

Integrating Evolutionary Acquisition with PPBS

DRAFT

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Elements of Subgroup charts

- Context
 - Current procedures/organization
 - EA linkages
- Challenges
- EA Attributes
- Tools/Processes
- Examples/case studies
- Reference material
 - Policy
 - Guides
 - Other...

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Current Procedures/Organization: PPBS

- PPBS is the process by which
 - the DoD balances resources against requirements in the context of the National Military Strategy
 - the DoD develops and manages the Future Years Defense Plan (FYDP)
 - the Services and DoD Agencies develop and justify their budgets
- PPBS is a cyclic process with 3 distinct phases:
 - Planning, Programming & Budgeting
 - Programming and Budgeting are conducted concurrently
- Budget Execution is the process by which
 - The DoD manages, expends, accounts for the resources appropriated for it by the Congress
- Collectively, the PPBS and Budget Execution processes implement regulations and policies that provide control and accountability of DoD funds, to:
 - Facilitate oversight, resource allocation and balancing functions of OSD
 - Help ensure statutory controls on spending are observed
 - Facilitate Congressional insight into, and control over DoD operations
- PPBS and Budget Execution, laws, rules, and regulations shape the acquisition environment and will influence implementation of Evolutionary Acquisition (EA)

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Current Procedures/Organization: PPBS

- **P**lanning
 - Performed by OSD & Joint Staff about 3 years in advance of the FY in which budget authority is to be executed (e.g., planning for FY04 begins in FY01)
 - Integrates directives and guidance from National Military Strategy to provide Defense Planning Guidance (DPG) to the Services/Agencies
- **P**rogramming
 - Performed by OSD, in consultation with Joint Staff, Services/Agencies to allocate resources to support Service/Agency roles and missions across 6-year FYDP (Future Years Defense Program)
 - Services/Agencies provide their Program Objective Memoranda (POMs) that describe how they map DPG to their time-phased resource program
 - Review of DPG compliance and programmatic issues concludes with DEPSECDEF-signed Program Decision Memorandum (PDM)
- **B**udgeting
 - Services/Agencies provide USD(Comptroller) their Budget Estimate Submissions (BESs) in appropriation format simultaneously with the POM submit
 - Review of budget pricing, policy and execution issues results in DEPSECDEF-signed Program Budget Decisions (PBDs)
 - Defense portion of the President's Budget is submitted through OMB to Congress for enactment.

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Timing of PPBS and Execution Processes

		CY01												CY02												CY03											
		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
FY01	Execution													2nd Yr						3rd Yr																	
	FY01 and prior																																				
FY02	Enactment							Execution						2nd Yr						3rd Yr																	
	FY02							FY02 and prior																													
FY03	Planning / Program/Budgeting /							Enactment						Execution						2nd																	
	<i>Amended FY03-07 DPG/POM</i>	FY 03 BES						FY03						FY03 and prior																							
FY04	Planning							Program/Budgeting /						Enactment						Exec																	
	FY 04-09 DPG							FY 04-09 POM						FY 04-05 BES						FY04	FY04+																
FY05	Planning							FY05-09						Program/Budgeting																							
	FY05-09																																				

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DPG – Defense Planning Guidance

Current Procedures/Organization: Budget Execution

- Once Congress passes an appropriations act and the President signs it into law, OMB apportions budget authority to DoD
- The USD (Comptroller) then allocates budget authority to the Services/Agencies
- Funds are committed, obligated, and expended across the DoD

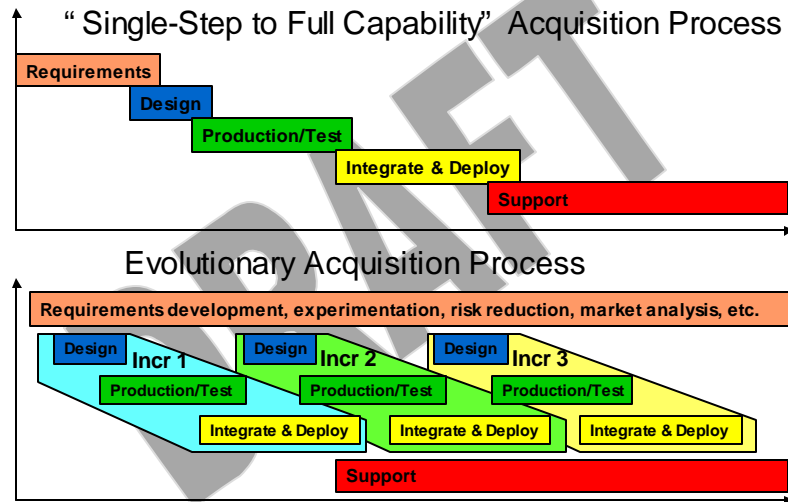
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Current Procedures/Organization: Single-Step to Full Capability

- Prior to April 2002 Update to DoD 5000.2R the “Preferred” Acquisition Approach was “Single-Step to Full Capability”
 - Also called “Grand Design” or “Waterfall” approach
 - Characterized by linear-sequential steps of increasing specificity and definition from concept to product
 - Not explicitly iterative or recursive
- Evolutionary Acquisition was deemed an “Alternative Acquisition Approach”
 - Required additional justification to implement

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Linkages: Single-Step versus Evolutionary Acquisition



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This graphic shows the key differences between the linear-sequential acquisition process like the "Single Step to Full Capability" approach and the evolutionary acquisition approach.

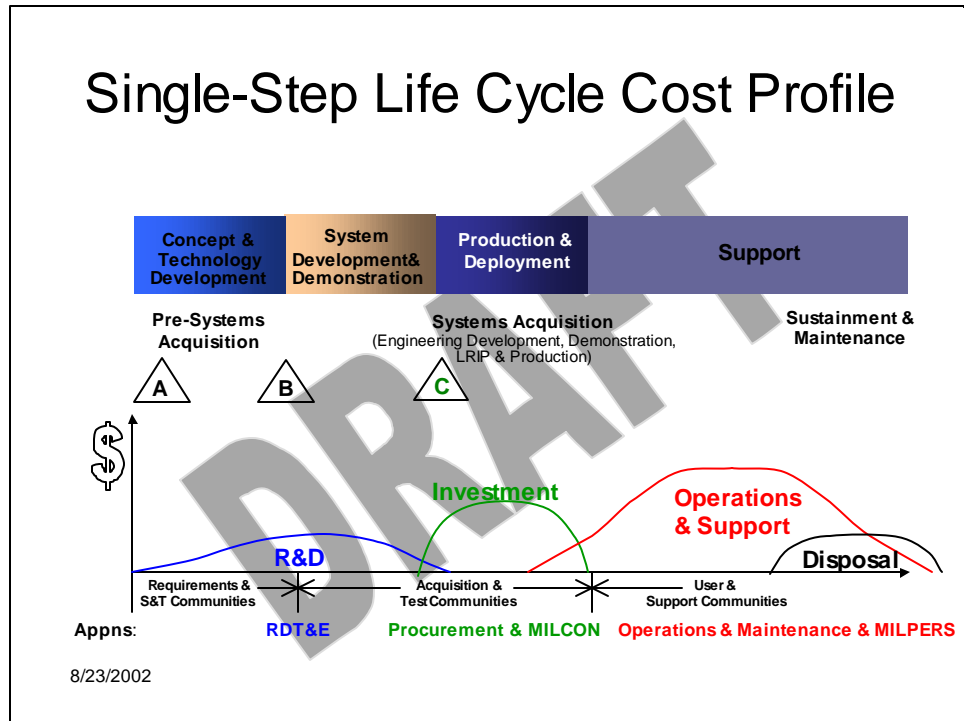
Note that in the Single-Step process, the requirements defined early in the program are assumed to remain stable over the development period. When the development period spans several years (as with most major systems), requirements, funding, and/or technology are likely to change substantially, forcing the program into replanning, rebaselining, usually with deleterious effects on cost, schedule, and user satisfaction.

EA addresses the issue of requirements, technology, and resource volatility by satisfying a well-defined subset of requirements over a short development period (such that requirements, resources and/or technology has less opportunity to change over the development period), then reassessing whether the assumptions regarding requirements, resources, and technology still hold for subsequent increments. For subsequent increments, requirements, resources, and desired solution are reviewed and revalidated before embarking upon development. In this way, the effects of replanning, while not eliminated, are at least done in a controlled manner, in collaboration with users and other stakeholders.

In the EA model, note the ongoing requirements development, experimentation, risk reduction, market analysis effort. This is driven by the need to control multiple simultaneous baselines, while continually eliciting/validating User requirements, tracking the evolving technology marketplace, and supporting the fielded capability.

Finally, note the early initiation of support activities relative to the linear-sequential process.

Single-Step Life Cycle Cost Profile



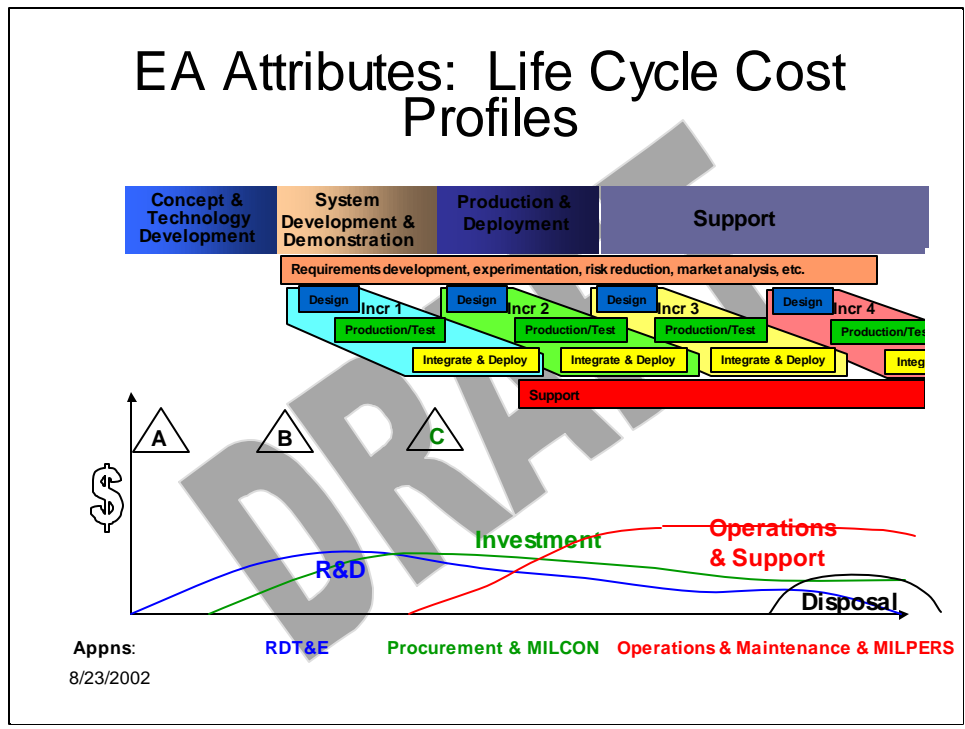
This graphic maps the lifecycle cost categories (Research & Development; Investment; Operations & Support; Disposal) against the lifecycle of the typical linear-sequential acquisition process.

With a linear-sequential acquisition process, such as the Single-Step to Full Capability approach, funding appropriations across the lifecycle follow a familiar pattern: RDT&E during the R&D phase of the lifecycle, procurement and MILCON appropriations during the investment phase; operations and maintenance (O&M) and military personnel (MILPERS) appropriations through the Operations and Support phase, to include system retirement and disposal.

Note also that different communities are dominant in certain phases of the acquisition lifecycle, and less evident in others. This gives rise to the “tradition” of certain organizations being customarily funded with certain appropriations.

Given that this has been the preferred acquisition model over the past several decades, there may be discomfort and resistance to changing the way funds are managed. EA will challenge the traditional funds management practices.

EA Attributes: Life Cycle Cost Profiles



With Evolutionary Acquisition, design, investment, and support activities occur concurrently, so the linear-sequential phasing of funds will not work. Processes must be in place, and particular attention must be given to ensure that the proper appropriations are paying for the appropriate activities. The concurrent execution of various lifecycle cost categories may make it harder for oversight organization to track and keep up with what the PMO is doing.

Challenges: Requirements

- Requirements Development, Budget Development, and Acquisition Planning are Disjoint
 - Key Artifacts and Constraints are Established before Program Office is Established
 - Mission Need Statement, Operational Requirements Document, Operational Architectures, Program Budget
 - No way to rationalize requirements and resources with what is feasible from an acquisition standpoint
 - Institutional commitments made; expectations established and difficult to change once program initiated
 - Time-phased requirements and Evolutionary Acquisition Strategy must be closely coupled
 - Only possible with early and continued dialog between “requiree” and “acquirer”
 - This dialog not facilitated by current disjoint process
- Need Service-Funded Acquisition Cadre to Support Early Requirements Definition Work
 - Needs separate funding line—distinct from any single program

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Note: This issue, although it has PPBS implications (i.e., the funding of the pre-acquisition support to requirements process), but it may be better addressed in some other subgroup.

Challenges: Technology

- **Technology Maturation Process is Broken**
 - EA requires advanced, yet mature (low implementation risk) technologies
 - Acquisition Community “ expects” continuous stream of mature technologies to be available when needed
 - Maturing technologies is expensive
 - TRL-7 requires “ Demo in Op-relevant environment”
 - Unless done in the context of specific program(s), can this investment be justified?
 - **S&T Community not Resourced to Support EA**
 - **Subordinating S&T to Acquisition Process would be controversial**
- **Need to strengthen S&T links to Acquisition Process**
- **Need to provide resources to mature needed technology to support EA Programs**

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Note: This issue, although it has PPBS implications (i.e., the funding of the S&T Community to mature technologies to support EA), but it may be better addressed in some other subgroup.

Challenges: Timing & Tempo

- The PPBS process is driven by the biennial budget cycle
- New requirements take 2 years to get into the budget
- If User's requirements are changing annually (if not more frequently) how do you fund these evolving requirements?

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Tools, Practices

- Collaborative requirements process
 - Acquirer works with Users and other key stakeholders to define time-phased requirements
 - Functional, effects-based requirements, not “system-specific”
 - Link functional requirements to CONOPS, operational architectures, etc.
 - Must be “realistic”—rationalized with constraints, availability of technology, etc.
- Link resources to requirements
 - Use automated Requirements Engineering, Management, & Analysis tools to trace ORD “shalls” to detailed requirements in each increment
- Link each detailed requirement to cost, schedule, activity, and appropriation,
 - Be able to roll up and report at any level of aggregation or detail
 - Provides:
 - complete visibility to funding sufficiency
 - objective basis for CAIV discussions
 - complete transparency into appropriation use
 - instant response to Friday afternoon budget drills

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Tools, Practices

- Work with User, Sponsors to get requirements in Functional, Time-phased format
- Explicitly link POM/BES exhibits to EA strategy
- Provide solid rationale for amount and color of money
- Impose strict rules for how different activities are funded (impose an “Activity-Based Costing-like” philosophy)
- Impose rigorous and transparent accounting procedures to link expenditures to activities
- Clearly articulate methodology in Acquisition Strategy, APB, POM/BES, and keep your resource sponsors, OSD & Component budget analysts briefed!

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Summary (1)

- EA requires concurrent investment in requirements elicitation, design, development, production and support –far earlier in the Lifecycle than traditional Single-Step
- EA requires concurrent participation of users, developers, operators, supporters and testers—Often before formal program initiation
- EA blurs the traditional demarcations between phases, participants and activities
- All of which requires rigorous management processes, and open communication with Service, OSD, and Congressional staffs
- Some new processes and procedures may need to be developed

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•One of the key difficulties is getting these rolling requirements into the process - which usually requires a two-year lead. Also, justifying your budget to comptrollers and Congressional staffers, especially when you don't have a product or a traditional develop/produce/deploy timeline.

Summary

- The PPBS process was not built with EA in mind
 - The PPBS process is not flexible, agile, or responsive
- However, PPBS **does permit** EA, within certain constraints:
 - Requires judicious planning and programming
 - Requires rigorous management, accounting, and reporting
 - Requires clear, timely, and forthright communication with Resource Sponsors and Oversight

These are activities we should already be doing!!

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Examples/case studies

- TBD

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Reference material: Policy

- [Misappropriation Act](#) (or Purpose Statute) [Title 31, U.S. Code, Sec 1301]: Requires funds to be used only for the [purposes](#) and programs for which the appropriation was made
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- [Bona Fide Need Rule](#) [Title 31, U.S. Code, Sec 1502]: Requires funds to be used only for needs or services in the [year](#) of the appropriation's obligation period
- DoD 7000.14-R, the Financial Management Regulation (FMR) dictates [funding policies](#) (not law) for each appropriation type (Procurement, RDT&E, O&M, etc)

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BACKUP SLIDES

Original Briefing

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Background

- PPBS is the process by which
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PPBS Expanded

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DPG – Defense Planning Guidance

Budget Execution

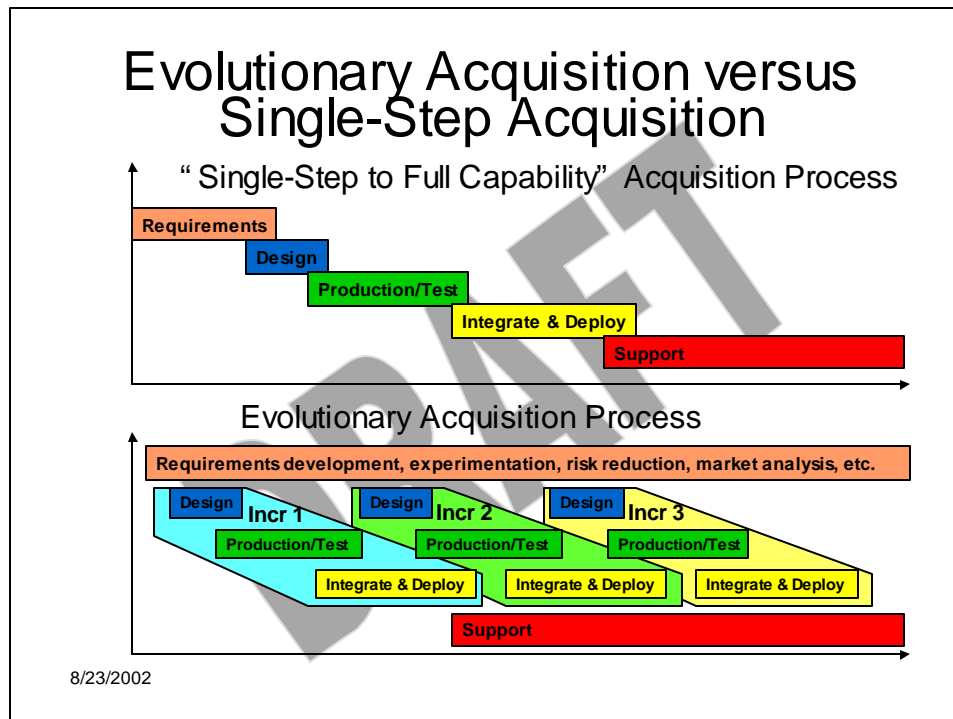
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Budget Execution—The Basics

- Fiscal laws define how certain acquisition activities must be funded
 - **Misappropriation Act** (or Purpose Statute) [Title 31, U.S. Code, Sec 1301]: Requires funds to be used only for the **purposes** and programs for which the appropriation was made
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 - **Bona Fide Need Rule** [Title 31, U.S. Code, Sec 1502]: Requires funds to be used only for needs or services in the **year** of the appropriation' s obligation period
- DoD 7000.14-R, the Financial Management Regulation (FMR) dictates **funding policies** (not law) for each appropriation type (Procurement, RDT&E, O&M, etc)
 - Additional funding restrictions are imposed by internal DoD resource management policies
 - Driven by a need for visibility and accountability in funds management (Congress & the Taxpayer are ALWAYS watching!!)

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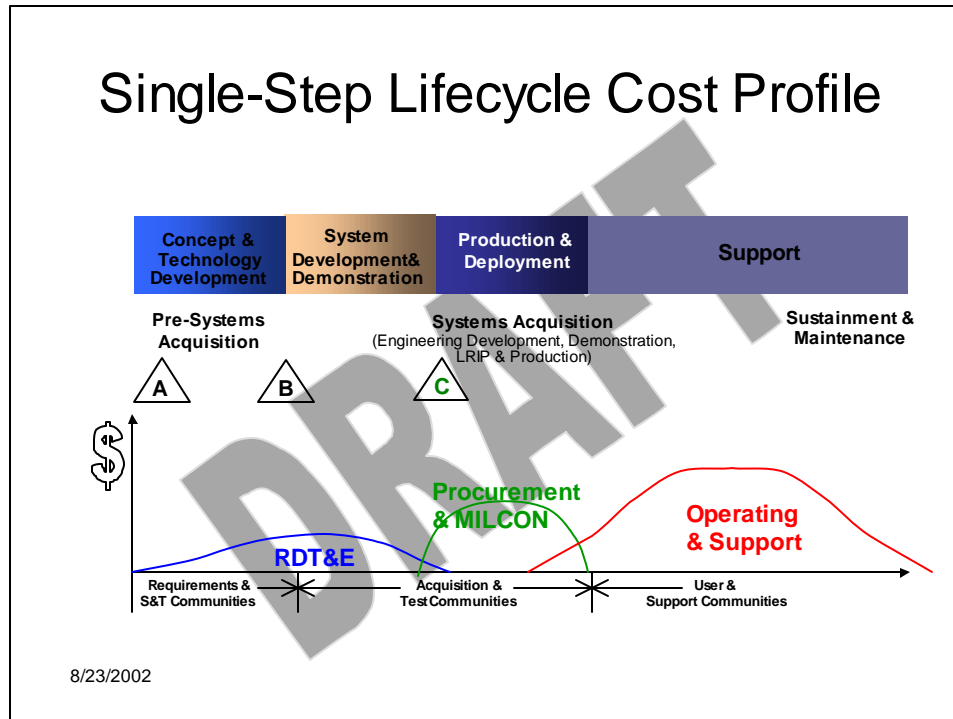
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Finally, note the early initiation of support activities relative to the linear-sequential process.

Single-Step Lifecycle Cost Profile



This graphic maps the lifecycle cost categories (Research Development Test & Evaluation; Procurement, Military Construction (MILCON) Operations & Maintenance) against the lifecycle of the typical linear-sequential acquisition process.

With a linear-sequential acquisition process, such as the Single-Step to Full Capability approach, funding across the lifecycle follows a familiar pattern: RDT&E early in the lifecycle, procurement during production which coincides with MILCON for establishing facilities, O&S (consisting of operating and maintenance (O&M) and military personnel (MILPERS) appropriations) through the bulk of the operational life, until system retirement and disposal.

Note also that different communities are dominant in certain phases of the acquisition lifecycle, and less evident in others. This gives rise to the "tradition" of certain organizations being customarily funded with certain appropriations.

Given that this has been the preferred acquisition model over the past several decades, there may be discomfort and resistance to changing the way funds are managed. EA will challenge the traditional funds management practices.

- Note: Requirements community tends to use O&M funds for early studies

EA and PPBS Mismatch

- EA requires concurrent investment in requirements elicitation, design, development, production and support
- EA requires concurrent participation of users, developers, operators, supporters and testers
- EA blurs the traditional demarcations between phases, participants and activities
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•One of the key difficulties is getting these rolling requirements into the process - which usually requires a two-year lead. Also, justifying your budget to comptrollers and Congressional staffers, especially when you don't have a product or a traditional develop/produce/deploy timeline.

Critical EA vs PPBS Issue

- The PPBS process is driven by the biennial budget cycle
- New requirements take 2 years to get into the budget
- If User's requirements are changing annually (if not more frequently) how do you fund these evolving requirements?

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Recommended Practices

- Collaborative requirements process
 - Acquirer works with Users and other key stakeholders to define time-phased requirements
 - Functional, effects-based requirements, not “system-specific”
 - Link functional requirements to CONOPS, operational architectures, etc.
 - Must be “realistic”—rationalized with constraints, availability of technology, etc.
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 - Use automated Requirements Engineering, Management, & Analysis tools to trace ORD “shalls” to detailed requirements in each increment
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 - Provides:
 - complete visibility to funding sufficiency
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Operating Premise

- The PPBS process was not built with EA in mind
 - The PPBS process is not flexible, agile, or responsive
- However, PPBS **does permit** EA, within certain constraints:
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These are activities we should already be doing!!

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Getting PPBS to Support EA

- Work with User, Sponsors to get requirements in Functional, Time-phased format
- Explicitly link POM/BES exhibits to EA strategy
- Provide solid rationale for amount and color of money
- Impose strict rules for how different activities are funded (impose an “Activity-Based Costing-like” philosophy)
- Impose rigorous and transparent accounting procedures to link expenditures to activities
- Clearly articulate methodology in Acquisition Strategy, APB, POM/BES, and keep your resource sponsors, OSD & Component budget analysts briefed!

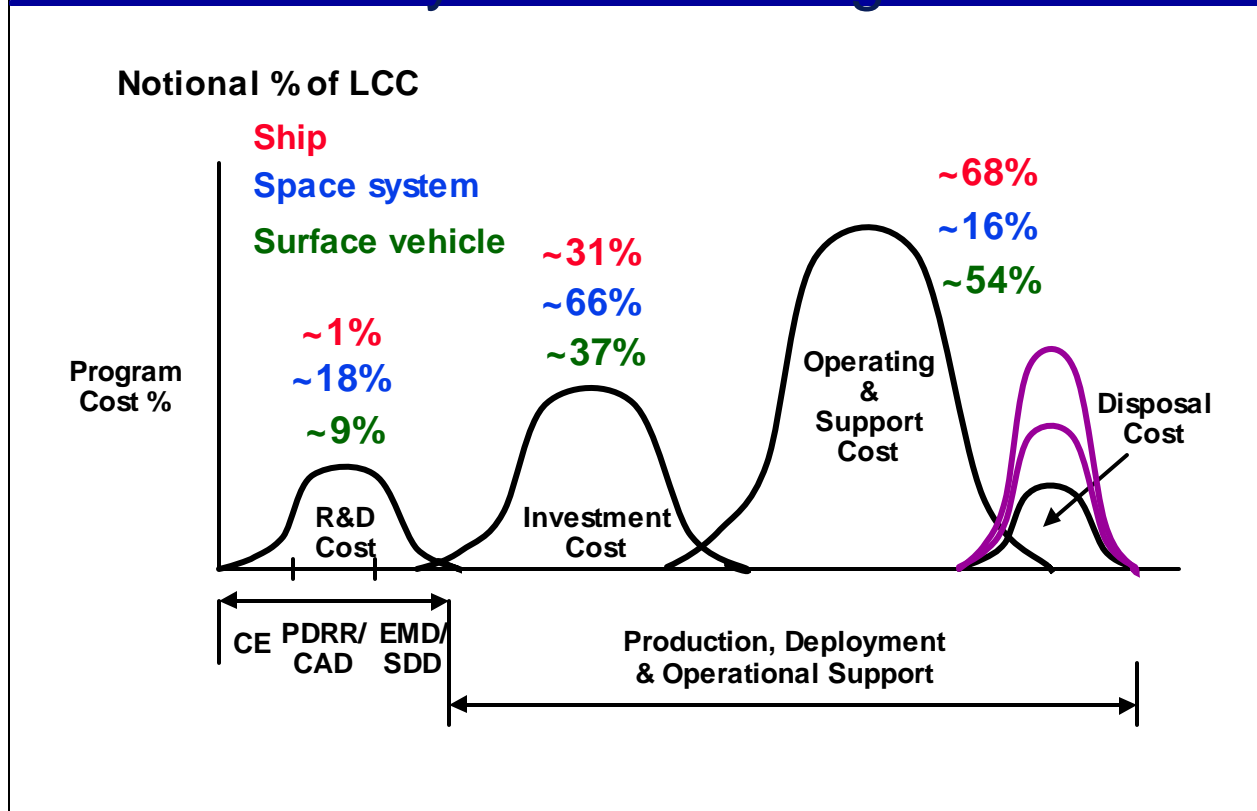
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USEFUL CHARTS

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Life Cycle Cost Categories



- Traditional program
- Disposal Cost
 - Enterprise example - cheaper to refuel, operate & support for another 25 years than to dispose of the 8 reactors (other nuke carriers have only 2 reactors)
- Why should the PM care? **Best opportunity to reduce LCC is early in program**

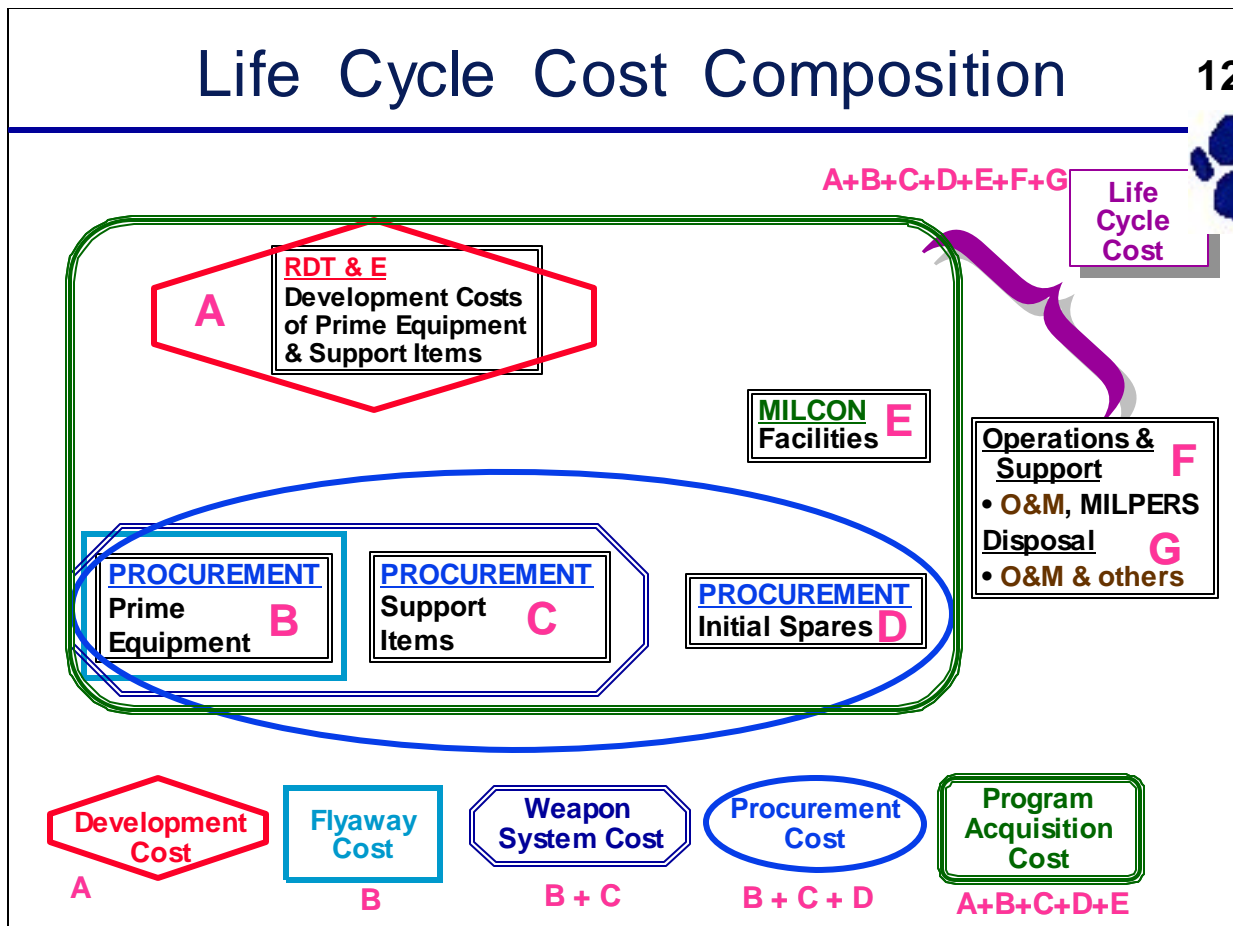
TRANS: We've talked about the definition of LCC and how it breaks down into cost categories. There is another way to break down LCC that's important for the PM to understand.

Notes:

- Source of percentages (Component Cost Analysis Agencies cost estimates)
- Assumed life for Weapon Sys cost estimates - 20 yrs
- Source: *Status of DoD's Capability to Estimate the Cost of Weapon Systems: 1999 Update*

Life Cycle Cost Composition

1228



- From DOD 5000.4-M -- Cost Analysis Guidance and Procedures
- Walk thru boxes and **appropriations** for each
- Then start clicking
 - Dev -- RDTE costs for PME and Support items and anything else
 - Flyaway (Rollaway, Sailaway) -- **Procurement costs only** for PME only
 - WSC -- Add Proc costs for Support (SE, Training Equip, Tech Data, etc.) [next chart]
 - Procurement -- Add Proc costs for Initial Spares
 - PAC -- Proc & Dev & Milcon (system unique facilities, e.g. C-17 hangars)
 - LCC -- PAC & O&S & **Disposal** (all appns)
- Initial Spares: spares required to operate system until supply system is up and running
- **Why should PM care?** Someone's going to ask you how much your program costs. Your answer has to be, "which cost do you want? Proc cost? PAC cost? Need to be able to tell them what costs you're giving them."

Major Appropriation Categories

APPN CAT	SCOPE OF WORK EFFORT	FUNDING POLICY	OBLIGATION PERIOD
RDT & E Both	RDT&E Activities & Exp, AIS Equip & SW, R&D Facilities, Minor Const	Incremental	2 Years
PROC [SCN] Inv	Production Labor/HW, Initial Spares, AIS Equip & SW >= \$100K	Full	3 Years [5 for SCN]
O&M Exp	Replenishment Spares, Civilian Salaries, Minor Const < \$750K, Travel, AIS Equip & SW < \$100K, SW Dev/Mod/Purch/Lease	Annual	1 Year
MILPERS Exp	Military Pay & Allowances, PCS Moves, Retired Pay Accrual	Annual	1 Year
MILCON Inv	Major Construction Projects >\$750K	Full	5 Years

An **appropriation** is “provision of **legal authority by an act of the Congress** that permits Federal Agencies to incur obligations and to make payments out of the Treasury for specified purposes.” -- **provides Budget Authority**.

Category: Type of funding or “color of money” -- aggregation of all similar appropriations of a specific type (e.g. all RDT&E for all Components and Defense Agencies)

Account: Category plus Component. About 60 approp accts for Defense.

RDT&E: all costs assoc w/ RDT&E (expense & investment); end items, minor constr; civ pay (Navy uses WCF for civ pay at RDT&E facilities) **2 Years** [CE, PDRR, EMD]

Procurement: all costs assoc w/ procuring **end items** intended for operational use >\$100K (labor, mat'ls, overhead, init spares) **3 Years**; **SCN: 5 Years** because building ships is like large construction project [PRODUCTION]

LRIP: recent law change - R&D only for test-unique items; otherwise Procurement.

O&M: O&S of fielded systems (replen spares, fuel, civ pay, travel, constr <\$750K, procure >\$100K unit cost) **1 Year** [O&S, Disposal] **ASK: O&M and O&S the same?**

MILPERS: uniformed pers (pay, allow, PCS, contribs to retirement trust fund) **1 Year**

MILCON: all costs assoc w/ construction projs >\$750K **5 Years**

PMs don't directly manage MILPERS & MILCON

Funding policies can be thought of as tied to the criteria of **EXPENSE and INVESTMENT**

Expenses are costs incurred to operate and maintain the organization, such as personal services, supplies and utilities. [**Track Expenditures**]

Investments are costs that result in the acquisition of, or an addition to, end items. These costs benefit future periods and generally are of a long-term character such as real property and personal property. (from DoD 7000.14-R 010201 B & C) [**Track Obs**]

Expense/Investment Matching Thus we have three general classifications of the appropriations categories, and therefore, three funding policies.

Execution Laws

- **Misappropriation Act** [Title 31, U.S. Code, Sec 1301]
 - Requires funds to be used only for the **purposes** and programs for which the appropriation was made
- **Anti-deficiency Act** [Title 31, U.S. Code, Sec 1341 & 1517]
 - Prohibits making or authorizing an obligation in excess of the **amount** available
 - Forbids obligation to pay money from the US Treasury in advance of an appropriation
 - Requires agency to **fix responsibility** for violations of the Act
- **Bona Fide Need Rule** [Title 31, U.S. Code, Sec 1502]
 - Requires funds to be used only for needs or services in the **year** of the appropriations obligation period



*ISAC FM4

Misappropriation Act -- requires funds be used for the same **purposes and programs** stated in the appropriation. Preserves Congress's power of the purse.

- Examples:*
- Product Improvement interpretation of improving system performance
 - Multiple sidewalks to build a runway because no MILCON appropriated (O&M allows construction up to \$750K)
 - What do when determined violation of the Misappropriation Act?

Anti-Deficiency Act -- prohibits obligation in advance of an appropriation, or in excess of the amount available in an appropriation. Can't spend more than you have.

Examples: Use **runway** example; **Signing contract** before you know for sure (have certified) how much money you have; **Any action** resulting in overobligation or overexpenditure (including **clerical errors**)

Bona Fide Need -- funds appropriated for a specific period (e.g. 1 yr for O&M) can only be used for needs which arise during that time

Examples: EOY "fallout" money (O&M) to buy a year's worth of supplies

Good PPBS Websites

OSD Program Analysis & Evaluation (PA&E)

- <http://www.pae.osd.mil/>

Air Force Programmers

- http://www.xp.hq.af.mil/XPP/Panels/xppe_library.htm

Navy Programmers

- <http://www.hq.navy.mil/cno/n8/n80/> (requires password)

Army Programmers

- <http://www.paed.army.mil/>

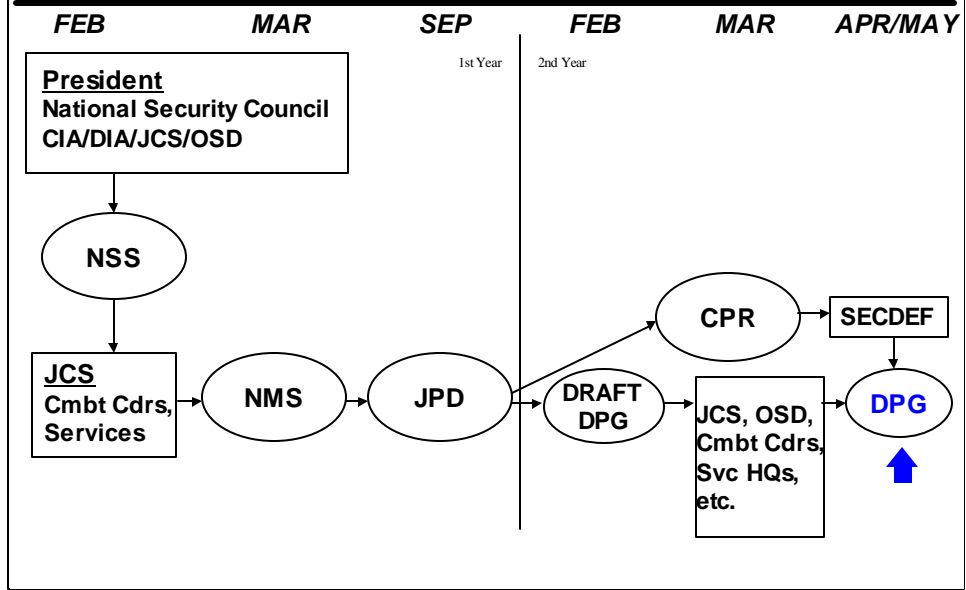
Army Staff Orientation Brief (includes Army Budget brief)

- <http://www.hqda.army.mil/stafforientation/homepage.htm>

FM Knowledge Management

- http://center.dau.mil/Topical_Sessions_templates/FM_Main/template.htm

Planning Phase



Concurrent Program and Budget Review Process

