it is a good candidate for rephasing. It is true that many programs receive credits that lessen the amount of potential rephasing, but the credits are difficult for BSOs to predict and do not often remove a program from scrutiny. Once programs have been flagged for scrutiny, BSOs must then expend time and effort to justify their business practices if they want to retain program funding as is. This process increases the risk that managers will make decisions that are more focused on meeting the benchmark than on maximizing efficiency. This incentive endangers the manager's decision process, which should promote the best interests of the taxpayer and Warfighter.

In the spirit of the Hale-Kendall memo, we looked at how well the 55 percent benchmark performs as a screening tool. In order to effectively support the execution review process, a screening tool should efficiently identify programs with funding potentially available to move to other DoD priorities.

A good screening tool should efficiently identify programs with funding potentially available to move to other DoD priorities

Evidence suggests that the 55 percent benchmark is not efficient. We consider a benchmark efficient if it effectively discriminates between programs that are in a good position to have funding rephased and those that are not. The 55 percent benchmark doesn't consider efficient business practices. For example, most SOCOM RDT&E projects are "procurement-like"; that is, they are structured to pay contractors a large portion of their fees later, upon satisfactory delivery of a prototype or other product. This structure incentivizes contractors to complete work on time, on budget, and according to specifications; it also results in slower expenditure rates, frequently below 55 percent. Procurement-like programs are not exempted from the benchmark and can become false positives in the screening process. Also, over 90 percent of SOCOM non-exempt RDT&E programs fail to meet the benchmark, but only 15 percent ultimately receive rephasing

[16] Across 2018 & 2020–2023, 50 percent of screened SOCOM programs received credits, and the average (mean) total credit applied to those programs was 75 percent of shortfall.

adjustments, indicating that more programs than necessary are scrutinized, which is inefficient.

Using one metric as the screening tool for all programs simplifies the execution review process for Comptroller. For Comptroller, the benchmark provides a preliminary ruling on whether a program has available funds and serves as the starting point for the ultimate decisions on rephasing funding. However, if the benchmark has a high false positive rate and is identifying more programs for scrutiny than is necessary, it is not decreasing the workload for BSOs and Comptroller as much as it could, and DoD could be paying an unnecessary opportunity cost. Comptroller expressed that the benchmark is a relatively simple process, while SOCOM has expressed frustration that they have to expend resources to defend properly funded programs.

In the next section, we will further examine the current benchmark's role as an indicator of available funding. In Section 5.A, we will describe and evaluate alternative screening metrics.

C. Expenditure Rates and Rephasing

If expenditure rates are a good indicator of a program's ability to surrender funds without harm, we would expect programs with higher percentage shortfalls from the benchmark to be rephased by Comptroller. The data do not substantiate this expectation. During the period of the study, Comptroller rephased funding at SOCOM in fiscal years 2013, 2014, 2017, 2019, 2022, and 2023. In those years, Comptroller rephased funding in 27 SOCOM RDT&E programs. Figure 5 shows the distribution of shortfall from the benchmark by whether that program was rephased. In the fiscal years mentioned immediately above, 27 programs were rephased and 60 were not rephased. Notably, the rephased programs had a *lower* average percent shortfall from the benchmark than programs that were not rephased. Either the expected relationship (a higher shortfall predicts rephasing) does not hold, or Comptroller is not choosing programs to rephase based on available funding. In the first case, alternative screening tools should be considered, as we outline in Chapter 6. In the latter case, a lower benchmark should be considered insofar as it allows Comptroller to redirect sufficient funds to critical requirements while lowering the number of scrutinized programs.

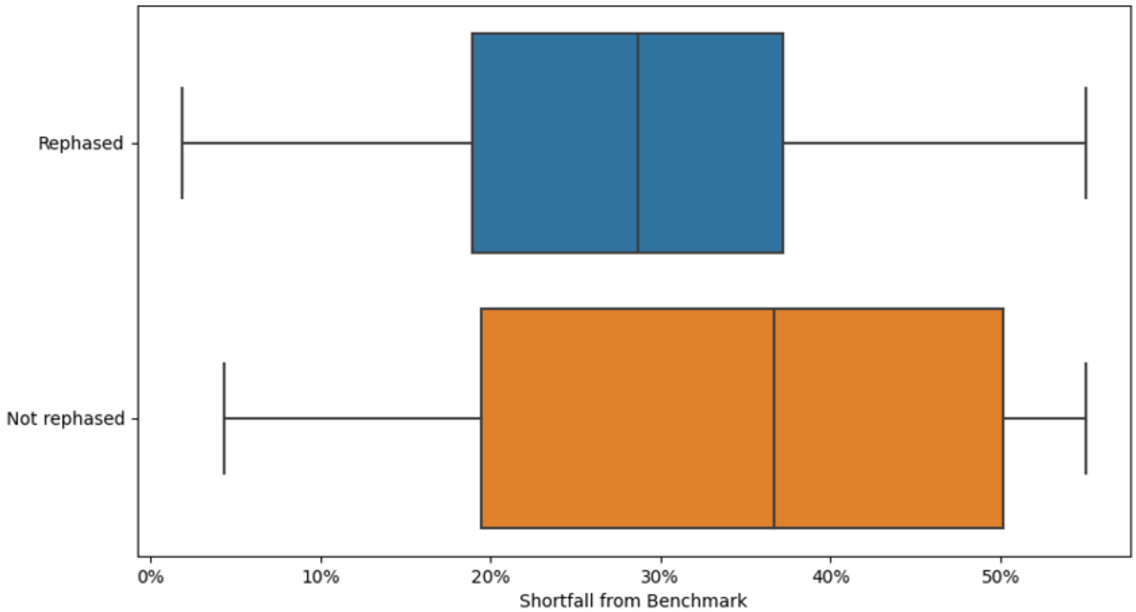


Figure 5. Rephasing Decision by Benchmark Shortfall (SOCOM)

The need for funds to redirect could–and appears to–influence the choice of programs to rephase. When comparing the sizes of rephased SOCOM programs to programs that weren't rephased (Figure 6), we found rephased programs to be \$50.6 million larger on average. This result is statistically significant (p-value: 3.50×10^{-6}). A larger program rephased by its shortfall to the benchmark yields more funding to be redirected than a smaller program.

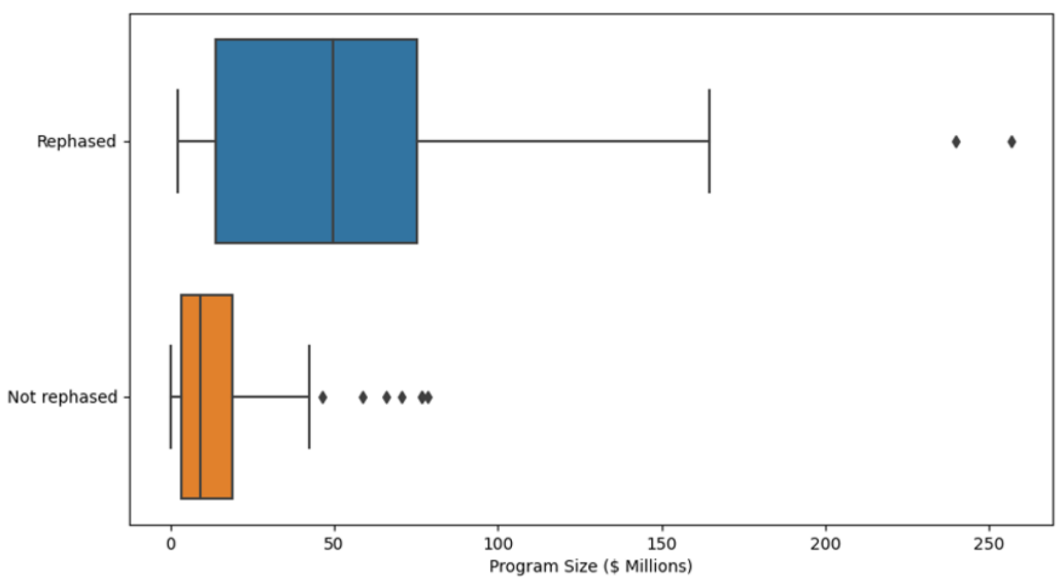


Figure 6. Rephasing Decision by Program Size (SOCOM)

This analysis suggests that Comptroller prioritizes the size of the program over its expenditure shortfall when making selections for rephasing. The current benchmark generally identifies much more funding for rephasing than Comptroller ultimately rephases. A different benchmark might better identify programs with available funding while creating fewer false positives and reducing workload by scrutinizing fewer programs. We examine this potential in more detail in Chapter 5.

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4. Impacts of Execution Review at SOCOM

A. History of Recent Reductions

From FY 2011 through FY 2022, SOCOM's total RDT&E budget authority has increased from $421 million to $881 million (excluding classified programs). SOCOM's S&T programs (Budget Activities 2 and 3) had funding of $87 million in FY 2011, growing to $140 million in FY 2021. As was discussed in Section 2.B.2, Comptroller exempts S&T, classified, and a few other types of programs from comparison to the 55 percent benchmark. Figure 7 shows the breakdown between S&T and non-exempt funding. The other categories of exemptions are small and partially classified, so we use S&T plus non-exempt as a reasonable proxy for total program. Over the past 12 years, the amount of non-exempt SOCOM RDT&E has ranged from $296 million to $724 million (the blue segments of the columns). Fully 99 percent of the non-exempt budget authority is in Budget Activity 7, *Operational Systems Development*.

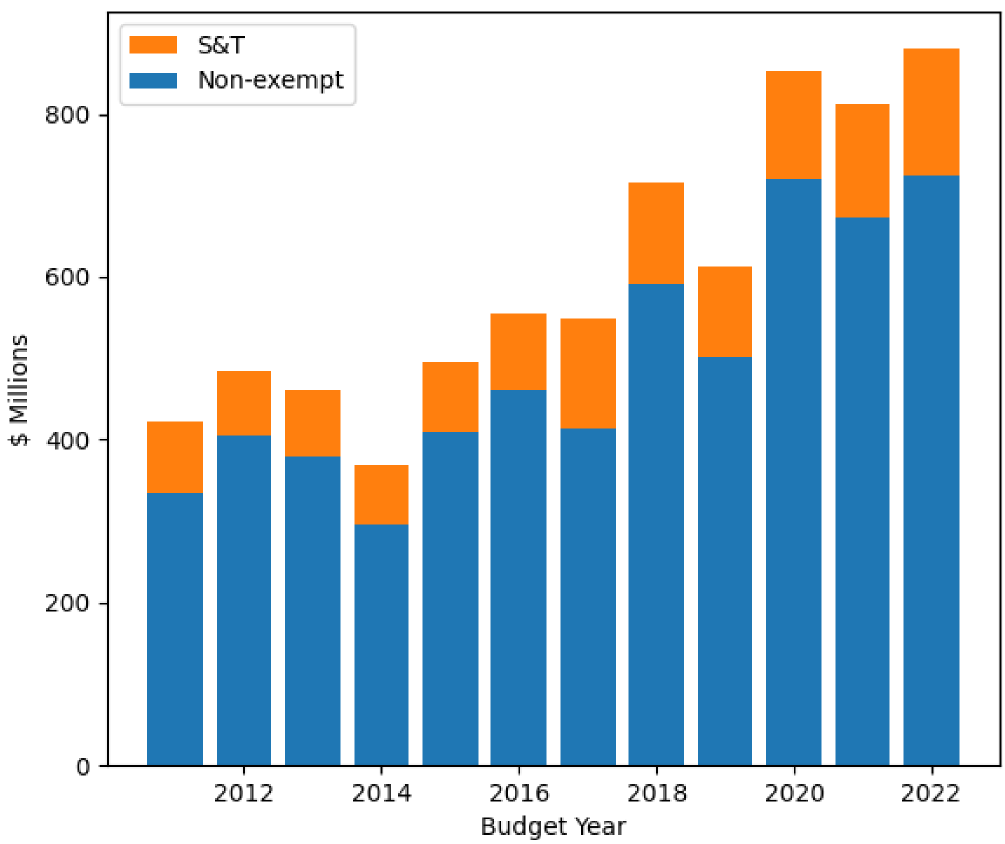

Figure 7. SOCOM RDT&E Budget Authority

The starting point for Comptroller's rephasing actions on each program is the shortfall between 55 percent of the program's total budget and the cumulative expenditure at the end of the first year of availability. Figure 8 shows SOCOM's non-exempt RDT&E program funding with a blue line. The orange line shows what funding would be eligible for rephasing based solely on the shortfall. This latter value ranges from $71 million to $217 million (14 percent to 31 percent of SOCOM's non-exempt RDT&E budget).

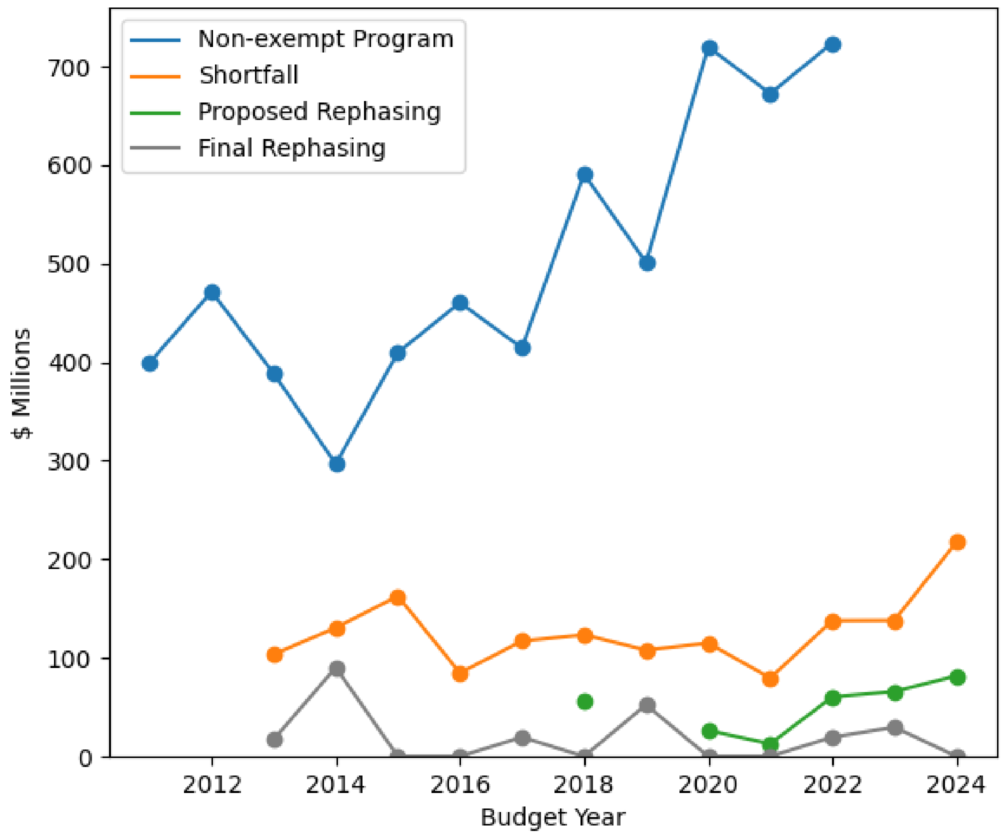

Figure 8. Comparison of Program Funding, Shortfall, and Rephasing at SOCOM

During the same period, the rephasing reductions initially proposed were significantly less than what the shortfall suggests could be rephased. The green line shows the rephasing reductions Comptroller proposed; they ranged from $12 million to $82 million, often less than half of the shortfall. We were unable to obtain a full dataset, so the proposed rephasing data in Figure 8 are limited to the information SOCOM had on hand: fiscal years FY 2018 and FY 2020 through FY 2024.

The difference between the shortfall and the proposed rephasing adjustment is the sum of credits Comptroller applies. In its tasking instructions to BSOs and in the Execution

Review worksheet it sends to the BSOs, Comptroller identifies standard categories of credits to be applied to programs. The credits vary from year to year, but generally include

- Congressional reductions to the previous year's request, based on execution
- Rescissions in the previous year's bills
- Congressional adds to the budget request from two years prior
- Component execution adjustment in the current PBR
- Component execution adjustments in last year's PBR
- Odd and unusual circumstances
- Prior budget year execution adjustment
- Late 1415s[17]
- PBD for current FY
- New Starts

By studying the Comptroller worksheet, the team determined that credits are applied per program and excess credit for one program does not carry over to other programs.

After credits are applied, Comptroller sends the proposed rephasing amounts to SOCOM. The amounts are provided at the PE level. At this time, SOCOM has the opportunity to write a reclama to seek to have the rephasing action reversed or reduced. The gray line in Figure 8 shows the final rephasing reductions SOCOM received from FY 2013 through FY 2024. The largest reduction was $90 million in FY 2014, which was 23 percent of SOCOM's non-exempt RDT&E budget. SOCOM received no rephasing reductions in 2015, 2016, 2018, 2020, 2021, or 2024. The average rephasing for the 12-year period was $19 million, and the average final rephasing reduction as a percentage of the budget was 3.2 percent.

Generally, the rephasing reductions that SOCOM has received during execution review have been small relative to SOCOM's non-exempt RDT&E budget. SOCOM's expenditure shortfalls determine the starting point for Comptroller's initial rephasing actions, and a variety of factors can change the amount of funding that is ultimately rephased. The next section will consider the downside of rephasing funds.

B. Programmatic Impacts of Rephasing

The final products of the execution review are reductions to programs in the budget year. The execution review process affects the budget under development at the time of the

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[17] "1415s" are reprogramming actions submitted by DoD that use general or special transfer authority, exceed established reprogramming thresholds, or initiate new starts.

review. The timing of the reductions means that the budget that is reduced will be executed two years later than the year that is reviewed and that "caused" the reduction. For example, for the execution review that took place in October of 2022, the year that was reviewed was the year that just finished its first year of execution, FY 2022 (the *prior year*). The year that will be rephased based on the review is the *budget year*, FY 2024. The funding taken during the review is typically restored in the following two fiscal years. In the current example, FY 2022 is examined, FY 2024 is reduced, and the funding is rephased to FY 2025 (60 percent) and FY 2026 (40 percent). In this example, the rephasing actions are part of the process of developing the FY 2024 President's Budget and are implemented by FY 2024 Program Budget Decisions (PBDs) issued by Comptroller.

Taking funding from a program that has undergone intentional planning, programming, and budgeting can cause disruption. The budgeting for a program is based on forecasted timelines for letting contracts, completing work, and expending funds on a planned and predictable schedule. Taking away obligational authority due to rephasing can cause disruption to the plan developed by the program managers, even if the intention is for the program to receive some of the funding back in the following year.

SOCOM provided these examples of programmatic impacts that can be caused by rephasing of funding:

- Delays in letting of contracts, which can cause loss of a contract with a contractor or a delay in fielding of equipment.
- Delays in testing, which can induce cascading delays in production and fielding of equipment (a comparatively short delay in funding availability can cause a long delay in fielding because testing facilities might not be available when the funding becomes available).
- Delay in the availability of enhanced capability and increased cost of legacy equipment being maintained and sustained until new equipment is fielded.

SOCOM Vignette: *SOCOM contracted for the development of a system that is integral to SOCOM operational missions. Rephasing of funding as a result of execution review decisions caused delays not only to the main application but also in necessary 3rd party components of the system. During these delays, the cost of maintaining the legacy system increased.*

It is reasonable to think that Comptroller's standard of rephasing obligational authority to the year(s) in which the expenditure will likely occur (one of Comptroller's stated goals of the execution review process) would mitigate the negative impacts of the budget year reduction. After all, if it wasn't going to be expended during the budget year, why was the funding needed…and why was it obligated? There are at least two subtleties of the issue that need to be considered. First, the program that gets reduced (in the *budget year*) may be completing quite different projects from those that missed the expenditure benchmark (in the *prior year,* two years before the *budget year*). In such cases, there is no way to "fix" the obligation schedule for a particular project or program. Instead, what results is a need to restructure the program that was reduced. Secondly, the promise of the funding in the two subsequent years is not guaranteed. There is no assurance that the funds will survive the subsequent PPBE processes all the way to appropriation. Also, because many SOCOM RDT&E projects are short-term, later funding could be beyond the life of the project and, thus, not be available before the project ends.

C. Impacts of the Execution Review Process

In many years, the endgame of the execution review process is that no final rephasing actions ultimately occur. However, every year, the review plays out as if there will be final rephasing adjustments, and BSOs, including SOCOM, must invest resources in the process of reviewing Comptroller's initial reductions and writing reclamas when they believe the rephasing actions are not appropriate or will be overly harmful to their programs. In SOCOM's opinion, this process is an unnecessary burden that would be avoided if a more appropriate metric were used to judge execution.

The Comptroller believes the execution review to be a valuable tool during budget formulation, as it tends to harvest funding approaching $1 billion in RDT&E for reallocation to other DoD priorities. However, when Comptroller proposes rephasing reductions for a program, SOCOM must commit resources toward defending the program, and the projects within it, when attempting to have the reduction reversed. SOCOM estimated a total of 250 staff-hours per year committed to defending programs against the benchmark. A simple cost estimate of this effort is $18,000 per year.[18] SOCOM's annual non-exempt RDT&E budget authority is roughly 1 percent of the DoD total. A crude extension of the workload estimate across DoD would yield a total DoD effort on the order of magnitude of 25,000 staff-hours at a cost of roughly $1,800,000 annually. While evidence suggests that there would be less work to do if fewer programs had to be defended, there are insufficient quantitative data to conclude that the current benchmark places an undue workload on the BSOs compared to the amount of funding that is made available

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[18] This is an estimate of the salary for 250 staff-hours at GS-12, Step 5 plus 62 percent for benefits (salary from General Schedule Pay Calculator, FederalPay, April 9, 2023, https://www.federalpay.org/gs/calculator),
(benefits from Congressional Budget Office, Comparing the Compensation of Federal and Private-Sector Employees. Pub. No. 4403, Washington, D.C: Congressional Budget Office, 2012).

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for other priorities. The IDA team asked Comptroller about the amount of manpower invested, both at the BSOs and in their own shop, to assess and defend a very large number of programs that don't meet the benchmark, most of which ultimately will not be rephased. Comptroller does not see this as an excessive burden for itself or for the BSOs. Comptroller did not provide information on the amount of work committed to the execution review process by either Comptroller or BSOs. However, even if the workload isn't onerous, IDA wants to investigate ways to improve the process.

D. Other Observed or Potential Drawbacks

It is generally accepted that processes will tend to be managed to perform to the standards against which the processes are evaluated. If the standards, or metrics, are not directly related to the desired output of the program, then a situation can develop where incentives run counter to desired outputs.

If a BSO is focused on meeting the 55 percent expenditure benchmark for RDT&E funding, then that BSO might make contracting choices that favor meeting the benchmark over other considerations. Some BSOs, SOCOM included, use contracts that hold expenditures until the contractor provides a satisfactory end item (known as a "pay upon delivery" contract). This type of contract puts the bulk of the risk on the contractor because payment can be withheld if they don't deliver. This contracting position for DoD if the goal is contractor performance. However, because the payment is held until the end of the contract, the expenditures are delayed and hinder the BSO's ability to meet the 55 percent benchmark. In many cases, a BSO could choose to make periodic payments to the contractor during performance in order to have more rapid expenditures. However, such payments would shift some risk from the contractor to DoD, which might be less desirable.

One might consider the perverse incentives that could encourage program managers to make contract decisions that favor meeting the benchmarks rather than providing the best deal for the taxpayer and the warfighter. It takes intentional management oversight to ensure that contracting decisions are made appropriately. Indeed, the former SOCOM Chief Financial Officer stated that his policy was to tell program managers to make decisions solely based on the effective delivery of systems and good contracting and not to worry about the benchmarks.[19] That policy is consistent with the Hale-Kendall memo.

In this chapter, we discussed the recent history of execution review actions that were taken against SOCOM programs and that introduced some types of damage or drawbacks of the execution review process. In the next chapter, we will investigate potential improvements to the process.

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[19] Mark Peterson, telephone interview by Jack Law, 7 April 2023.

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5. Potential Improvements

In Chapter 3, we observed that the 55 percent benchmark does not efficiently identify programs that might have funding available to move to other DoD budget priorities.

Although the current benchmark enables Comptroller to identify funding approaching $1 billion in RDT&E that could be reallocated to higher priorities, it does so rather inefficiently. There may be opportunities to improve the current process. In this chapter, we discuss the following mechanisms that could be used to improve the execution review process:

- Modifying the benchmark to reduce the number of programs caught in the screen
- Assessing programs based on spending plans
- Applying additional credits or exemptions
- Simplifying the reclama process
- Modifying SOCOM business practices
- Applying rephasing adjustments at the Budget Activity level

A. Modifying the Benchmark

Following our observation that the 55 percent expenditure benchmark has a high number of false positives, the purpose of this section is to investigate whether we can find another simple screening tool that does a better job. The SOCOM programs that Comptroller chooses to rephase are not more likely to be the lower expending programs (refer to Figure 6). This outcome is concerning because nearly all SOCOM programs fail to meet the benchmark. Even across DoD, only 24 percent of RDT&E programs met the 55 percent expenditure benchmark from 2011 through 2022. The benchmark routinely identifies a much larger set of programs and a much larger pool of funding than are rephased in the same years. We believe that alternative screening tools can give Comptroller satisfactory options for rephasing while identifying fewer programs for additional scrutiny.

The current 55 percent benchmark, on average, screens 76 percent of programs and identifies $9.3 billion across DoD (90 percent of programs and $150 million at SOCOM). On average, Comptroller rephases $673 million per year across DoD ($19.3 million per year at SOCOM).[20] We are interested to see what percentage of programs and pool of funding would be screened by some alternatives.

1. An Expenditure Benchmark Based on Historical Data

Comptroller staff said they were not aware of any validation that had been done to the benchmark since its inception. Comptroller staff did not provide information on the age or history of the benchmark, although we did receive a document that identified a 1996 study on the practice of using benchmarks.[21] The benchmark may have been calibrated against programs' historical rates at one point, but that no longer seems to be the case.

Reducing the benchmark percentage would exempt some programs that currently receive proposed reductions. We investigated a benchmark that, based on historical expenditure data, would screen 50 percent of programs for additional scrutiny. The current 55 percent benchmark screens about 76 percent across all of DoD. In order to have 50 percent of all DoD non-exempt RDT&E programs meet or exceed the benchmark, the benchmark would need to be set at 38 percent at the end of the first year (using data from FY 2011 to FY 2022). This hypothetical benchmark is shown in Figure 9. This benchmark would have identified $3.9 billion in funding to be considered for rephasing across DoD. At SOCOM, 74 percent of programs, with total funding of $60 million, would have been considered for rephasing.

[20] DoD rephasing average is for the years for which we have data: FY 2013, 2015–2018, and 2020–2024. SOCOM rephasing average is for FY 2013–2024).

[21] "Notes from meeting of Integrated Process Team for Budget Execution Measures," Office of Undersecretary of Defense (Comptroller), 6 August 1996, Washington, DC.

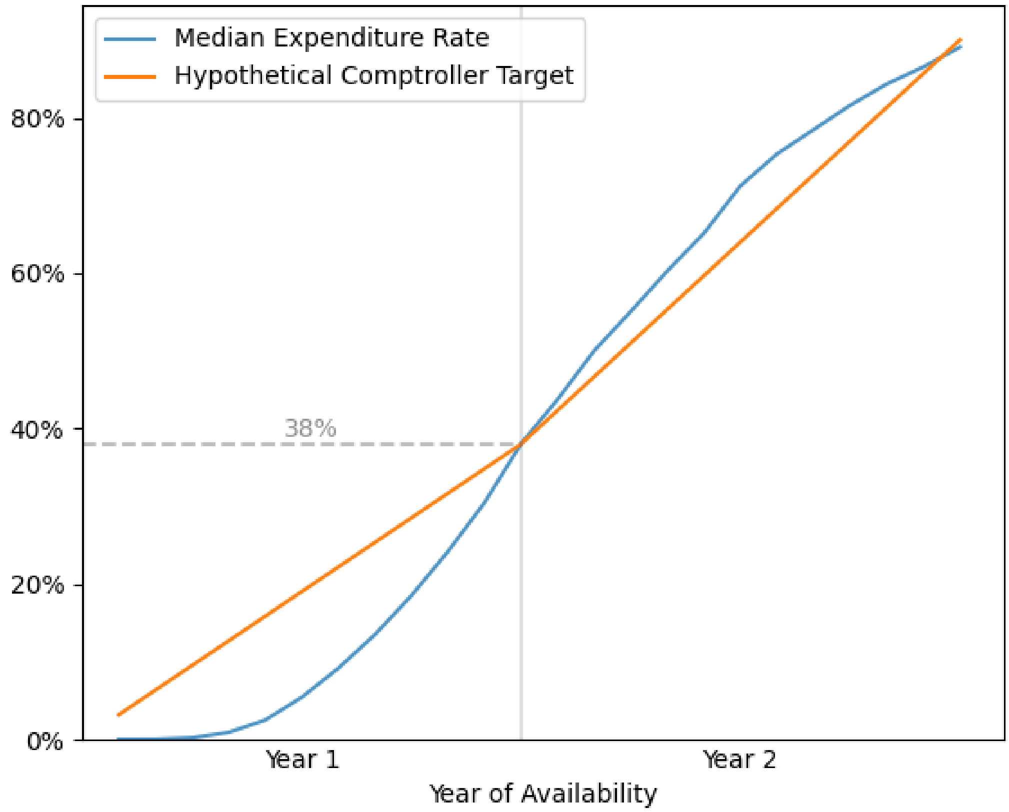

Figure 9. RDT&E Expenditure Rate Compared to 38 Percent Benchmark, all-DoD, FY 2011–FY 2022

It is worth noting that simply lowering the benchmark to another arbitrary number would still not address a major shortcoming of the current benchmark: a failure to consider valid and efficient business practices that delay expenditures. That said, shrinking the universe of screened programs would allow a more focused analysis of the programs that remain included.

2. A Benchmark Based on Obligations for "Procurement-like" Programs

In the procurement appropriations, an obligations-based benchmark is used to evaluate programs. Most SOCOM RDT&E projects are "procurement-like" and it may be appropriate to evaluate them using an obligations-based benchmark instead of an expenditures-based benchmark. Indicators that could be used to identify procurement-like RDT&E programs include new systems, modifications to existing systems, those projects specifying a deliverable at the end of the contract, those conducting operational testing and evaluation, and those procuring prototypes. In fact, over 99 percent of the non-exempt programs at SOCOM are in Budget Activity 7, *Operational Systems Development*. BA 7 programs involve projects in support of development acquisition programs or upgrades in engineering and manufacturing development; and they often provide for the delivery of functioning equipment.

On average, about 60 percent of SOCOM's non-exempt RDT&E projects use firm fixed price (FFP) contracts. Almost all of these FFP contracts require delivery of specified outputs (such as a prototype, successful completion of a design review, or completion of a study) before paying the contractor. Some incremental payments are made for successful achievement of defined contractual goals, such as the Critical Design Review (CDR) or the Preliminary Design Review (PDR). The focus of funding is upon completion of the identified milestones rather than a defined schedule. Contracts structured in this way incentivize contractors to complete work on time, on budget, and to specifications. Although design reviews and payments may occur throughout the life of the contract, emphasis on the final deliverable makes spending more back-loaded than the typical RDT&E project. Under this structure, project funds may be fully *obligated* by the end of the first year but not achieve the 55 percent *expenditure* benchmark. In effect, subjecting such projects to the 55 percent benchmark penalizes BSOs for employing a tool that reduces the risk to DoD and promotes good contractor performance.

It would be reasonable to treat the majority of SOCOM's non-exempt RDT&E programs as procurement-like and use an obligations-based benchmark. Conveniently, an obligations-based benchmark for RDT&E already exists, but it is not currently used for execution review. The obligation benchmark for RDT&E is 90 percent obligations by the end of the first year (see Appendix A). SOCOM's non-exempt RDT&E obligations are usually closer to the obligation benchmark for RDT&E programs.

In the years for which we have data, 16 of 35 SOCOM non-exempt RDT&E programs failed to meet the 90 percent one-year obligations benchmark. Figure 10 and Figure 11 show how SOCOM's non-exempt expenditures and obligations fare against the respective Comptroller targets.

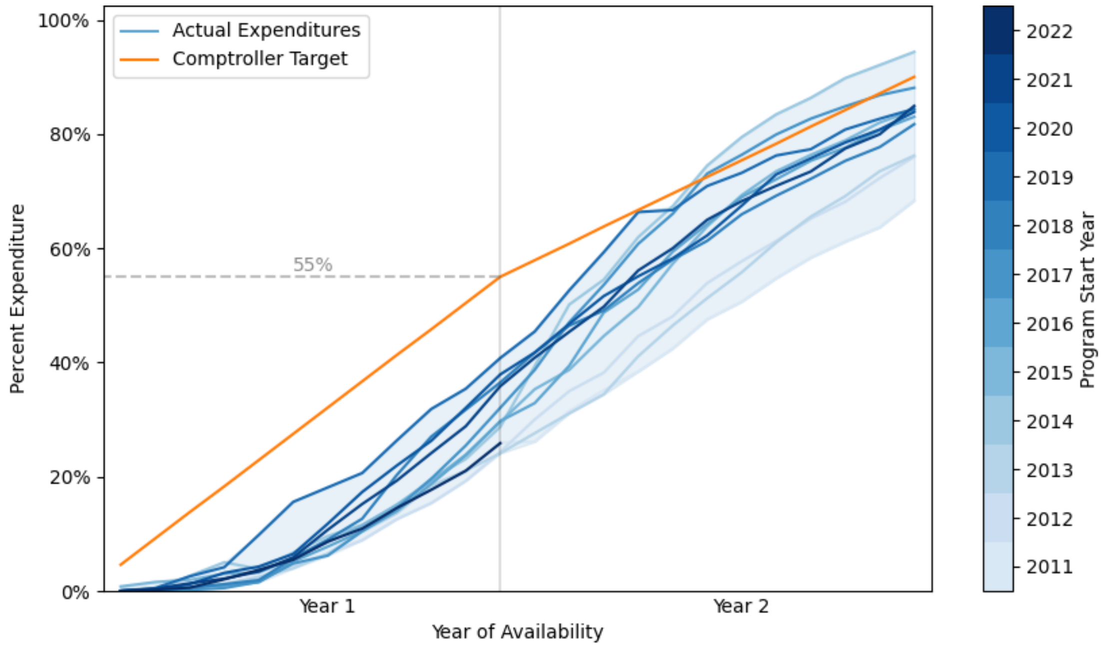

Figure 10. SOCOM Non-exempt Expenditures vs. Comptroller Target

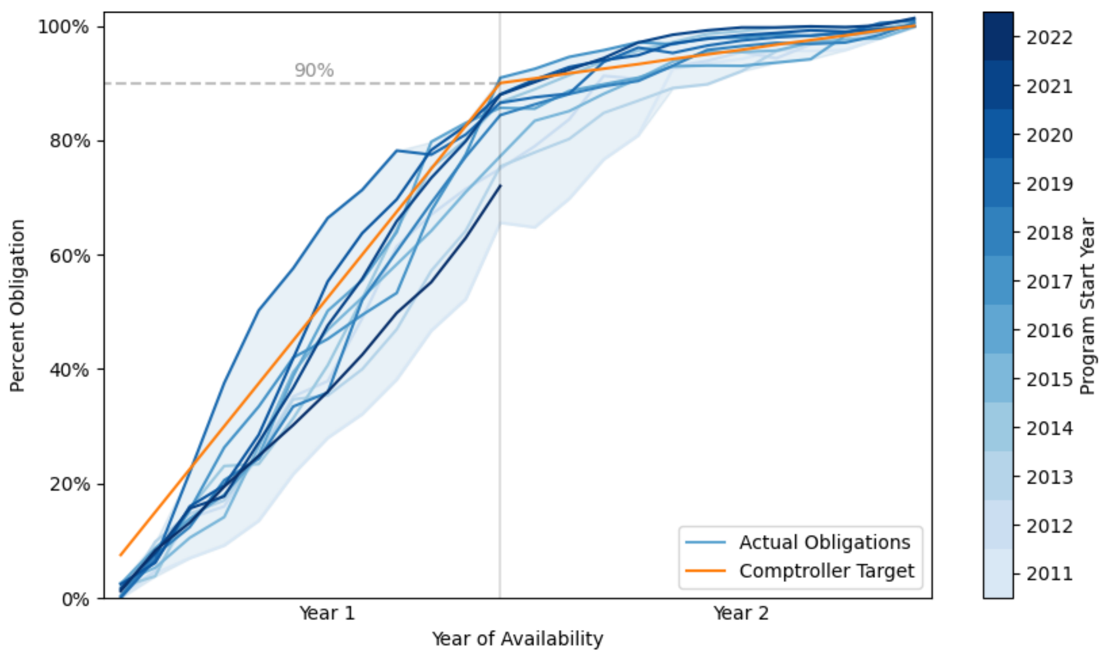

Figure 11. SOCOM Non-exempt RDT&E Obligations vs. Comptroller Target

3. Assessing Alternative Benchmarks

Figure 12, Figure 13, and Table 3 display results of the alternative benchmark options. Figure 12 and Figure 13 show the amount of funding that is identified by each benchmark in each of the years studied. The 38 percent expenditure (orange line) and 90 percent obligation (green line) benchmarks identify a similar amount of funding that is significantly less than the current 55 percent expenditure benchmark (blue line). The amount for the 90 percent obligation benchmark is calculated as the difference between 90 percent of the total non-exempt RDT&E funding and accumulated obligations at the end of the first year. Rephasing amounts (gray line) were not available in an unclassified format for FY 2014 and FY 2019 for all-DoD. Figure 13 shows similar information for SOCOM only and includes each year's final rephasing amounts. The amount of funding identified at SOCOM by the 38 percent expenditure and 90 percent obligation benchmarks is generally more than the amount of final rephasing, but there are instances in which there is a deficit (where the gray line is above the orange or green lines). Table 3 shows averages across the years of how much funding is identified by a particular benchmark and what percentage of programs are caught in the screen.

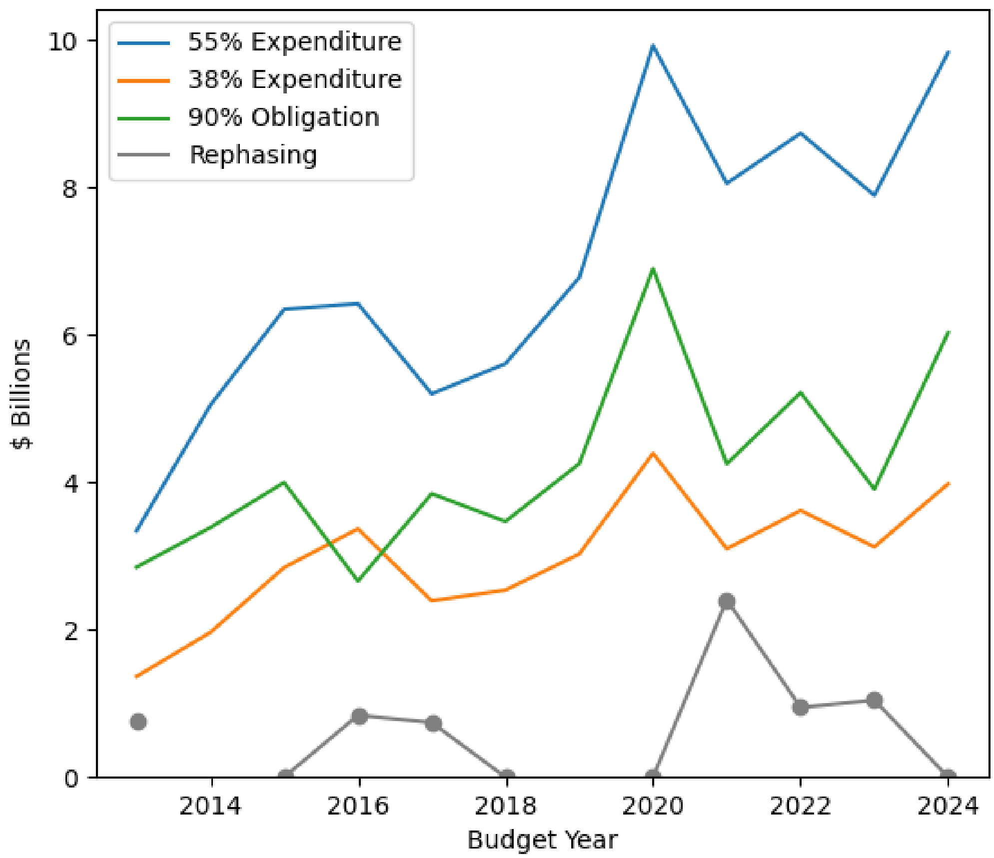

Figure 12. Funds Available with Different Benchmarks (All-DoD)

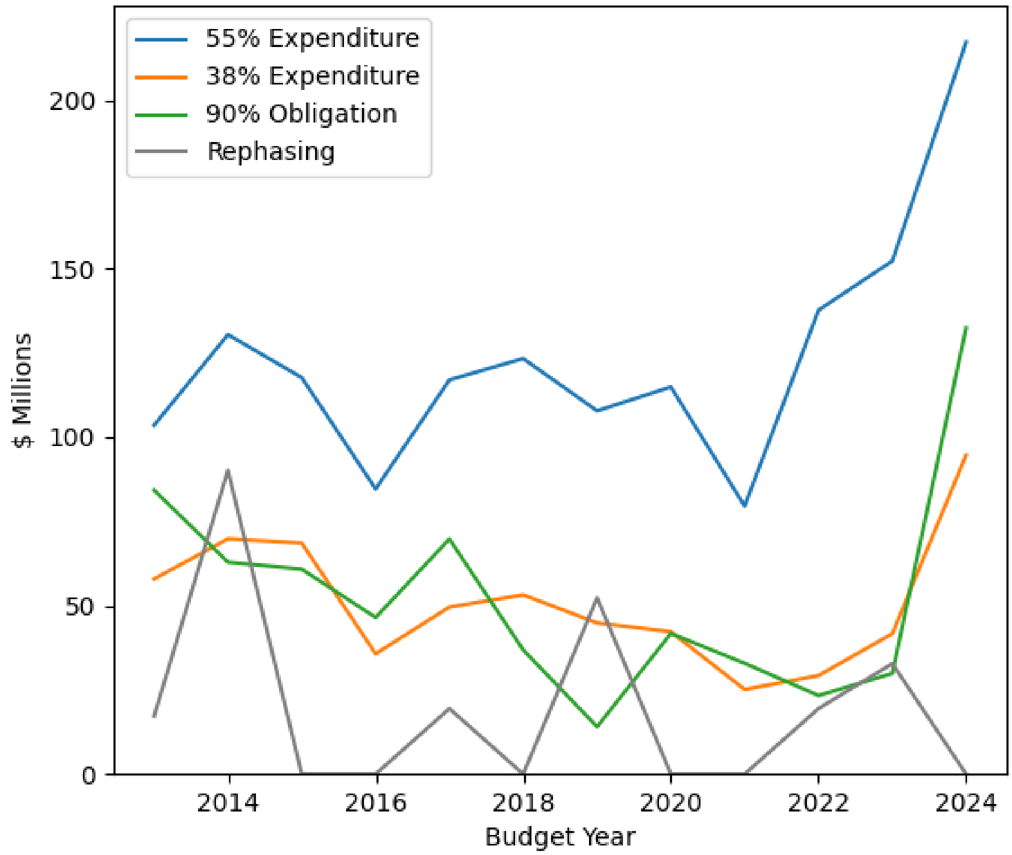

Figure 13. Funds Available with Different Benchmarks (SOCOM Only)

Table 3. Benchmark Outcomes

<table>
<tr><th colspan="2" rowspan="2">Average Values
(FY 2013 through FY 2024)</th><th rowspan="2">Total Non-exempt Program</th><th colspan="2">Expenditure Benchmarks</th><th>Obligation Benchmark</th></tr>
<tr><th>55%</th><th>38%</th><th>90%</th></tr>
<tr><td rowspan="2">SOCOM</td><td>Funds Available, $M</td><td>496</td><td>124</td><td>51</td><td>53</td></tr>
<tr><td>% of Programs Screened</td><td></td><td>91%</td><td>71%</td><td>53%</td></tr>
<tr><td rowspan="2">All-DoD</td><td>Funds Available, $M</td><td>45,729</td><td>6,933</td><td>2,975</td><td>4,230</td></tr>
<tr><td>% of Programs Screened</td><td></td><td>76%</td><td>51%</td><td>49%</td></tr>
</table>

B. Assessing Programs Based on Spending Plans

At project initiation, every SOCOM project generates a spending plan, which is shaped by the nature of the project and its contractual structure. Figure 14 shows that spending plans often specify spending less than the Comptroller benchmark in the first year; it also shows that SOCOM often doesn't meet its spending plans. SOCOM could provide spending plans (aggregated to the program level) to Comptroller early in the execution phase. Comptroller could then use them as the basis for assessing program performance by screening all programs that fail to expend, for example, 80 percent of their planned expenditure.

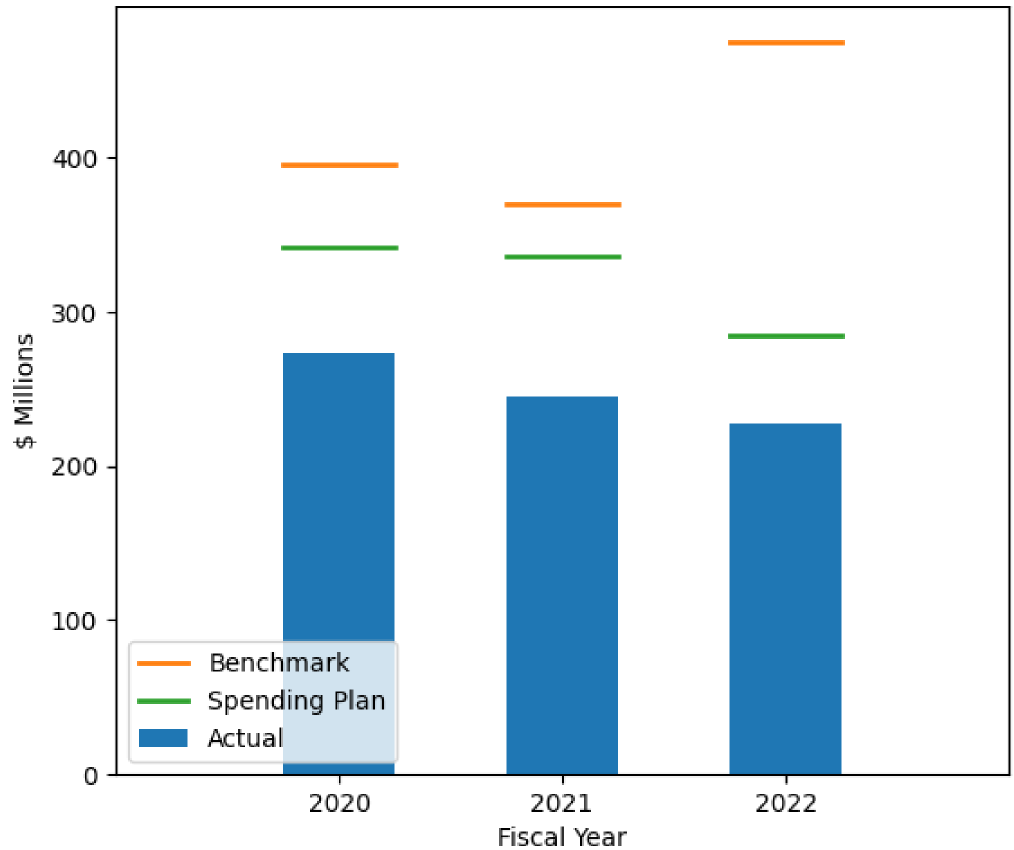

Figure 14. SOCOM RDT&E Total Expenditures vs. Spending Plan (FY 2020 and FY 2021)

Figure 15 shows the performance of SOCOM RDT&E programs against their spending plans in FY 2020 through FY 2022. In these three years, the SOCOM programs submitted a total of 37 spending plans (12 in FY 2020, 13 in FY 2021, and 12 in FY 2022). Each column represents the number of times a program expended a certain percentage of a spending plan it submitted. For example, the column on the left shows that there was one time that a program expended between zero and ten percent of its spending plan. The column on the right shows that there were 12 times that programs expended 100 percent or more of their spending plans. Given these spending plans, and a hypothetical 80 percent spending plan benchmark, 21 of the 37 programs (57 percent) would receive additional scrutiny. Sixteen programs (43 percent) expended at least 80 percent of their spending plan and would be excluded from additional consideration for rephasing. Because these spending plans may be different if created by SOCOM and reviewed by Comptroller in a spending-plan-benchmark scenario, we have refrained from calculating the funds an 80 percent spending plan benchmark would make available for rephasing.

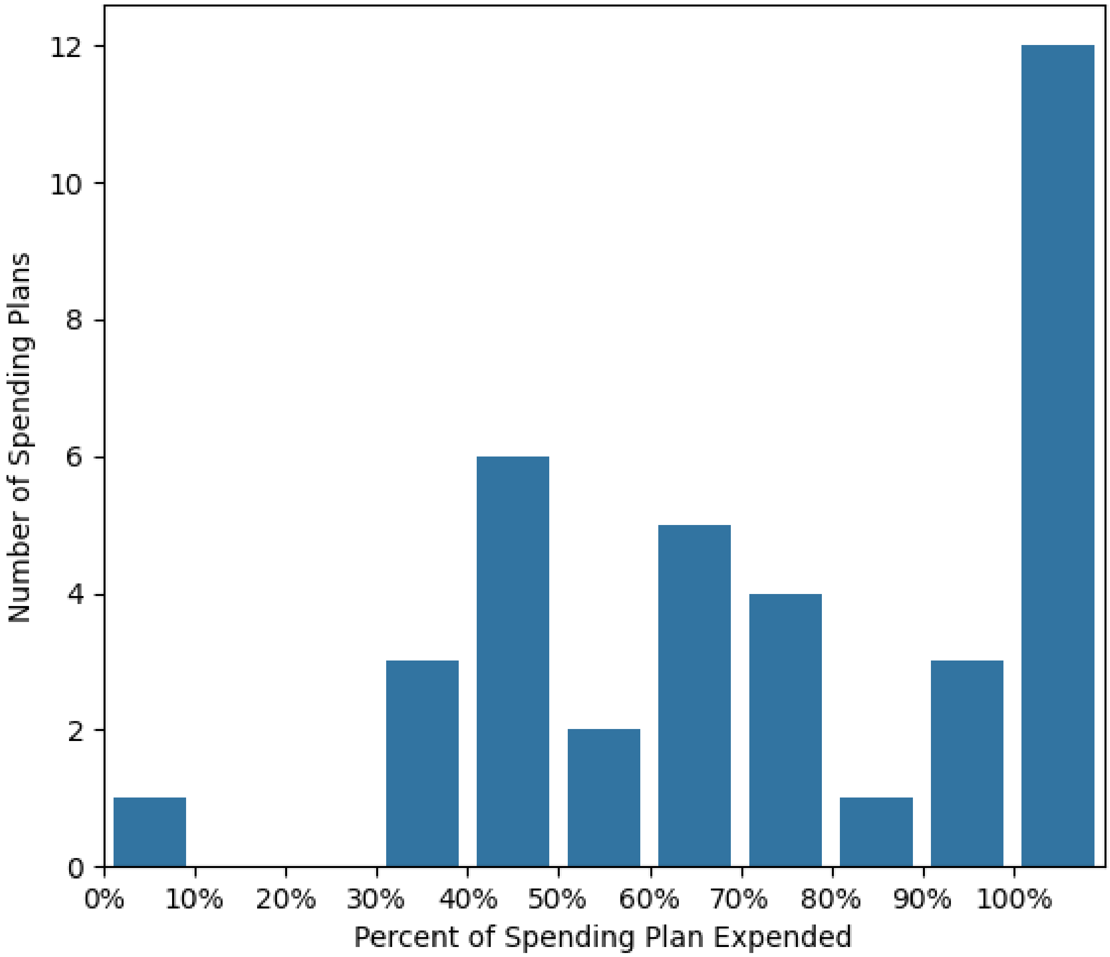

Figure 15. SOCOM RDT&E Spending Plan Performance (FY 2020–FY 2022)

A screening tool based on spending plans would be more firmly grounded in the specifics of SOCOM's programs than the current benchmark and would, therefore, better identify programs that may have available funding. Also, it would give SOCOM additional incentive to ensure that its spending plans are executable. However, validating all RDT&E programs' spending plans could be a very time-intensive process. There are many types of contracting strategies with a wide variety of expenditure outcomes. The process of identifying and validating spending plan templates could get quite complicated. Lacking estimates of the workload that such identifying and validating would require, we are unable to comment on whether this benefit would be worth the effort.

C. Applying Additional Exemptions or Credits

Even if no changes are made to the benchmarks, the process may be improved if Comptroller considers additional standard exemptions or credits. In Section 2.B.2, we discussed the exemptions applied to programs at the outset of the review process. In Section

4.A, we described credits that Comptroller applies before deciding whether to issue an initial rephasing reduction. In this section, we describe three additional circumstances that could be considered for either exemptions or credits during the initial screening process: procurement-like projects, projects managed by other organizations, and continuing resolutions (CRs).

1. Procurement-like projects

Procurement-like projects employ contracting methods that reduce the risk to DoD and promote good contractor performance; these legitimate business practices also result in slower expenditures. It would be reasonable to consider an exemption or credit for procurement-like projects.

2. Projects managed by other organizations

Many SOCOM projects and contracts are managed by external organizations, usually one of the Services. External contracting occurs because the projects involve modifications to existing equipment managed by those organizations. This administrative arrangement can cause delays in obligations and expenditures for those projects. We found that a 10 percent increase in external contracting in SOCOM programs correlates with a 1.3 percent increase in expenditure shortfall (p-value: 0.004; statistically significant).

For both procurement-like projects and projects managed by other organizations, it is problematic to consider exempting whole PEs based on the nature of some of the included projects. Moreover, issuing credits on a project-level basis may be no less work than writing reclamas, which is how BSOs currently defend such projects and programs. Determining how much to exempt or how much to credit would not be a simple process, but it may be worth considering.

3. Continuing resolutions

SOCOM has expressed concern that RDT&E execution is more difficult in years with a continuing resolution (CR). When comparing expenditure rates to CRs, we found a highly statistically significant, though mild, relationship: every 30 days of CR is associated with a 0.8 percent decreased expenditure rate for non-exempt RDT&E programs across DoD. Over the time period 2011 through 2022, the average CR value was 113 days.

The relationship between CRs and *obligation* rates is similar, as expected. Every 30 days of CR is associated with a 1.0 percent decrease in obligation rate for non-exempt DoD RDT&E programs (p-value: 1.18×10^{-11}; statistically significant).

Given that Comptroller already adds credits in its execution review for a number of diverse circumstances, it could consider an additional credit equal to 0.8 percent of the target expenditure, or 1.0 percent of the target obligations, as appropriate, for every 30 days of CR.

D. Simplifying the Reclama Process

In September 2022, the IDA team met with the staff of the OUSD(C) Investment Directorate. The goal of the meeting was to identify ways to achieve better outcomes from the execution review process. The meeting was focused on SOCOM and the RDT&E appropriation. The OUSD(C) staff members included a senior assistant director, the manager of the execution review process, and the SOCOM analyst from the Investment Directorate.

Comptroller staff stressed that SOCOM invests too much effort into its reclama submissions during the execution review; they stated a preference for simple, concise stories that explain why a program didn't meet the benchmark. Comptroller stressed that it would be beneficial for SOCOM to provide evidence that projects are meeting expenditure goals that were determined when the contract was written (e.g., spending plans). Comptroller stated that SOCOM could request exemptions for some projects or programs, including projects that produce prototypes. Comptroller also indicated that succinct descriptions could help SOCOM explain lagging expenditures and possibly avoid rephasing actions. Comptroller did not provide additional guidance on how SOCOM could improve its descriptions.

E. Modifying SOCOM's Business Practices

A review of SOCOM's current business practices might identify opportunities for programs to relinquish funding to other priorities while still meeting the tenets of the Hale-Kendall memo. SOCOM's frequent failures to meet its own spending plans could indicate that funds are being obligated when there is a realistic possibility that they won't be expended as planned. A review of business practices and spending plan development could bring obligations, expenditures, and spending plans into better alignment. This analysis might identify opportunities to enter into contracts that expend money in a more regular manner over the life of the project, increase expenditures in the first year of the appropriation, and free up funds for other priorities. Progress Payments and Incremental Funding are two methods of spreading out expenditures over the life of a project. SOCOM should continue to prioritize providing support to the warfighter and value to the taxpayer. Accordingly, SOCOM should consider adopting such changes only if an informed analysis determines that the benefits outweigh the potential risks.

F. Applying Rephasing Actions at the Budget-Activity Level

Comptroller currently rephases SOCOM RDT&E programs at the PE level during execution review. Because the projects that made up the PE in the year of execution are likely to be different than the projects in the PE two years later, it doesn't seem efficient or necessary to apply adjustments at the PE level. If Comptroller were to rephase programs at the Budget Activity (BA) level (e.g., SOCOM RDT&E BA 7), then SOCOM could apply the reductions to the PEs in a way that would minimize disruption to its overall RDT&E program. In SOCOM's case, almost its entire non-exempt RDT&E program is in BA 7, so this would provide great flexibility. It would take advantage of the fact that SOCOM is in the best position to determine which programs have funding available to be rephased. This change could be considered for all BSOs.

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6. Observations and Recommendations

A. Observations

1. Observations Related to the Effects of the Review Process on Programs

- **There is long-standing concern in DoD that the current process can impede efficient acquisition.** The 2012 Hale-Kendall memo was a response to such concern. It is likely that the 1996 study proposal was, as well.
- **SOCOM's RDT&E program did not appear to suffer substantial damage from the Comptroller's execution review process.** During the twelve budget years we observed, FY 2013 to FY 2024, 3.2 percent of SOCOM's non-exempt RDT&E funding, totaling $231 million, was rephased as part of the review process. In the six years in which there were rephasing actions (2013, 2014, 2017, 2019, 2022, and 2023), the average amount rephased was 8.0 percent of funding.
- **Programs that are reduced in the budget year are likely different from the programs that had low expenditures two years earlier.** Many SOCOM RDT&E projects are short-lived. When rephasing occurs during the review process, the program that is rephased is likely executing different projects than it was when it displayed the low expenditure rate two years before the budget year.
- **Programs that are reduced in the budget year may be different from the programs that receive funds in future years.** When a program is reduced, with funding shifted into the future two years, the program receiving the future funds may have a very different set of projects than it had when it received the reduction in the budget year.
- **SOCOM finds the review process to place an unnecessary burden on its personnel.** The IDA team, however, did not receive sufficient quantitative data to validate the burden.

2. Observations Related to the 55 Percent Benchmark

- **Comptroller's 55 percent benchmark is not an efficient screening tool in general or for SOCOM.** Applying a universal execution benchmark for all RDT&E appropriations does not recognize the differences inherent in the business practices of the components. At SOCOM, very few programs meet the benchmark, so most get screened for possible adjustment, although few receive initial or final rephasing reductions. The benchmark does not support the criterion that it should efficiently identify programs that may have available funding.

- **Comptroller relies on the RDT&E first year execution benchmark to determine what programs to exclude from rephasing.** In the years for which we have data, no SOCOM program that met the benchmark was subjected to any rephasing actions, initial or final.
- **SOCOM's expenditure rates are not significantly different from those of its peers.** The Services meet the benchmark more often than SOCOM does. However, SOCOM's expenditure rates are fairly typical of Defense-Wide organizations.
- **Reducing the expenditure benchmark for all programs would not address all drawbacks.** Simply lowering the benchmark would still not consider unique business practices of the programs. This shortcoming would not exist if spending plans were considered as the standard for program execution. However, lowering the benchmark could reduce the number of programs receiving additional scrutiny and reduce the resources required for the reclama process.
- **Comptroller uses different benchmarks for the procurement and RDT&E appropriations.** For procurement programs, Comptroller focuses on obligations, requiring obligation of 80 percent of funds in the first year of execution. There is an obligations-based benchmark for RDT&E programs (90 percent obligated at the end of the first year), but it currently isn't used during the execution review.

3. Observations Related to SOCOM's RDT&E Program

- **Many of SOCOM's RDT&E programs are similar to procurement programs.** Over 99 percent of the non-exempt programs at SOCOM are in Budget Activity 7, *Operational Systems Development*. Like procurement programs, many SOCOM RDT&E projects include development efforts to upgrade systems that have been fielded or anticipate production. Many projects also provide for the delivery of functioning equipment. Approximately 60 percent of SOCOM's non-exempt RDT&E projects use FFP contracts that provide protection for the Government, but tend to result in delayed expenditures.

- **Comptroller's review process doesn't consider performance relative to spending plans in determining initial rephasing reductions.** SOCOM RDT&E programs have spending plans that could be used to identify programs not meeting expenditure expectations. If a program can be exempted based on meeting spending plans, the process would promote good acquisition practices, subject fewer programs to scrutiny, and reduce workload.

4. Observations Related to Comptroller's Perspective

- **Comptroller doesn't see a workload problem.** Comptroller believes the review process is not onerous for either Comptroller or the BSOs and that SOCOM could deal with it in a less burdensome way by justifying its programs more concisely. Comptroller did not provide specific guidance regarding better justifications.
- **Comptroller believes that the review process reduces the likelihood of congressional reductions for underexecution**. Senior leaders at Comptroller stated that Congress uses the same set of benchmarks to assess execution. Available data did not allow us to make a statistically significant conclusion about the correlation between a Comptroller rephasing reduction and a congressional reduction. Further study would be required to confirm or dismiss a correlation.

B. Recommendations

Our recommendations are alternatives to streamline the execution review process, decrease the effort required to identify candidates for rephasing, and reduce impacts that impede expeditious acquisition of new or enhanced capability.

A better screening tool and process would allow a greater number of projects that are executing according to contract expectations to avoid scrutiny. Those projects and programs that aren't executing as expected should be evaluated to determine if they are in a position to have funding rephased so that DoD priorities can be accommodated with the smallest disruption possible to the rephased programs. The current benchmark neither identifies programs that are missing expectations nor determines which programs are good candidates for rephasing. The BSOs are in the best position to evaluate programs and identify candidates for rephasing.

We think each of the following recommendations has value independent of the others and should be considered on its own merits. Additionally, and importantly, each comes with a cost of implementation that must be considered prior to changing the process. There are five recommendations for Comptroller and one for SOCOM.

For Comptroller:

Consider using spending plans as a screening tool. BSOs could provide spending plans (aggregated to the program level) to Comptroller to serve as the basis for the execution review.

Consider using an obligation benchmark as a screening tool for procurement-like RDT&E programs. This would be similar to the benchmark used for programs in procurement appropriations.

Provide additional guidance regarding simplified ways for SOCOM to defend its programs. In discussions with the IDA team, Comptroller personnel stated that SOCOM could reduce its workload by providing simpler reclamas. Additional guidance would enable SOCOM to improve its submissions.

Consider applying reductions at the Budget Activity (BA) level rather than at the PE level. Budget Activities contain associated PEs. Comptroller currently rephases RDT&E programs at the PE level during execution review. If Comptroller were to rephase funding at the BA level, BSOs could apply the reductions to the PEs in the least disruptive manner.

Consider implementing an accommodation for Continuing Resolutions (CRs). The IDA team studied the impact of CRs on execution of RDT&E funding. A preliminary analysis suggests that expenditures at the end of the first year of availability tend to be reduced by 2.5 percent per 100 days when there is a CR. A more in-depth analysis should be performed prior to establishing a firm guideline.

For SOCOM:

Work to bring expenditures and spending plans into better alignment. From FY 2020 through FY 2022, SOCOM's expenditures fell short of spending plans by an average of 22.5 percent. SOCOM should identify why the shortfalls occur and consider adjustments that will improve alignment.

Appendix A. Rule-of-Thumb Obligation and Expenditure Rates

OUSDC Rule-of-Thumb Acquisition Obligation and Expenditure Rates

		RDT&E		Procurement		O&M		MILCON	
	Month	**Obl.**	**Exp.**	**Obl.**	**Exp.**	**Obl.**	**Exp.**	**Obl.**	**Exp.**
First Year of Availability	Oct	7.5%	4.6%	6.7%	N/A	8.3%	6.3%	5.4%	1.2%
	Nov	15.0%	9.2%	13.3%	N/A	16.7%	12.5%	10.8%	2.3%
	Dec	22.5%	13.8%	20.0%	N/A	25.0%	18.8%	16.3%	3.5%
	Jan	30.0%	18.3%	26.7%	N/A	33.3%	25.0%	21.7%	4.7%
	Feb	37.5%	22.9%	33.3%	N/A	41.7%	31.3%	27.1%	5.8%
	Mar	45.0%	27.5%	40.0%	N/A	50.0%	37.5%	32.5%	7.0%
	Apr	52.5%	32.1%	46.7%	N/A	58.3%	43.8%	37.9%	8.2%
	May	60.0%	36.7%	53.3%	N/A	66.7%	50.0%	43.3%	9.3%
	Jun	67.5%	41.3%	60.0%	N/A	75.0%	56.3%	48.8%	10.5%
	Jul	75.0%	45.8%	66.7%	N/A	83.3%	62.5%	54.2%	11.7%
	Aug	82.5%	50.4%	73.3%	N/A	91.7%	68.8%	59.6%	12.8%
	Sep	90.0%	55.0%	80.0%	N/A	100.0%	75.0%	65.0%	14.0%
Second Year of Availability	Oct	90.8%	57.9%	80.8%	N/A	100.0%	77.1%	67.1%	18.1%
	Nov	91.7%	60.8%	81.7%	N/A	100.0%	79.2%	69.2%	22.2%
	Dec	92.5%	63.8%	82.5%	N/A	100.0%	81.3%	71.3%	26.3%
	Jan	93.3%	66.7%	83.3%	N/A	100.0%	83.3%	73.3%	30.3%
	Feb	94.2%	69.6%	84.2%	N/A	100.0%	85.4%	75.4%	34.4%
	Mar	95.0%	72.5%	85.0%	N/A	100.0%	87.5%	77.5%	38.5%
	Apr	95.8%	75.4%	85.8%	N/A	100.0%	89.6%	79.6%	42.6%
	May	96.7%	78.3%	86.7%	N/A	100.0%	91.7%	81.7%	46.7%
	Jun	97.5%	81.3%	87.5%	N/A	100.0%	93.8%	83.8%	50.8%
	Jul	98.3%	84.2%	88.3%	N/A	100.0%	95.8%	85.8%	54.8%
	Aug	99.2%	87.1%	89.2%	N/A	100.0%	97.9%	87.9%	58.9%
	Sep	100.0%	90.0%	90.0%	N/A	100.0%	100.0%	90.0%	63.0%
Third Year of Availability	Oct	100.0%	90.8%	90.8%	N/A	100.0%	100.0%	90.4%	65.5%
	Nov	100.0%	91.7%	91.7%	N/A	100.0%	100.0%	90.8%	68.1%
	Dec	100.0%	92.5%	92.5%	N/A	100.0%	100.0%	91.3%	70.6%
	Jan	100.0%	93.3%	93.3%	N/A	100.0%	100.0%	91.7%	73.2%
	Feb	100.0%	94.2%	94.2%	N/A	100.0%	100.0%	92.1%	75.7%
	Mar	100.0%	95.0%	95.0%	N/A	100.0%	100.0%	92.5%	78.3%
	Apr	100.0%	95.8%	95.8%	N/A	100.0%	100.0%	92.9%	80.8%
	May	100.0%	96.7%	96.7%	N/A	100.0%	100.0%	93.3%	83.3%
	Jun	100.0%	97.5%	97.5%	N/A	100.0%	100.0%	93.8%	85.9%
	Jul	100.0%	98.3%	98.3%	N/A	100.0%	100.0%	94.2%	88.4%
	Aug	100.0%	99.2%	99.2%	N/A	100.0%	100.0%	94.6%	91.0%
	Sep	100.0%	100.0%	100.0%	N/A	100.0%	100.0%	95.0%	93.5%

https://www.dau.edu/tools/Lists/DAUTools/Attachments/292/OSD%20(C)%20Color%20Rule-of-Thumb%20Acq%20Obligation%20and%20Expenditure%20Rates.pdf

Current as of May 2017
POC: Roberta Tomasini

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Appendix B.
Hale-Kendall Memo (2012)

OFFICE OF THE SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

SEP 1 0 2012

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Department of Defense Management of Unobligated Funds; Obligation Rate Tenets

The purpose of this memorandum is to address a long-standing Department of Defense (DoD) problem regarding the way we manage unobligated funds.

The acquisition community, starting with the Under Secretary for Acquisition, Technology and Logistics, has been stressing the importance of spending money in a way that maximizes the value the Department and the taxpayer receive. Our policy encourages managers to obligate funds when a satisfactory contract is negotiated or when they can be used most efficiently. The financial management community, starting with the Under Secretary of Defense (Comptroller), has primarily been measuring program execution against established obligation benchmarks as the basis for sourcing funds for higher Department priorities. Obviously, both goals – effective acquisition practices and use of resources for the highest Department priorities – have merit. We must strive to meet both goals while also taking into account two types of risks.

First, there are risks in focusing on obligation benchmarks. The threat that funding will be taken away or that future budgets can be reduced unless funds are obligated on schedule is a strong and perverse motivator. We risk creating incentives to enter into quick but poor business deals or to expend funds primarily to avoid reductions in future budget years. We need to rethink how we approach managing mid-year and end-of-year obligations and to change the types of behavior we reward or punish. We will continue to hold our Program/contracts teams accountable for executing to their planned schedules, but we have to stop measuring only benchmark execution as the dispositive method of determining whether funds are available for higher priorities. Such benchmarks should only be a place to start a discussion of obligation management, not a place to end that discussion.

But there are also risks in ignoring obligation benchmarks. For the past several years, Congress has used unobligated balances as a means to reduce our budgets. To avoid this result, we need to stop thinking of the transfer of funds to higher priorities as something we must avoid at any cost. We need to build a culture where maximizing the Department's buying power for both the taxpayer and the Warfighter as well as meeting the Department's highest priorities become the primary driving force behind obligation decisions. Often, these funds can be better employed elsewhere and individual programs should not fight to avoid "losing" the unobligated funds.

We believe that the following tenets should be adopted and enforced at all levels of the chain of command, and by acquisition and financial managers throughout the Department:

1. Taxpayer funds should be obligated and ultimately expended only in the taxpayers' interest and if best value is received for the money in support of the Warfighter.

2. While they can be useful indicators, obligation rates slower than established benchmarks should not be the determinative measuring stick for program execution and must not be regarded as a failure.

3. Late obligation of funds should not be presumed to imply that the funds are not needed or that future budgets should be reduced unless there is other evidence to support that conclusion.

4. Providing savings to the organization, military service, or DoD component as early in the fiscal year as possible should be encouraged and rewarded, professionally and visibly.

5. Savings will not be reallocated at any higher DoD level than necessary to fulfill shortfalls in priority requirements.

6. Managers who release unobligated funds to higher priorities will not automatically be penalized in their next year's budget with a lower allocation and may be candidates for additional funding to offset prior year reductions.

This year, the undersigned will begin implementation of a deliberate process by reviewing MDAPs and other programs that have not obligated funds consistent with normal obligation rates. We will do this together, co-led by officials designated by the undersigned, and we will follow the tenets we have listed. We will start with guidelines for the review, which will be issued soon.

We urge all financial and acquisition managers and the chain of command in each Component to follow the same guiding principles and to implement similar reviews within their organizations.

Robert F. Hale
Under Secretary of Defense
(Comptroller)

Frank Kendall
Under Secretary of Defense for
Acquisition, Technology and Logistics

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Appendix C. Illustrations

Figures

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Appendix D. References

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Appendix E. Abbreviations

BA	Budget Activity
BES	Budget Estimate Submission
BSO	Budget Submitting Office
BY	Budget Year
CAPE	Cost Assessment and Program Evaluation
CDR	Critical Design Review
CR	Continuing Resolution
DARPA	Defense Advanced Research Agency
DAU	Defense Acquisition University
DoD	Department of Defense
DTRA	Defense Threat Reduction Agency
DW	Defense-Wide
FFP	Firm Fixed Price
FMR	Financial Management Regulation
FY	Fiscal Year
FYDP	Future Years Defense Program
IDA	Institute for Defense Analyses
MDA	Missile Defense Agency
OSD	Office of the Secretary of Defense
PBD	Program Budget Decision
PBR	President's Budget Review
PDM	Program Decision Memorandum
PDR	Preliminary Design Review
PE	Program Element
POM	Program Objectives Memorandum
PPBE	Planning, Programming, Budgeting, and Execution
RDT&E	Research, Development, Test and Evaluation
S&T	Science and Technology
SBIR/STTR	Small Business Innovation Research/Small Business Technology Transfer
SOCOM or USSOCOM	United States Special Operations Command
USD	Undersecretary of Defense
USD(C)	Undersecretary of Defense (Comptroller)

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14. ABSTRACT

The Office of the Under Secretary of Defense (Comptroller) has developed benchmarks for desired rates of obligations and expenditures in the Defense appropriations. The benchmark for the Research, Development, Testing, and Evaluation (RDT&E) appropriation specifies that 55 percent of funding should be expended in the first year of execution. During its annual review of the Components' budget proposals, the Comptroller reviews RDT&E expenditures from the previous year. RDT&E programs that did not meet the 55 percent benchmark for expenditures may lose funding in the budget year. United States Special Operations Command (USSOCOM or SOCOM) believes that the Comptroller execution review process does not adequately incorporate SOCOM's legitimate business practices and impedes its ability to manage its RDT&E programs efficiently. SOCOM asked the Institute for Defense Analyses (IDA) to examine the Comptroller's execution review process and provide recommendations to improve outcomes.

15. SUBJECT TERMS

Execution; RDT&E; Benchmark; Expenditure; Obligation; Procurement; Efficiency; Comptroller; Program Management; Vendor Incentives; Contracting; Defense Financial Management; Fiscal Management

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