The Uniform Funding Policy,
An Appraisal of the Fiscal Year 1975 Experience

Study Project Report
PSC 76-1

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The Uniform Funding Policy,
An Appraisal of the Fiscal Year 1975 Experience

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by
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May 1976

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This study project report represents the views, conclusions and recommendations of the author and does not necessarily reflect the official opinion of the Defense Systems Management School or the Department of Defense.
STUDY TITLE:

T&E Uniform Funding Policy, An Appraisal of the Fiscal Year 1975 Experience

STUDY PROJECT GOALS:

To broaden the writer’s perspective of Uniform Funding Policy to include the T&E facility user’s point of view.

To reiterate to all levels of command that problems with the Uniform Funding Policy still exist that need to be solved.

STUDY REPORT ABSTRACT:

This study reports a synthesis of the growing pains of the Uniform Funding Policy in the first year of implementation. Information was gathered from the experience of the Space and Missile Test Center and selected users of T&E facilities. The areas of accomplishment and concern are discussed. The implications of the policy, based on the management actions taken and observed in FY 1975, are analyzed. Conclusions are reached and recommendations tendered.

The two major recommendations are: (1) Perform an in-depth, objective cost/benefit analysis of the Uniform Funding Policy at a representative group of T&E facilities and user organizations; and (2) Apply the costing disciplines of C/SCSC to the T&E facilities.

Further recommendations are made.

KEY WORDS: TEST AND EVALUATION UNIFORM FUNDING POLICY DIRECT COST REIMBURSEMENT RESOURCES MANAGEMENT MILITARY FUNDS OPERATIONAL TESTING FISCAL POLICIES BUDGET FORMULATION TEST FACILITIES INDIRECT COSTS COST ACCOUNTING

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EXECUTIVE SUMMARY

The Department of Defense implemented a new approach to the funding of most Test and Evaluation Facilities in fiscal year 1975. The new approach was called the Test and Evaluation Uniform Funding Policy. It required all federal agencies using Test and Evaluation support to fund the direct costs associated with their individual programs.

This study reports a synthesis of the growing pains of the Uniform Funding Policy in the first year of implementation. Information was gathered from the experience of the Space and Missile Test Center and selected users of T&E facilities. The areas of accomplishment and concern are discussed. The implications of the policy based on management actions taken and observed during FY 1975 are analyzed. Conclusions are reached and recommendations tendered.
# TABLE OF CONTENTS

**EXECUTIVE SUMMARY** ................................................................. ii

**Chapter**

I. **INTRODUCTION** ................................................................. 1

   Background ................................................................. 1
   Scope and Limitations ................................................... 2
   Purpose ................................................................. 2
   Organization of Report ................................................... 4

II. **THE FISCAL YEAR 1975 EXPERIENCE.** ..................................... 5

   The SAMTEC Experience ................................................... 5
   The User Experience ...................................................... 10

III. **ANALYSIS OF THE SAMTEC AND USER EXPERIENCE** .................. 15

IV. **CONCLUSIONS AND RECOMMENDATIONS.** .................................. 22

   Objectives of UFP ...................................................... 22
   Conclusions ............................................................ 23
   Other Relevant Conclusions ........................................... 24
   Recommendations ...................................................... 25
   A Final Word .......................................................... 29

**APPENDIX A: DoD T&E UFP RECOMMENDED BACKGROUND READINGS.** .......... 30

**APPENDIX B: SAMTEC BRIEFING CHARTS** .................................... 31

**BIBLIOGRAPHY** ................................................................. 35
CHAPTER I

INTRODUCTION

BACKGROUND

On 1 July 1974, DoD changed the method of funding at eighteen* major test and evaluation activities to a new concept termed the Uniform Funding Policy or, more colloquially, the Direct Cost Funding Policy. The Uniform Funding Policy (UFP) was intended to solve the ills caused by a lack of uniformity in funding practices used by facilities providing test support to programs of the DoD and other Federal Government agencies.

The change in funding policy meant that the range and test facilities would be reimbursed by their users for the direct costs incurred in support of their programs. The parent service of the particular range or test facility would be responsible for institutionally funding those costs which were not covered by reimbursements. In essence, the new policy meant major changes in budgeting and program execution at the affected range and test facilities and for all users of those facilities.

The theory underlying the UFP is deceptively simple. It is not until you are faced with the problems involved in day-to-day application of the theory that you begin to seriously question the practicality of the concept. The questions begin at a level as basic as interpreting the definition of direct costs. They quickly evolve to complex issues of cost estimating, or handling funding for short notice changes to test requirements, or budgeting

*A nineteenth activity, the Atlantic Underwater T&E center, implemented the Uniform Funding Policy on 1 July 1975. There are twenty-six activities collectively referred to as the DoD Major Range and Test Facility Base (MRTFB). Seven activities that primarily support parent service requirements were exempted from the Uniform Funding Policy.
against twin unknowns of institutional bogey and plant utilization. These questions and others will be addressed in this study.

Despite the significant impact of the UFP, there is a scarcity of published professional comptroller literature on the subject. Most writing to date consists of directives and regulations. For the individual interested in an in-depth background of the history and procedures of the UFP, a brief list of recommended readings is at Appendix A.

SCOPE AND LIMITATIONS

The study will address the major experiences encountered at the Space and Missile Test Center and a selected group of users during fiscal year 1975. The problems that will be examined are those that continue to be most troublesome and require solution at an organizational level higher than the single test center or user.

The reader should be aware of two limitations to this study. First, it was done against a severe time constraint and consequently is based largely on the writer's experience prior to attendance at Defense Systems Management School. Second, research and contacts for the study have been primarily with the Air Force. Although a great deal of commonality should exist, the Navy or Army reader may find some situations that do not apply to his particular service perspective.

PURPOSE

Proponents of the Uniform Funding Policy emphasize that it is an improvement over the past variations in practice among the twenty-six test and evaluation (T&E) facilities. They contend that being on a "uniform basis" permits a limited, but healthy, competition between T&E facilities
for specific tests. This, in turn, encourages more interservice and joint service use of the T&E facilities. The more flexibility a user has in his choice of T&E facility, the less the chance there will be of misassignment or maldistribution of test work.

The proponents also state economies will result from having a manager—in this case, the user—pay for what he gets. If the user actually parts with his dollars, he will be motivated towards the more efficient and lower cost T&E facility.

Although it is never verbalized, another point in favor of the UFP, is that funding is easier to justify in the budgets of specific weapons systems programs than in the budget of a T&E facility. This is based upon the reality that Congress generally views the T&E facility as an overhead activity. It is the writer's opinion that this was the key driver of the funding change.

There are other arguments in favor of the UFP that fall into one of the three broad points above.

Opponents of the UFP argue that flexibility is decreased, not increased, by the more stringent limitations on where and how their financial resources can be used. They add that judgment is required when deciding when one should stop charging managers. There is indeed the possibility that having the manager pay can be extended to areas where the value of motivation is less than the paperwork costs. Users of T&E facilities are quick to tell you that their funding is also difficult to obtain and that they do not view testing as another overhead item.

The Uniform Funding Policy was not promised to be a bed of roses. Complexities were recognized, serious questions were raised, and warnings
were sounded both up and down the organizational chain. John W. Cooley and James W. Sayler, two OSD accounting theoreticians involved in the policy development, wrote, "Budget officials and program and support managers must clearly comprehend the new policy to understand and be able to analyze financial estimates and reports." (5:15)

The purpose of this study is not to decide if UFP is good or bad! It is with us. Rather, the purpose is to reiterate to HQ AFSC, the Air Staff, and DoD that certain problems still exist. To a great extent, they are the same problems that existed—and were the substance of questions asked—in the earliest days of policy formulation. While the advantages of the UFP have to an extent been realized, it is necessary to come to grips with these problems for UFP to be truly viable. The specific objective is to generate some impetus toward solving the problems.

This study should help answer the question that seems appropriate to ask: What has the Uniform Funding Policy accomplished?

**ORGANIZATION OF REPORT**

This study is divided into four chapters. Chapter two develops the experience of the Space and Missile Test Center (SAMTEC) and selected users during fiscal year 1975. Chapter three contains an analysis and discussion of that experience. Conclusions and recommendations are presented in chapter four.
CHAPTER II

THE FISCAL YEAR 1975 EXPERIENCE

In this chapter the experience at the Space and Missile Test Center (SAMTEC) will be addressed. The attempt will be to focus on those areas that generated the most concern and were considered to be management problems. It is the writer's belief, based on numerous discussions with controller personnel from Air Force Systems Command (AFSC), Army, and Navy T&E facilities that the SAMTEC experience was not unique and that all facilities shared similar problems.

Issues obtained during interviews and discussions with users of T&E facilities will then be reported. This information was obtained primarily from program control office personnel and again, as with the SAMTEC experience, the problems encountered were to a great extent shared in common.

THE SAMTEC EXPERIENCE

The SAMTEC entered the fiscal year with a tested and proven job order cost accounting system that also incorporated cost information from the range technical services contractor. It had been adapted to the requirement to identify direct costs. The Commander had chartered a Direct Cost Policy Board that actively grappled with directives and issues from the outset of the Uniform Funding Policy. A local regulation had been published that formalized policy and established procedures for Center personnel to follow in their interactions with users and SAMTEC programming, budgeting, and accounting functions. An intense educational effort on the new policy and its effect on methods had been undertaken. The continuous support
on the Commander, also resulted in a CAN DO attitude among senior managers and their subordinates. The range technical services contractor was firmly on board. A conscientious effort at budgeting for fiscal year (FY) 1975 reimbursable earnings had been completed. In summary, on 1 July 1974 the SAMTEC was as prepared as it could possibly be for the Uniform Funding Policy.

The SAMTEC received a Reimbursable Budget Authorization (RBA) of $13,913,000, 22% of its operating program. Of this amount, $8,361,000 was based on estimated costs at other facilities which furnished support to SAMTEC which was acting in a "lead range" capacity. These costs, when incurred by that supporting facility, would be passed by SAMTEC back to the user. The $5,552,000 balance of the RBA was identified as "SAMTEC Direct Costs." These costs, only estimates at the beginning of the year, were of more interest to SAMTEC management. They represented the institutional funding foregone from the operating program; i.e., the dollars that bumped against SAMTEC funding requirements and had to be earned to preclude a funding shortage. SAMTEC progress against updated annual estimates (not RBA) is depicted in Appendix B.

Administrative Workload: The most immediate impact of the new policy was felt in many ways. There was an increased administrative workload which involved handling myriad details of estimates, funding documents, and memorandums of agreement. Additionally, letters from headquarters continually asked: How are you doing? Under the previous funding policy, SAMTEC had a minor reimbursable program. Identifying reimbursements had been relatively straightforward. The new policy required agreements as to budget levels not only with users but also with supporting T&E facilities.
The impact was not unexpected. Developing the budget estimates for FY 1975 gave an indication of what was in store. The sheer magnitude of the paperwork became the challenge. Bear in mind that work on the FY 1976 budget was now also underway.

To briefly recap the direct cost workload as of 30 June 1975:

--SAMTEC had 41 users and 93 active job orders.

--73 SAMTEC and 61 support range project orders and amendments thereto were processed.

--Each month, on the average, fifty appropriation transfers were prepared and processed.

--By the end of the year, 186 changes to program requirements had been processed. Each required changes to accounting records. Of these, 62 involved changes only at one or more SAMTEC support ranges and 104 involved both SAMTEC and the support ranges.

New Memorandums of Agreement (MOA) were attempted initially; however, since the workload became so burdensome except in the case of large dollar amounts, requests for MOAs were discontinued.

The number of telephone calls received and made to and from users and support ranges to iron out difficulties is unknown. The figure would probably be staggering. However, as has been demonstrated in so many management schemes, the informal telephone network was the salvation of many problems.

The increased administrative activity was not only felt in the comptroller office but to a considerable degree experienced by all SAMTEC financial and project managers. They were kept busy preparing new budget estimates, working revisions, deciphering cost reports, and, as afterthought, managing the technical features of their programs. This increased workload was absorbed within already limited manpower resources.
**Budget Preparation:** Under the UFF, SAMTEC must essentially prepare two budgets. One budget for institutional funding or New Obligational Authority (NOA) is developed by subtracting the second budget consisting of forecast reimbursements (RBA) from Total Obligational Authority (TOA) requirements. (TOA minus RBA equals NOA.) The difficulty of users to forecast their requirements begins a vicious circle. The T&E facility cannot forecast its workload, therefore it cannot estimate reimbursements and, then in turn, cannot furnish good estimates to the users. To add to the confusion, the entire process is complicated by the changes that occur in program levels as the budgets of both the user and the T&E facility move toward Congress.

As SAMTEC began its FY 1976 budget, it became apparent that coordination between the Center and the users on amounts to be shown in budgetary documentation was going to be very difficult. In fact, total agreement was impossible. The T&E facilities operate on the mission support budget cycle which follows the user program budget submission. While a case could be made that there is probably no need for total agreement, the lack of agreement does beg questions which would be difficult to answer if asked by probing OMB or Congressional staffers.

**Program Execution and Changes:** Throughout FY 1975 SAMTEC tracked closely to its forecasted reimbursements. Had that not been the case, it would have been necessary to cancel or defer some aspect of the program. Each month close management attention was given to the uncertainty of earning all reimbursements as well as to the proper financial and procurement action to take based on that expectancy. The UFF had certainly injected
a new variable into financial management. SAMTEC was fortunate; certain other T&E facilities found it necessary to defer contracts until FY 1976.

As the fiscal year progressed, it became obvious that not everyone in DoD had the same understanding of the mechanics of the UFP and its effects on the budgeting and accounting process. As with any new institution, it was necessary to educate the SAMTEC users and reiterate their responsibilities. It also was necessary to educate the auditors and inspectors who visited SAMTEC.

As SAMTEC and its users gained experience with the new system, it became apparent that the inability to properly handle the UFP aspects of walk-in work was a major problem. Some accommodation must be reached because the T&E facility is directed not to provide service until funding has been received. On the other hand, there were situations when users required quick reaction support or had unanticipated last minute changes to test program requirements. The SAMTEC policy was and is to provide service to users with minimum impact to their mission and test objectives. To facilitate this service, a procedure was developed for those cases where changed or increased requirements necessitated more funding. An individual called the SAMTEC Test Manager (STM) was named for each Job order. The STM was responsible for verifying that user program requirements were applicable to the funding for that Job order, and if the funding was inadequate, for obtaining user verification that additional money was on its way. If support ranges were involved, comptroller personnel notified them that funding had been confirmed. This concept of having one expert assigned to each job order had many beneficial applications. The point must be made that the above management actions take time at the
expense of technical aspects of the program.

There is a corollary to the preceding situation. Support ranges were constantly changing prices or revising cost estimates. This will be discussed further under user experience. SAMTEC was literally caught in the middle because of its lead range role. The impact to SAMTEC was largely administrative and has been discussed.

The breakout in Figure 1 of the net effect of requirement and price/cost changes shows how some major test programs were affected. Fortunately, the bottom line was close to the original program total and to the amount SAMTEC needed to earn. The month-to-month fluctuations of these changes can be seen on the lines "Updated Annual Est - SAMTEC" and "Updated Annual Est - Spt Range" on Chart 1 in Appendix B.

Year End Close: SAMTEC began its preparation for closing FY 1975 reimbursable transactions on 13 March 1975. The SAMTEC Test Managers in the operational organizations were requested to critically review their job orders for potential excess or shortage of reimbursable dollars. These analyses were to be forwarded to the comptroller office for the appropriate action. This was not a one-shot occurrence. It was an intense, continuing effort through the last day of the fiscal year. The purpose was to release all FY 1975 dollars that could be utilized by the users for other requirements. SAMTEC operating program requirements were also considered.

THE USER EXPERIENCE

The problems experienced by the users are closely aligned to the SAMTEC experience. Indeed, they are generated by the same root cause.

On the benefits side, the users report that the UPP has definitely
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FIGURE 1
proved communications and coordination with the T&E facilities. There is a general consensus that awareness of T&E costs has increased with a resulting scrutiny of test requirements for both new and on-going programs. The users now question the cost of certain tests and data items and are receptive to suggestions for lower-priced, near-equivalent data products. There has been a notable reduction in the use of high cost mobile sensors (range support aircraft and ships), although it is difficult to document that this reduction is driven by cost considerations.

Administrative Workload: The most voiced complaint with the UFP was that it had generated a veritable mountain of paperwork. The use, within AFSC, of the MOA was viewed as redundant to the Universal Documentation System and the requirements of AFR 80–14. The subsequent use of the MOA to re-program funds caused needless delay in meeting unanticipated urgent requirements. Most concern was aimed at the manpower that had to be devoted to increased budgeting, tracking by small pockets of funds, negotiating and understanding MOAs, verifying that changes were covered with funds. Additionally, explaining the lack of uniformity in the application of direct costs to concerned program managers was another problem. In short, an inordinate amount of time was spent on a small portion of the program dollars.

Budget Preparation: The users reported the same problem with budget coordination that was discussed earlier. In addition, they charged that no two T&E facilities, whether in or out of the same service, used the same estimating technique or charged for the same types and degrees of support. Consequently, the user was faced with becoming familiar with how each T&E
facility supporting his program was operating. This lack of uniformity, which they saw as contradictory to one of the driving reasons for the Uniform Funding Policy, caused them to question the accuracy of their budget even when it was based on firm requirements.

Program Execution and Changes: Out-of-cycle or late notification of price/cost increases impacted severely on user programs. Some users felt that the technique of funding institutional shortfalls by increasing a price or standard rate to the user, was questionable and damaged the credibility of the T&E facilities. The users maintained that while dollars all ultimately come from the same pocket, it is a tortuous process to justify one budget at the expense of another.

In the same vein, the users wanted more detailed cost information or, at least, information traceable to major elements of program office requirements. In AFSC, this situation was resolved by a letter authorizing the T&E facility to complete the 1080 voucher and merely mail the program office a copy of the paid voucher. However, this did not end the requests. Some T&E facilities responded to special requests and helped the users interpret the Job Order Cost Reports. Some only quoted AFSC policy. The users contended that they needed a better understanding of the bill if they were to financially manage their programs. They pointed out that when costs exceed estimates they must be able to explain the overruns. They also needed a basis for determining if additional funding was warranted or if testing should be deleted.

Very little cost information was available. This was compounded by the problem of slow billings. Bills were received as late as 90-120 days.
after the support had been furnished. This made financial status in the program office an extremely vague proposition. This problem is well documented to the DoD level, but the users are not seeing any improvement.

**Year End Close:** The late billing problem was especially troublesome as program offices attempted to establish their year-end position and take appropriate reprogramming actions. The telephone had to be relied on, and a potential for serious difficulty was felt by every user.

The program offices in AFSC have a fence around those portions of their funds which are budgeted for spending at AFSC T&E facilities. This fence, a procedure only AFSC has adopted, limits the program office to obligating the restricted funds only at a specific T&E facility. The purpose is to provide a guaranteed source of reimbursements to the T&E facility to protect against the effects of reduced, slipped, or cancelled programs which cannot be balanced by walk-in work. This procedure has worked well in AFSC in that it has protected the T&E facilities. On the negative side it has reduced the program manager's flexibility to reprogram or to spend his resources at some other facility. Users are unanimous in their dislike of the fence.

**CLOSE**

FY 1975 was a learning year and there is no doubt that UFP worked. The T&E facilities and the users can justifiably claim that it worked because it was made to work.
CHAPTER III
ANALYSIS OF THE SAMTEC AND USER EXPERIENCE

The categories of observation used in the preceding chapter will be used as a framework for this analysis. The SAMTEC and the user experiences will be considered together.

Administrative Workload: The excessive administrative workload has become the rallying point of critics of the UFP. The necessity to absorb the workload for what was perceived as another overhead—perhaps counterproductive—accounting exercise was a bitter pill to swallow. This was especially true at the T&E facilities where most management efforts were devoted to reducing all nonmission-oriented requirements. The workload contributed to making the UFP more difficult to implement. Its effects are still being felt. The notion of another "bean counter exercise" tended to make the users ignore the implications of the policy on their programs until they felt the impact on their limited program control staffs. As the problems encountered in the first months of the fiscal year impacted on the time of personnel beyond the comptroller organization, responsible managers began to ask serious questions about the purpose and expected benefits of the UFP. The commander and the comptroller found themselves in a constant process of educating both T&E and user personnel. The users were slow to realize any relief from the learning curve because every T&E facility with which they dealt was to some extent unique and, in the lack of higher headquarter's guidance, was coping with its problems in a personalized way.

Two lessons can be learned from this experience.

First, all levels of the military establishment, and especially the
DoD level, should carefully study and assess the manpower impact when instituting policy changes with widespread procedural implications. Just as so many program managers have learned after approving an engineering change proposal, they may have a tiger by the tail. Field organizations are stretched too tightly to let it be assumed that any extra workload can be absorbed.

Secondly, it is difficult to sell and implement labor draining overhead improvements in this time of manpower shortages when all commanders are desperately seeking productive time to satisfy mission requirements. It appears from the SAMTEC and user experience that a great potential for diversion of labor to more productive pursuits exists if the UFP could be eliminated.

Budget Preparation: It may be a simplistic evaluation, but budget preparation should be a discipline and rational exercise, not a guessing game. Problems in budget preparation are only felt when that budget is being executed.

While the UFP has definitely driven the users and T&E facilities into closer coordination, better planning and budgeting have not necessarily been the result. The basic cause of this situation is the old nemesis: inability to firmly forecast requirements the 18 to 24 months in advance necessary for establishing a budget. This problem will never be solved completely. Having the data base in future years that was lacking for FY 1975 will help alleviate the situation. Even ten years of experience probably will not help the T&E facility reimbursable estimate agree with the user’s budget submission as is presently directed. The two can only
hope to settle on a negotiated compromise of cost and time.

The user, who traditionally overstated his T&E requirements, is now in the position of justifying T&E dollars. If he overstates his budget and obtains the funding, he has not gained—at least not in AFSC where the fence protects the T&E facility. On the other hand, if the user understates his requirements, (unless he has covered himself by building up some other area) he will be foregoing funding. As a result of these balancing influences, the user will probably be driven to a realistic budget estimate identified to the T&E facilities that he has historically utilized.

When it cannot identify work, the T&E facility must use an estimate for unidentified or walk-in orders in an attempt to keep its reimbursable budget credible at DoD. The onus is clearly on the T&E facility to be conservative in its estimate of unidentified reimbursable earnings. More experience will help the T&E facility judge the amount of that estimate.

Program Execution and Changes: Trading institutional dollars that can be expected to materialize, for reimbursable dollars that are only available when and if earned, puts the T&E facility financial manager in a position of betting on the outcome. He must not only bank roll the fixed costs of his operation, he must delay decisions involving the reimbursable dollars until they are firmly in hand. The more austere that institutional funding becomes, the more the T&E facility must rely on reimbursable dollars. As institutional and program budgets are both reduced in their separate review and approval channels, the T&E facility is literally caught in the middle. This gives rise to the expressed concern that erosion of range capability will result from the UFP.
The T&E facility must provide a certain degree of stability to the work force and contractors; therefore, the financial manager is put in the position of deferring or holding back in some element of expense over which he has control. The only elements that permit this discretion are in the area of capital investment, i.e., certain facility projects and plant improvement and modernization. Since these areas both involve lengthy procurement contractual actions, there is always the likelihood that necessary actions may not be taken in time. At best, the need for forward financing becomes more necessary. Short term deficits are made up at the expense of long term health.

The experience of some users in FY 1975 indicated that certain T&E facilities used their flexibility to increase estimated prices or standard rates to cover short term funding deficits. Of course, this impacted unfavorably on the user programs. In some instances it also caused cancellation of test support and migration of workload to a lower priced facility. The T&E facility left with the contract for support of a range or mobile sensor, sees utilization fall still lower and a new round of price increases must be invoked—or the ability to support what may be a unique and irreplaceable capability is lost.

This situation is not without parallel in or out of the military. The Military Airlift Command, at the end of the Vietnam War, found that as low utilization forced rate increases, users went heavily to less expensive commercial transportation. The New York City subway system is in a new cycle of declining ridership as service was cut and fares increased. These situations are not necessarily unhealthy. However, if unique test capabilities are not needed and if they are to be foregone, it should be
by rational choice and not forced by an indirect effect of funding policy. Much of the problem of price/cost increases can be attributed to the lack of a data base on which to build the FY 1975 estimates. T&E facilities will be improving their estimation techniques; however, DoD and AFSC guidance still leaves many areas open to interpretation and consequent manipulation. A clear and standardized understanding of what should be classified as direct costs chargeable to the user still does not exist.

There is no uniformity in pricing for equal services. Proration procedures for application of standard rates are left up to the determination of the individual T&E facility. The standard rates themselves are suspect. Recent audits indicate there is seldom any clear audit trail permitting validation of standard rates. Documentation, as it exists, is undated and informal and does not indicate any review or verification of rates before they are utilized (7:4). Variance analysis necessary to refine rates is of questionable reliability. These problems are not new, and it is time they are openly recognized and discussed as valid concerns of the UFP. Only by proper attention to these issues, can the data base for more accurate cost estimating be developed and the user freed from the great disparity of pricing between activities.

There is no enforced period of notification to the user before increasing charges. Budget leadtime is ignored unless challenged by the user. Indeed, in FY 1975, costs were increased after the support was performed. In AFSC, the policy states that standard rate adjustments will not be made more frequently than annually and the user will receive a minimum of ninety days notification—hardly long enough to reflect in a budget submission.
What happens when a program office has test requirements and no funds to cover the reimbursable direct costs? While AFSC Regulation 172-8 states that it is the user's responsibility to request reprogramming of funds by the headquarters, it is well within the realm of possibility that HQ AFSC may not be able to help. The support must be provided, and the T&E facility in the best military tradition, will get on with the job.

One definite argument in favor of providing the user with more detailed cost information is that he will become the government's best auditor. As it now stands, errors affecting the user's program stand a high probability of going undetected (7:3). This is an untenable position for the user. He must explain the overruns on every facet of his program in great detail. To do so requires the information that is available only at the T&E facility. The T&E facility will claim that to provide detailed cost backup will require more manpower than is available. This is the dilemma brought about by the UFF.

The problem of slow billings is one that will be very difficult to eliminate as there is no way to substitute or overlay the present procedures and historical-oriented accounting systems. It is the usual situation when cost or managerial accounting is interfaced with inherently slow financial accounting (and especially government appropriation accounting). Again, it has been proven that an accounting system, like a management information system, cannot be all things for all people. Timeliness cannot result from a piggy-back application, and the impact lies in the difficulty to alert the user when costs are going to be in excess of original estimates. The user is unable to take timely financial management.
action to locate or reprogram funds and provide them to the T&E facility. A clear danger for overobligation exists.

Year End Close: The problems of execution just discussed become more acute as closing procedures are undertaken and time becomes the paramount factor in financial management decisions.

CLOSE

Solutions to these problems may lie entirely in-house; i.e., within the capability of the individual T&E facility and user arrangement. However, it is significant to note that these problems were surfaced as questions prior to implementation of UPP, have subsequently been surfaced in surveys of UPP, and were discussed at the conference held at the Pacific Missile Test Center on 14 July 1975. They still exist as problems today—May 1976. This leads the writer to conclude that perhaps the solutions to the problems do not lie in-house. Perhaps the driver in the situation is more extensive and pervading than can be handled by the individual T&E facility, user, or parent service.
CHAPTER IV

CONCLUSIONS AND RECOMMENDATIONS

The ability of SAMTEC and the other T&E facilities to earn their budgeted reimbursements did not turn out to be a problem in FY 1975. All met (one organization reported earning its forecast to the dollar) or exceeded the amounts that had been offset from their institutional operating programs. This attainment made possible the statement at the Point Mugu UFP Conference that, "The Uniform Funding Policy is working." (8:5)

That statement raises questions: Has UFP achieved its purpose? What is the cost of UFP in relation to the benefits that have been achieved? What was the effect of UFP on the user programs—financially and materially?

OBJECTIVES OF UFP

In Chapter One, the objectives of UFP were stated. Expanded, they are:

--to achieve an acceptable degree of uniformity in funding practices among activities covered by the policy; i.e., a higher degree of cost comparability.

--to eliminate unfair competition between T&E facilities caused by variations in funding practices. Funding practices of either the T&E Support Activity or their customer must not interfere with or deter testing.

--to increase cost consciousness by having the user pay for what he was receiving free. Savings should result by elimination of redundancy and/or gold-plated tests and data requirements. Unnecessary test facilities and capabilities would be identified.

--to identify the full cost of each development project. The test costs would be an integral and visible part of the program's RDT&E budget and financial reports.

--to improve communications between T&E facilities and their users toward the end of earlier definition of test requirements.
CONCLUSIONS

There has been progress toward the objective of achieving a higher degree of cost comparability between T&E facilities. The language and broad funding methods have been benefited by implementation of the UFP. However, there is a long way to go before cost estimates—either the elements charged for or the prices—will permit any direct correlation of the cost of doing business with any two T&E facilities. There is still great disparity in procedures and methods of allocating actual costs to users. Improvements are not coming fast enough. In essence, this objective has still not been attained.

There is no evidence that either the progress made or the problems still existing in funding practices have done anything to encourage or discourage testing. There is evidence that some mobile sensor capability has been lost or jeopardized since implementation of UFP. Further study is needed to identify whether this is a problem or a valid cost reduction. The writer concludes that UFP has not shown it can eliminate unfair competition between T&E facilities.

Some evidence exists that users are requesting less T&E support although how much would be extremely difficult to quantify. This is potentially the most critical aspect of the UFP. A lower level of T&E could be the result of better planning and cost consciousness or it could be due to tighter program budgets, more contractor testing, and reluctance to be committed to a T&E facility during the budget cycle. Only the program manager can tell if test objectives are being sacrificed or deferred to conserve the dollars that would flow to the T&E facilities. And only the
program manager would know if this represented a danger to the success of his program.

It can be concluded that UFP offers no incentive for good financial management within the T&E facility. Costs due to inefficiencies can be passed on to the user; and as UFP is presently implemented, it is up to the user to challenge those costs. Without detailed cost information, the user is somewhat handicapped. Some method of forcing the T&E facility to live with an agreed cost for agreed support is needed.

The fourth objective of UFP—to identify full cost of the project—has not been attained because only questionable direct costs are reflected against the program. Direct costs, whether accurate or inaccurate, are only a small part of the total cost of T&E. The indirect costs and overhead of the T&E facility are never systematically allocated to the individual customer program.

Finally, the objective of improved communications between T&E facilities and users has been accomplished. They are communicating more, but in the failure to accomplish the other objectives, this attainment does not seem noteworthy. In short, the UFP is indeed working but it is falling far short of achieving its objectives.

OTHER RELEVANT CONCLUSIONS

There is no doubt that the administrative workload will continue at its present level which is on the flattened area of the learning curve. Hopefully, there will be no further changes in the UFP that would increase the already onerous burden. Future policy changes at any level of command should be carefully assessed for their impact on overhead manpower requirements.
The inability to forecast T&E requirements 18 to 24 months in advance is a major problem to both the T&E facility and the user. The UFP encourages both the T&E facility and the user to be conservative in their reimbursable budget planning.

The lack of detailed cost information discourages users from accepting UFP as a concept that can work to their benefit. Detailed cost information can only come at further overhead cost to the T&E facility.

Delayed billings will continue to handicap users financial management until DoD and the Services find an expedient communication technique that is both formal and legal.

Using institutional funding as working capital is a definite hardship for the T&E facility and carries a cost that can only be subjectively measured. The T&E facility must be manned and equipped to support high priority programs, even if this support is only required once a year. Funding T&E facilities institutionally rather than by UFP would ensure the availability of this testing capability for as long as it is justified.

While no real problems have resulted to date, it is significant that there is no Air Force directive dealing with UFP. The broad guidance of DoDI 3200.11 is followed by Air Force, non-AFSC users of T&E facilities. The user responsibilities delineated in AFSC Regulation 172-8 are not directive on other Air Force commands and the potential for a misunderstanding exists.

**RECOMMENDATIONS**

The UFP is with us. As a concept, it has produced a general increased awareness of the costs of T&E in a manner analogous to the way Design-To-
Cost focused coequal attention to the parameter of cost. Cost savings from the UFP may even be found to be significant. On the other hand, the administrative burden from the policy has been high, so high that it begs the question: Does the increased overhead attributable to implementation of UFP override any benefits which may be realized? The question can be restated: Is there a less expensive way to achieve the benefits envisioned by the developers of the UFP? Recommendation one addresses this issue, and other recommendations aimed at improving the application of the UFP follow:

**Recommendation One:** Inasmuch as neither the cost nor benefit side of the question has been researched except in the most cursory fashion, the first recommendation is to do just that. Use a team composed of knowledgeable and objective personnel from the areas of comptroller, test and evaluation, systems development, manpower and management engineering, and audit. Charter the team to perform an independent cost/benefit analysis at a representative group of T&E facilities and user organizations. An adjunct to the study would be to develop alternative approaches to those present aspects of UFP that are not contributing to the greater objectives of the policy.

Such a study would be costly and it could take as many as twenty-four personnel a full year to complete an effective analysis. Efforts in this area to date have been little more than an opinion poll. Quite often the T&E facility has been merely asked to incorporate user comments into its response. Requests for candid opinions accompanied with the usual short suspense will get just what is requested—candid opinions. It is regret-
table that the cost of a feasibility study was not borne prior to implementa-
tion of the UFP.

Recommendation Two: A major step that DoD could undertake to make UFP a
viable concept would be to apply the costing disciplines of Cost/Schedule
Control Systems Criteria (C/SCSC) to the UFP T&E facilities. Each T&E
facility would have its existing cost accounting and cost estimating pro-
cedures validated to include the procedures of its technical service and
support contractors. The validation would include a thorough review of
what constitutes the direct costs that the T&E facility includes in its
costs. This review would culminate in an approved "List of Charges" and
would be backed by the method of computation of those charges. This list
would be available for the prospective user to use in the audit of budget
estimates and billings. Once validated, the T&E facility would only modify
its "List of Charges" in phase with the budget cycle. Periodic surveillance
and follow-up audits by an experienced T&E team would insure that the T&E
facility list remains valid. The Joint Logistics Commander's Panel on T&E
could provide policy guidance in a manner similar to the Cost Accounting
Standards Board. If this is carried out, the T&E facilities can live with
the difficulty of forecasting requirements and the need to use institutional
funds for working capital.

Recommendation Three: Insist upon uniformity throughout the UFP. Develop,
implement, and enforce uniform T&E cost standards in DoD. Additionally,
standardize definitions, standard rates and other computations, and price/cost adjustments.
Recommendation Four: Actively work at a solution to the slow billing problem.
A FINAL WORD

The objective of this paper has been to surface the problems of the Uniform Funding Policy in a somewhat different perspective. The study has helped the writer clarify his thinking on the conditions under which successful direct cost reimbursement might be carried out. It is clear that every approach to increase cost consciousness and reduce unnecessary expenditures of scarce defense resources must be pursued. If the policies that lead to attainment of such goals are well developed, thoughtfully implemented, and conscientiously applied, the goals can be realized. If the policies are left up to faith that somehow things will work out, the goals will only be counterproductive.
APPENDIX A

DoD T&E UNIFORM FUNDING POLICY
RECOMMENDED BACKGROUND READINGS


4. SAMTECR 177-1, Direct Cost Reimbursement. Vandenberg AFB, Ca.: 1 April 1976.
APPENDIX B

SAMTEC BRIEFING CHARTS
Status at End of FY 1975

Chart 1: Direct Cost Reimbursements - FY 75. This chart depicts earned reimbursements against a forecast based on the launch and workload schedule. Annual estimates are updated monthly and the fluctuations can be easily tracked. The support range estimates are not plotted as they are independent of SAMTEC operations.

Chart 2: Analysis of FY 75 Reimbursable Direct Costs, By User. This chart is used to show SAMTEC earnings as a per cent of the current estimate for each user. The original estimate was the going-in position.

Chart 3: Analysis of FY 75 Reimbursable Direct Costs, by EEIC. This chart shows progress against the AFSC program as revised in January 1975. SAMTEC had to earn reimbursements of $5,582,000 to cover costs of operations without using SAMTEC institutional funds. This chart was closely watched during the year. The low range support percentage shows the billing lag which did not impact on SAMTEC but presented a problem to the user. SAMTEC billed on time beginning the first month of the fiscal year.
## DIRECT COST REIMBURSEMENTS - FY 75

### ACTUAL VS CURRENT ESTIMATE

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10. SAMTECH 177-1, Direct Cost Reimbursement. Vandenberg AFB, Ca.: 1 April 1976.