

Resource Management for Commanders: An Evolving Strategy

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The complexity of a modern Air Force, coupled with its global field of operations, has been great; the complexities which face a smaller Air Force in physical size will be even greater in the future because the limitation of funds and of personnel will not permit of the margin of safety against error given by multiple projects, but will require a more accurate selectivity of projects and a more intense follow-up of the application of limited funds allocated to such projects. In short, we must be sure that every dollar allocated goes to the most needed project and we must get a full dollar's worth out of every dollar expended.

—Robert A. Lovett

Effective resource management is a key responsibility of all commanders. Exactly how commanders should discharge their responsibility is an issue of great importance. Since the creation of the Air Force in 1947, there has been continuing debate about which resource management strategy would provide the greatest incentives for efficient operations commensurate with the commander's authority. This debate basically centers on two dimensions: the extent to which funding should be decentralized and the level of flexibility to be afforded the commander. In general, decentralization and flexibility should work together. Decentralization of funds without the ability to move them where needed adds little more to the mission than additional accounting workload. Although Air Force and Office of Secretary of Defense (OSD) initiatives in the past five decades have tended to increase the level of funding control and flexibility at installation level, there has been significant resistance at every step. Nonetheless, decentralization as an operating philosophy has gained preeminence in thought and practice. After briefly reviewing the history of Air Force budgetary experience, this paper explores the role of the commander in today's fiscally constrained defense environment.

Origins of Centralized Funding

With the establishment of the Air Force came the need to develop its own budget and accounting systems at all levels of command. On 12 July 1949, the Air Force published Air Force Regulation (AFR) 170-10, *Comptroller – Wing Commands*, which instituted a comptroller staff section in Air

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Force wings worldwide.¹ Like the directors of most federal agencies, military commanders prepared budgets by identifying the categories of resources (equipment, personnel, construction, and so on) and their total cost. The comptroller had a fiduciary responsibility to make sure that funds appropriated for these purposes were spent only for those purposes and in a legal manner. For the commander, the congressional appropriation structure was, and remains, the fundamental constraint on flexible funds management. Commanders do not have the authority to spend money appropriated for one purpose on another project. For example, the Air Force cannot use military personnel funds to pay for additional military construction without explicit reprogramming approval from Congress. In a truly unified budget, the commander would be given a total sum of money and told to execute the mission as he or she saw fit. Instead, Air Force leaders instituted other financial controls on top of the basic appropriation structure to ensure that commanders operated within narrow funding boundaries. Such devices include floors (minimum spending), ceilings (maximum amounts), and fenced or protected categories of spending. Finally, some funding categories were simply removed from the purview of the commander through centrally controlled accounts. The commander's financial duties were limited indeed.

Perhaps because there was so little flexibility, some commanders paid only lip service to the virtues of economy and efficiency. Generally, the commander's time was better spent trying to obtain more resources rather than trying to use existing funds more wisely. In fact, there has been a common perception in the resource management community that this problem is most profound among our operators. Commanders argued that they were warriors, that all their needs were wartime essential, and that the nation had a duty to fund those needs without question. The same arguments have been used with military failures, in particular, bantered about as glaring examples of impoverished funding instead

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of evidence pointing to ineffective and inefficient use of resources. Effectiveness, not efficiency, has always been the measure of command.

Traditionally, the Air Force has measured the effectiveness of its units in terms of ratings on operational readiness inspection(s), accident rates, operational readiness of aircraft, combat crew readiness, etc. When a unit met these criteria well and its base was well kept, the commander was inevitably headed for bigger things. Missing from that evaluation was the test of cost. Despite great effort to provide this test, it is still missing—that is, missing in any simple, identifiable, meaningful form.²

In the first two decades after the inception of the Air Force, commanders operated in a highly centralized system that greatly constrained their flexibility to accomplish assigned missions. An attitude that financial management was of little importance to commanders would prove to be detrimental whenever Congress reduced the flow of funds. However, the pendulum started to move in the other direction beginning in the late 1960s.

Budget Reform

In the 1950s, Air Force commanders relied upon the Financial Management System (FMS) for resource decision making. Unfortunately, the FMS was incapable of providing commanders with a detailed breakdown on how units were spending their money. The accounting system could provide either the *total* amount spent by each unit or a breakdown by category of expense for the wing but was unable to provide line-item detail by squadron. In other words, commanders could request information on *who* spent how much money or *what* it was spent on, but not both.³ The lack of historical budget information greatly complicated the commander's job of executing the budget and preparing budget justifications for major commands, many of which required line-item detail for all TDY trips, each piece of equipment, and so on.⁴

In 1961, Robert McNamara began implementation of the most significant management revolution since the 1947 National Security Act. His Planning, Programming and Budgeting System (PPBS) was a departmental-level budget tool that centralized budgetary control within the OSD. Despite the apparent increase in control, it was McNamara's stated philosophy to assign decisions to the lowest level of the organization that could intelligently make them. In practice, however, bureaucracy rarely releases decision-making power to lower levels. Defending himself against critics of this centralizing tendency of PPBS, McNamara suggested that the real problem of PPBS stemmed from a "difference of opinion, I'll say, between me and the services as to whether they were competent to make the decision. And if you just take that illustration—Was the Air Force chief of staff competent to make the decision on the number of Minutemen we should have? Not on your life."⁵ In other words, the proper demarcation line between centralization and decentralization is a matter of opinion.

The controversy over PPBS had a silver lining in that commanders everywhere began to pay at least some attention to budgetary matters. Furthermore, the pressure of financing the Vietnam War without a tax increase meant that efficiency became a concern of some commanders, although effectiveness was still the overarching measure of success. The elevation of the commander's resource-management duties was reinforced by the Department of Defense's (DOD) Primary Management Effort (Project PRIME) in the late 1960s. Project PRIME gave the Air Force the Resource Management System (RMS) still in use today.

The problem with the implementation of RMS was that commanders were not given the authority and flexibility to make cost-beneficial trade-offs that were now apparent with greater cost visibility. Lt Gen Charles S. Blanton, USAF, retired, argued strongly against the system and continued to maintain that commanders should not be held accountable for resources over which they have little control.

The focus of PRIME was to improve the commander's execution of the operating budget by making him or her aware of trade-offs between types of resources. The backbone of the plan was a new center where work was performed (a squadron could have one or more cost-centers accounting system that charged Operations and Maintenance, and Military Personnel costs to cost) and aggregate these cost centers into responsibility centers at a higher level of command at the wing (typically wing and group commanders). Accounting reports now provided both the *what* and the *who* for commanders. The new system was thought to be necessary because commanders budgeted for so little of the actual resources needed to execute the mission. An Air Command and Staff College student report from 1979 noted that prior to PRIME and RMS, units were charged with approximately 20% of their operating costs. There was little incentive to use 'free' resources efficiently. The Resource Management System, the major DOD program for managing resources, was developed to deal with this situation.⁶ The other 80 percent of the costs, such as military personnel, aviation petroleum, oils, and lubricants (POL), and depot maintenance, were centrally funded. The RMS's guiding philosophy was that individuals and organizations that consume resources should be responsible for budgeting and accounting for those resources. In other words, the commander should be accountable for mission efficiency as well as mission effectiveness.

I think a wing commander's job is a wonderful job left to those things he can properly control and have the authority to do it or not to do it. Flying hours he has no control over. He's going to fly his training missions . . . or he's not going to be wing commander very long. Now, therefore, anything that's consumed as a result of those flying hours ought to be essentially provided to him based on some standards. If he goes above standards in consumption of those related resources then we ought to look at why and try to fix the why. Not kill him because he went above the standards. Therefore, what's really available and controllable at the wing level is ten percent of the dollar.⁷

Although some schemes were developed to force commanders to make trade-off decisions between the cost of military personnel and operating and maintenance funds, the mechanisms were eliminated due to the fundamental congressional constraint on appropriation integrity. Moreover, while cost visibility for commanders was a stated goal of PRIME, another aim was to develop an accounting feedback that related actual expenses to the budget developed through PPBS. In other words, if the Air Force president's budget submission requested and justified X dollars in program element Y for a given fiscal year, the RMS system would show how much was actually spent in that program element. Thus, the new system presented a new control technique or higher headquarters which now had much greater visibility into how units actually spent their funds. The ability to centralize and constrain commanders was greatly enhanced. Despite failing to provide an objective test of a commander's financial performance, the new budget system certainly raised cost visibility in Air Force operating units and led to calls for decentralized fiscal management. Subsequent reforms and the post-cold-war downsizing would eventually lead to a much more decentralized environment where efficiency is almost on an equal plane with effectiveness.

Decentralized Funds Management

A common complaint within DOD is that congressional controls on spending prevent more efficient financial execution. In point of fact, DOD demonstrated that commanders could save money with fungible resources through the Unified Budget Test in the late eighties. Although Congress would not provide the authority to continue or expand the experiment, it did give commanders more flexibility by raising the threshold for defining investment equipment (appropriation 3080). In the early 1980s, an investment was just about anything that cost over \$5,000. Commanders had to budget for a separate appropriation to buy industrial equipment for their units. Since then, the threshold has been raised four times and is now \$100,000 (proposals to raise the threshold to \$500,000 in fiscal year [FY] 2000 were denied). For all practical purposes, Congress has eliminated one category of appropriation that was limiting a unit commander's flexibility. Yet many other controls which bother operating-level commanders are inflicted by the Air Force. It is the Air Force, not Congress, which so frequently establishes centrally controlled pots of spending rather than releasing funding to the field and allowing them to keep any savings. It is the Air Force, not Congress, which implements commanders' kitties and withholds every description to fund pet projects and to maintain reserves for unforeseen execution-year bills. The Air Force's Resource Management provides headquarters staffs with the tools for tremendous central control but is equally capable of decentralized funds control. Decentralization is becoming a reality due to the confluence of many events and senior-leader support.

Some of the more significant financial reforms at the operating level in recent years have been the decentralization of funds for depot-level reparable and aviation POL. Commanders now manage the funding for millions of dollars of resources associated with the flying-hour program. The underlying assumption, as with Project PRIME, is that commanders should be responsible for the resources they use and that they can influence the rate at which those resources are consumed. Likewise, higher levels of command are reducing the number and extent of withholds they maintain and, instead, are pushing the funds down to the bases. In effect, the commands are telling wing commanders to do the job with what they have and not to come back for more money because the vast majority of funds are being given out at the beginning of the fiscal year. Unfortunately, today's funding levels are probably much less than requirements and current standards dictate. In short, the Air Force has passed its funding shortfalls down to those who are closest to the problem—the commanders.

Ten Tips for Commanders

1. Assess the financial health of your unit as soon as possible after taking command. The exercise of control over resources and the budget process is a major source of power for commanders far beyond the formal authority of their rank and position. Commanders at all levels must ensure that their priorities and resource philosophies are incorporated into budgets and implemented during execution.
2. Understand the role of the comptroller. The comptroller is the wing's chief financial officer. He or she is the wing commander's key advisor for reviewing budget requests, validating the wing's requirements, and providing recommendations for the best use of resources to achieve the unit mission.
3. Get more out of your comptroller. Ask your comptroller what he or she can do in addition to the current level of financial services to help you get more out of the existing budget. If you aren't sure how the comptroller can help you, ask him or her what you need and what he or she offers.
4. Carefully define the role of your comptroller on the wing staff. There are many advisors at your disposal. Set boundaries and mark territory accordingly. Make your expectations clear that commanders and wing staff members work in harmony despite increasingly tight budgets.
5. Ensure that the real needs of the mission are funded before dollars are allocated to any pet projects. When resources are shrinking, commanders must realistically review unit missions and determine bottom-line levels of funding necessary.
6. Balance the needs of the mission with infrastructure and quality-of-life concerns. Financing current mission readiness at the expense of long-term infrastructure and unit morale is

the military equivalent of the businessman's preoccupation with the quarterly balance sheet. The commander must ensure that the unit is viable in both the short and long run.

7. Keep an open mind about the difference between needs and wants in the lean resource environment of today. Old paradigms about what base services are essential must be discarded to preserve combat power.

8. In light of the need for new operating paradigms, commanders must be careful when economizing. Instead of a lean and mean organization, you may end up with one that is weaker and demoralized. Downsizing, outsourcing, privatization, business processing, reengineering, Quality Air Force, and other management tools are only means to an end. Use these methods only if they preserve capability in the face of declining resources.

9. Pick the right person for your own resource advisor. Even the wing commander will have a resource advisor supporting resource management for the wing staff. Most squadron commanders will not have an authorized position for this job, meaning the commander will have to eat the man-hours out of hide. However, a good resource advisor will "earn" you a good return on the investment. This person should either have some knowledge of the Resource Management System or at least an aptitude for numbers and a desire to learn.

10. Remember, the mission is second only to the law. Appropriated dollars must be used for their general purpose according to the funding guidance from command and according to the "plain meaning" of the law. When in doubt about the propriety of any expenditure, always contact your comptroller and staff judge advocate.

Resource Management Today

Commanders have a very difficult job. Along with all the other pressures of command, they are expected to perform to the same level as their predecessors, even as operating budgets are cut from year to year. Although everyone knows that eventually less will yield less, no commander wants to be the first to have to cut back on the standards of performance and service established over many years. Nonetheless, many commanders will have to do just that.

There is no magic formula for success in the era of retrenchment. More than ever, commanders must learn the basic lingo of the Resource Management System, ensure they are receiving effective advice, and use the existing corporate-board process (the Financial Working Group and Financial Management Board at installation level) to establish their firm requirements and to share ideas. Commanders should be receptive to new ways of doing business and to the resources available to them—in particular, their own people. Above all, com-

manders must ensure that funds entrusted to them are spent legally. As resources become ever more constrained, commanders are being held to a tighter standard of accountability. Although a legal search turned up no courts-martial for any fiscal matters through 1996, there have been some "close" calls in recent years. Administrative action, including being relieved of command, is more likely in the event of abuse of funds. In brief, there are four rules that commanders must follow to ensure fiscal propriety.

1. Ensure that expenses are necessary to accomplish the mission. Keep in mind that even if the expenses are necessary, the purchase is illegal if prohibited by law or provided for in another appropriation. For example, European bases need coal to heat their facilities. Coal is a necessary expense, but the commander must buy American coal. Congress requires the military to purchase US coal, so use of the 3400 appropriation to buy German coal would be an improper purchase. Likewise, aircraft hangars are necessary expenses of the operational mission. However, Congress provides funds for these purposes in the Military Construction Appropriation, so commanders cannot use Operations and Maintenance funds to build major facilities.

2. Do not overspend your budget. Funds are allocated to subordinate units from the Air Force down according to a strict procedure to ensure compliance with the Anti-Deficiency Act (e.g., agencies cannot spend more than allocated by Congress). Violators of this act are reported to Congress through the secretary of defense by name. Although an over-obligation in your unit may not result in an antideficiency violation, at a minimum, the comptroller will have to take funds from other places to cover the deficit. You will *not* be the envy of your fellow commanders.

3. Make sure you adhere to the "bona fide need" rule. This legal doctrine states that the current year's funding must be spent on requirements that arose during the fiscal year. Advance funding of next year's mess attendant's contract with this year's money is illegal.

4. Use your common sense. In the course of your command, you will probably be asked to spend money on many different purposes. If such purpose is not directly essential to the mission or unjustly enriches you or your troops, it is probably illegal. Have your resource advisor check the law and follow it. The "plain meaning" doctrine states that the law says what it says, not what you want it to say or think it might mean. Your comptroller and staff judge advocate will be happy to advise you.

The challenges now faced by commanders are unlikely to go away soon. The problems of the larger federal budget will continue to pressure the defense budget, which remains the nation's largest category of discretionary spending. Fortunately, the trend in the Air Force towards a more decen-

tralized and flexible system of financial management is giving commanders the authority to make the hard decisions.

Conclusion

As we draw down in size, the financial responsibilities of commanders have become vastly more important. Undoubtedly, this requires greater management attention (an extremely finite resource) to budgeting and financial issues. Wing commanders properly prefer to devote the bulk of their energies to the air and space mission. This is as it should be. However, today's commanders can no longer successfully argue, if they ever could, that the nation should fully fund their every request so that they can exclusively concentrate on war fighting. Through a long series of reforms, the Air Force has sought increased efficiency at the operating level. The constant theme has been to put greater responsibility for budget execution in the hands of the wing and subordinate commanders. It doesn't have to be this way. A more typical bureaucratic response is to take away decision-making

authority as fiscal pressures mount. Whether the pendulum continues to swing towards decentralization depends directly on the performance of commanders in the field.

Notes

1. Jerome J. Scheela, "A Comparison of the Comptroller's Organizations in the Departments of the Military Establishment" (unpublished paper from the George Washington University Navy Graduate Comptrollership Program, January 1956), 24.
2. Lt Gen Duward L. Crow, "Air Force Management," *Air University Review* 21, no. 2 (January-February 1970): 1-18.
3. Adolph Kastenholz Jr., "The Dilemma of Financial Management" (thesis, Air University, Squadron Officer School, 1961), 8-9.
4. *Ibid.*, 16.
5. Robert S. McNamara, interviewed by author, Washington, D.C., 29 June 1993.
6. James E. Chittick, "Installation Research Report," student research report (Maxwell AFB, Ala.: Air Command and Staff College, 1979), 2.
7. Lt Gen Charles S. Blanton, USAF, retired, interviewed by author, 23 June 1993.