

Minutes of the
PERFORMANCE BASED BUDGETING (PBB)
SECURITY COOPERATION PROGRAMMING CONFERENCE
April 10, 2001

On 10 April 2001, the Defense Security Cooperation Agency (DSCA) hosted the first Security Cooperation Programming Conference in Arlington, VA. A list of participants is attached.

The following paragraphs summarize the major topics of presentation and discussion.

DSCA Director's Address

Lt Gen Tome Walters, DSCA Director

Lt Gen Tome Walters, DSCA Director, opened the conference with a clear presentation conveying the importance of the 1st Security Cooperation Programming Conference and highlighted several significant reasons for DSCA's need to obtain better planning and budgeting information. First, "*External customers are concerned about FMS overhead costs*". The key concerns expressed by DSCA's customers are their inability to easily identify the status of their cases, and the feeling that the overhead costs are too high. Second, the Military Departments (MILDEPs) that support DSCA need the tools for submitting detailed budget information. DSCA is fully committed to implementing Performance Based Budgeting (PBB) supported by Performance Based Costing (PBC). This is a 2-3 year process that will provide DSCA and the MILDEPs the ability to determine the element of cost associated with Foreign Military Sales (FMS) and security cooperation activities. We will not have to wait to the end of the project in 2003 to see the results of our PBC efforts; interim goals are planned over the course of the effort. The overall goal is to complete 80% of the cost level analysis, develop the ability to trace spending by early 2003, and to finalize the effort later in 2003. Third, Lt Gen Walters explained DSCA's need to better justify their budget to OMB and Congress.

The current funding target for FY 01 is \$340 million and FY 02 is \$348 million. These targets are subject to OMB and congressional approval. Up until now, DSCA has had little visibility into the expenditures and costs involved in conducting FMS activities. Therefore, DSCA is not in a strong position to justify or account for baseline expenses. PBB and PBC will allow DSCA to identify where the money goes and support the budgeting process.

DSCA is also unique in that the Secretary of Defense does not publish Defense Planning Guidance (DPG) relating to security cooperation. Since other DoD activities use DPG to frame their budgets, DSCA is planning to develop its own version of DPG with a focus on security cooperation by January 2002. Once we have the new defense guidance, we will continue to revise our budgets and processes along the lines we have started with PBB and PBC.

Lt Gen Walters stressed that this conference and this first year of the effort were going to be a non-attribution, no threat environment by stating that “ This is a new process, we are all beginning at square one and there is tremendous work ahead for us to progress.”

Lt Gen Walters, who has an extensive programming and budgeting background, emphasized the need for programming, which is related to but different than budgeting. DSCA is accomplished at budgeting, which looks in the short term, but must do more with policy, plans, and programming, which look into the outyears to forecast long term budget requirements. DSCA has engaged the services of KPMG Consulting and Seicorp to assist in this effort. KPMG Consulting will further the development of the PBB process and develop PBC efforts, which includes the Activity Based Costing (ABC) work to identify costs and eventually equip the Services with the ability to budget to those costs. Seicorp will support this effort with specific programming and budgeting experience, especially in manpower. At the conclusion of the conference, Lt Gen Walters returned to the theme of programming. He indicated that DSCA was standing up a Programming Division and asked the MILDEPs to consider a similar organizational change within their own ranks.

By early 2003, Lt Gen Walters expects that over 80% of the costs will be identified, and the services will start budgeting using the PBC data.

The security cooperation community is in better shape financially than it has been in almost 20 years. The trust fund is in the black by almost \$450 million. However, DSCA will continue to monitor sales closely to insure that costs and revenue stay in reasonably close approximation.

Regarding IT and DSAMS efforts, a new case execution module is needed. It will be tough, but doable. Deficiencies are being documented. The current DSAMS system will end with the case training module. DSCA will prepare a Mission Needs Statement (MNS) and an Operational Requirements Document (ORD) for the new case execution module that will be developed separately, and will accommodate, if not replace, the information in the legacy systems (MISIL, CISIL, SAMIS, etc) which currently do not give adequate visibility. This will be a web-based system that will allow DSCA and MILDEP customers and leadership to access the info, with the appropriate encryption access, and make queries themselves. DSCA will do Business Process Reengineering (BPR) “enroute” as these new systems are brought online.

Q: The Bush administration may try to integrate the POM and PPBS cycles. Can we (DSCA) do the same thing?

A: Absolutely. We are going to have a much closer relationship between budget and programming.

Q: Since we are developing this process, we have customers who want to know where the dollars are going – is it a question of visibility?

A: It is. We need to standardize our program management lines for example. Over time we have to take a look at all of the fees we charge on FMS. The Saudi’s have spent several billion dollars and want to know what the fees we charge are spent on.

DSCA Presentation FY02 Budgets

Mr. James McQuality, Comptroller, DSCA

- Explained that the DSCA budget process is generally based on historical factors plus increases for pay raises, cost of living drivers, etc.
- Detailed how the current DSCA process works, and explained why dollar amounts are earmarked for specific areas, such as DSAMS maintenance.
- Presented detail on how DSCA distributes funding in-house as well as covering centralized requirements for the military services.
- Explained how DSCA has mapped to the six FMS Core Functions, expounded on the specific kinds of infrastructure functions that DSCA conducts. (Lt Gen Walters mentioned that DSCA is still evaluating the six FMS Core Functions, and that everyone needs to keep an open mind in this process.)
- Explained how DSCA identified the core function activity data within DSCA and mapped it in percentages. Not surprisingly, DSCA allocates most of its dollars in business sustaining. (Lt Gen Walters stated that DSCA is now showing each service the numbers for everyone but is asking everyone to stay in their lanes.)

FMS Administrative Funds: Revenue Estimation

Mr. William Kramer, Chief, DLO

Generally, there has been concern about the stability of the FMS Admin account; and achieving stability in estimating future collections, especially large procurement cases that extend over many years. Fund factors are expenses and income. Revenue is computed not just from the 2.5% percentage, but rather the actual collections with 50% collected up front, and the remaining 50% over the life of the case.

FMS Administrative Surcharge – For every billion dollars in sales, DSCA receives about \$25 million. 50% of this fee is collected and placed in the account when the case is implemented. The remaining is collected over a period of time ranging from 0-7 years, based on deliveries.

Q: Why 50% at case implementation?

A: The 50% recovery rate was established some years ago. The earned admin rate is based on a study done in the mid-1980s which was based on an analysis of case workload. Previously, we had collected 33% of the FMS Admin at case implementation.

Q: How often are the FMS Admin estimates updated?

A: It is easiest to run the model at the beginning or end of the fiscal year. We do the estimate over a 10-year bandwidth.

MILDEP Presentations FY02 Budget

Army Presentation

Mr. Craig Hunter, Assistant Deputy Under Secretary of ADUSA-IA (SC)

- Briefing was prefaced with significant changes in the Army that impact operations and FMS:
 - The National Training Center (NTC) and Joint Readiness Training Center (JRTC), are not hosting international units because there is not enough training time for US Army units.
 - Soldiers are being taken out of staff positions and put in line units. This limits the number of personnel available for SA duties. The need exists for an SA career field or professional training program to educate and retain qualified personnel.
 - No new major weapon systems are in the pipeline and as the Army goes lighter, much of the industrial base for some weapons is being sustained by FMS.
 - Army will be upgrading and recapitalizing major systems as a sustainment strategy.
 - Some equipment is only used by the international customers and that legacy fleet is different than US Army (Hawk, AH-1, UH-1, etc).
- *“Need PBB/PBC to not only justify budget costs, but to help reduce costs”*. Lt Gen Walters supports this idea. The rolled up costs (buckets) are fine for budget needs, but could a new system(s) identify the costs for individual cases; if so, maybe Case Closure, as a defined phase of the case life cycle, could be eliminated.
- The cost drivers in the environment are the fielding of upgraded equipment, and the US pipeline filling most of the quotas for CONUS training and schools. The missions are coming down on the Title 10 side of the house. We need to find a home for folks that have been funded under the “Title” programs. Therefore, we are migrating some folks to the FMS Army community.
- More business is shifting to US industry for non-standard items; this down-scopes the role of Army FMS, although many sales are still coming via FMS.
- Challenges facing the Army:
 - Work force is aging; need increased attention on professional development; need to intensify recruiting and retention efforts.
 - Need to retain our historical detail in our legacy systems while utilizing commercial off-the-shelf information technology. We are looking at all aspects of FMS to include Army policy and procedures.

- Metrics need to be strategy driven. We feel we are on line with meeting Army FY01 sales projections. FY02 anticipated sales will take more personnel time in accommodating and assisting with Direct Commercial Sales which is increasing for major end item systems.

Navy Presentation

RADM Newsome/Mr. LeBoeuf

- The Navy is pleased with success of PBB and PBC systems This effort is on the right track. The Navy has been budgeting to seven core functions for several years. The Navy has set up their own strategic plan and activity based costing measures to justify their expenditures.
- The Navy, as well as the other services, supports the need for an ongoing Security Assistance professional development program to train personnel to function in SA assignments. To support training, the Navy has established a 10 seat training facility for DSAMS at the Navy International Programs Office site.
- Priorities – USA, Navy, and Program. People, Money, and Communications are the pillars that support these priorities.
- Issues are workforce development, competition with Direct Commercial Sales, need for automation. The Navy-Marine Corps internet is a major initiative in the Navy/USMC right now. It may be requested that FMS Admin pay for some of this. Regarding FMS program management, the Navy is constantly reviewing its performance measures, going through and evaluating their metrics every six months.
- The Navy's FMS office is doing a bottom-up review of its administrative budget process. It is prioritizing money buckets, putting its own guidance to work to ensure budgets are fully explained, prioritized, funded and monitored monthly. Navy has had to make the best use of the limited funds available.
- Campaign Plan = Strategic plan. TEAM USA is TEAM International. Emphasis on the need to now fund TEAM International.
- Unfunded – Aegis radar system. Trying to find money to sell systems. Case Execution – reconcile as you go.
- The Navy has put aside a pot of money to reward case closure and has seen success in closing cases using this incentive.
- Company days is a forum hosted by Navy FMS to meet with private industry for weapons sales. We collaborate on releasability, disclosure issues, etc. Air Force and Army expressed an interest in this concept. Navy was asked to share information on this idea with the other services.

Working Lunch

Mr. Troy E. Drafton, Senior Management Analyst for KPMG Consulting, Federal Services

Mr. Drafton demonstrated the DSCA PBB Website, which will be used to submit budget data to DSCA.

Air Force Presentation

Mr. Willard Mitchell, Deputy Under Secretary of SAF/IA

- Automation and direct commercial sales, etc. are the major trends.
- In fiscal year 2000, the Air Force realized \$5 billion in sales. Significant aircraft opportunities exist. Air Force supports this effort and discussed the ongoing need to be able to get rid of percentages and charge actual costs. For example, collaboration with Boeing on C-17 lease case that took considerable effort. DSCA should support investing money in FMS variants up front. Some weapons and equipment contain technically advanced or classified components that prevent their sale under FMS. Program Managers need to engineer FMS variants for these items but presently have no money to do it. The policies on costs currently assign all non-recurring costs to the first customer. The Air Force believes these costs for FMS variants should be incorporated into the total cost and paid for by all customers.
- The Air Force is increasing the amount of training with foreign Air Forces. The Air Force is also leasing space at US air bases to house/store foreign AF crews/equipment. The US Air Force does not expect to fight other than in coalitions. So we are putting together that coalition; via access to facilities.
- The Air Force has developed a web based Worldwide Redistribution System (WWRS), described as an FMS “EBay”, which allows the USAF and its customers to advertise excess material for sale. There was discussion about adding the other services to this system and Lt Gen Walters tasked this to be an issue for discussion at the DSCA 2001 conference in September.
- There is a need for SA professional career development program to balance an aging workforce. By 2005, the Air Force expects a significant part of its current workforce to be retirement eligible.
- The Air Force showed a matrix of the six core functions expanded with additional functional categories. There was significant discussion of this format and concept of filling out the six core functions, with general positive agreement on the Air Force approach.
- There are significant quality of life issues at Wright Patterson. Improvements to living and working facilities are badly needed. Air Force FMS personnel currently work in a condemned building.

- PBC is the critical piece of all of these aforementioned areas.

Demonstration of the Performance Based Costing (PBC) Module

Mr. Steve Pimpo, Senior Manager of KPMG Consulting, Federal Services

Demonstration of the NAVICP ABC/M effort underway. Showed how the Navy has modeled the Navy Inventory Control Point (NAVICP) activities with ABC software, and how information can be presented in Cognos Upfront graphical tool.

Panel Discussion on Cross Cutting Issues and Trends

Ms. Beverly Rexrode, Resource Manager of DSCA (facilitator)

Mr. Rick Alpaugh, Deputy to the Commander of AMC

Mr. Richard Millies, SAF/IA

Mr. LeBoeuf, USN

- *“Need to be able to capture the different colors of money.”* This subject was mentioned several times. The ABC model developed for NAVICP is able to identify case funding and admin funding. Another fund type mentioned was Title 10.
- *“Need consistent definitions for the PBB fund buckets.”*. The speakers want to make sure that the same definitions are used by all participants.
- *“How exactly will DoD managers use PBC?”* Aside from the need to educate our clients in what ABC is and is not, they also will need some examples/guidance of how their ABC information can be applied to make/initiate BPI efforts.

Questions from the Audience:

Q: How can we track costs?

A: We are committed to identifying cost drivers. Right now we do not have a “bottom-up” process; not until we have Activity Based Costing. We are trying to improve our credibility on Capital Hill.

Q: Is there any automation in time keeping services now?

A: No

Q: What does program management mean in terms of the DSCA core functions?

A: Found certain elements of program management in the Case Execution function. DSCA assists the Services in managing the FMS cases and programs.

Q: Can the FMS Admin charge be negotiated up front in order to close a deal with an international customer?

A: It is very difficult to waive the Admin charge and/or adjust the collection cycle.

Q: Since each year’s revenue stream is a mixture of old and new cases, has anyone looked at the impact of closing cases better?

A: Case closure does not have much of an impact on the admin revenue stream since 50% is collected up front and the balance of the remaining 50% is collected during the life of the case.

Summary of Items with ongoing actions/discussion:

Lt Gen Walters directed his staff to add the topic of Air Force Worldwide Redistribution System (WWRS) to the agenda of the DSCA 2001 conference to be held in September 2001. Lt Gen Walters tasked Mr. Mitchell to take the lead and work with the other services on further developing this capability. Cognizant Office: DSCA and SAF/IA.

The Navy was asked to share more information on its Company Days program with the other services. Cognizant Office: Navy IPO and other MILDEPs.

Continued emphasis needs to be maintained on developing common definitions for the six core functions. To proceed with the PBC effort, we also need to identify and capture data on the different colors of money being spent. Not all the money is FMS Admin. Cognizant Office: DSCA RM.

The Navy was asked to share more information on its TEAM International programs with the other services. Cognizant Office: Navy IPO and other MILDEPs.

The Navy was asked to share more information with DSCA and the other services on its initiative to promote case closure by offering increased funding for those activities that are successful in closing cases. Cognizant Office: Navy IPO and other MILDEPs.

**PERFORMANCE BASED BUDGETING (PBB)
SECURITY COOPERATION PROGRAMMING CONFERENCE**

INVITED PARTICIPANTS

NAVY:

RADM L.D. Newsome	IPO-00
Mr. Gibson G. LeBoeuf	IPO-09
CAPT Thomas Keithly	IPO-02
Mr. Rino R. Pivrotto	IPO-01P
Dr. William H. Epstein	IPO-04
Mr. Joseph E. Milligan	IPO-02B
Mr. Jim Comings	IPO-04B
LCDR Stephen Bowdren	IPO-02B1
CAPT Larry Carter	NAVSEA
CAPT Michael J. Dougherty	NAVAIR 1.4
CAPT Thomas Steffen	NAVICP-OF
Ms. Christine Chaikowski	IPO-02CC

ARMY:

Mr. Craig D. Hunter	ADUSA-IA
Mr. Richard Alpaugh	AMC
Mr. John R. Baer	SATFA
COL Dan Davis	US Army Training
Mr. Charles D. Wray	DUSA-IA
Ms. Monica C. Malia	DUSA-IA
Ms. Donna Torche	ASA-FM&C
Mr. Jack Hiebert	USASAC
Ms. Dot McGehee	TRADOC
Mr. Ray Daws	USASAC
Mr. Reggie Graham	USASAC

AIR FORCE:

Mr. Willard H. Mitchell	SAF/IA
Maj Gen Claude M. Bolton, Jr.	AFSAC/CC & AFMC/IA
Mr. Tom Koogler	AFSAC
Mr. Richard J. Millies	SAF/IA
Mr. Paul Kopicki	SAF/FM
Mr. Patrick Fox	SAF/IA
Mr. William Fehr	AFSAT
Ms. Joyce Burton	AFMC
Ms. Cheri Wilson	AFSAC

DSCA:

Lt Gen Tome E. Walters, Jr.
Mr. A. Robert Keltz
Mr. James McQuality
Mr. Keith Webster
Ms. Jeanne Farmer
Mrs. Beverly Rexrode
Dr. Greg Cleva
Mr. Bill Johnston
Mr. Tom Dixon
Mr. Art Hotop
Mr. Ed Ross
Mr. Eric Larson

DLA:

Mr. Robert Bromell
Pat Kashmer

DLO:

Mr. William Kramer

JCS:

LTC James W. Arp

J-5

DISAM:

Mr. Ernest McCallister
Mr. Gregory Sutton
Dr. Craig M. Brandt

SEICORP:

Ms. Inga O'Neil