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PROJECT PRIME--A VALID DEPARTMENT OF DEFENSE MANAGEMENT TOOL FOR FIELD COMMANDERS

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9 February 1971

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USAWC RESEARCH PAPER

PROJECT PRIME--A VALID DEPARTMENT OF DEFENSE MANAGEMENT TOOL FOR FIELD COMMANDERS?

A RESEARCH PAPER

by

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ABSTRACT

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Dr. Robert N. Anthony became the third Assistant Secretary of Defense (Comptroller) in 1965. He proposed that the Department of Defense use three "Resource Management Systems" to improve its internal management. Project PRIME (PRIority Management Effort), was the first of these to be implemented. Project PRIME promised to assist field commanders to become better managers by focusing on all operating expenses rather than allocation of operations and maintenance funds. At the same time PRIME was to integrate the Department of Defense Programming, Budgeting, and Accounting systems. Study of the literature, directives, reports, and Department of the Army files, and informal discussions with action officers in the US Army Financial and Comptroller Systems Command shows that two and one half years after PRIME was implemented in the Armed Forces, commanders are not convinced that they have a better management tool and the Department of Defense Programming, Budgeting, and Accounting Systems are still not integrated. Additional work is still required to meet the objectives of PRIME.

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INTRODUCTION

BACKGROUND

One of the first actions undertaken by Dr. Robert N. Anthony after he was appointed Assistant Secretary of Defense (Comptroller) in 1965 was to initiate revision of the programming, budgeting, and accounting systems being used by the Department of Defense, its components, and agencies. He called his proposed systems "resource management systems." The first of these resource management systems to receive top level attention was dubbed "Project PRIME." PRIME is an acronym for PRIority Management Effort. PRIME was proliferated throughout the Department of Defense (DOD) during fiscal year 1969.

Resource Management Systems

Standard texts on accounting, management, and systems (including those by Dr. Anthony) do not define or discuss resource management systems by that name. One must turn to Department of Defense publications for insight into "resource management systems." Such "systems include all procedures for collecting and processing recurring quantitative information[1] that (1) relates to resources and (2) is for the use of management.

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[1]Standing alone, this is a definition of a system.

They also include procedures which are closely related to quantitative systems even though the systems may not themselves be primarily quantitative. Resources are men, materials (i.e., real and personal property), services and money."[2] Management processes within the Department of Defense financial community include programming, budgeting, reporting, accounting, auditing and administering the acquisition of consumable resources and their consumption in the execution of assigned missions.[3] Resource management systems are then defined as the sum of their three parts; resources, management, and systems. Within the Department of Defense, resource management systems include systems for programming and budgeting, systems for management of resources for operating activities (posts, camps, stations, organizational entities), systems for management of inventory and similar assets, and systems for management of acquisition, use and disposition of capital assets.[4] Project PRIME was defined as an effort to develop and implement standard systems for management of resources for operating activities. As we shall see, it also encompassed a system of programming and budgeting within the Department of Defense. It appears that advantages to managers expected from

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[2]US Department of Defense, Department of Defense Directive 7000.1: Resource Management Systems of the Department of Defense (22 August 1966), p. 1 (hereafter referred to as "DODI 7000.1").

[3]US Department of Defense, Office of the Assistant Secretary of Defense (Comptroller), A Primer on Project PRIME (November 1966), pp. 7-9 (hereafter referred to as "Primer").

[4]DODI 7000.1, p. 2.

Project PRIME were highly touted to make increased recording and reporting requirements which result from PRIME more palatable to the services and field commanders.

Previous Army Resource Management Systems

As early as 1948 the Army recognized the need for systems for the management of resources in operating units; systems which focused on the cost of operating organizations rather than control of the acquisition of material for use by operating organizations. The first such system was called the Army Primary Program System. It was the first management system in the Army to place responsibility for planning, execution, and performance review in command channels at all echelons.[5]

In 1949 the first Hoover Commission found that military budgeting and fiscal policies needed to be overhauled from top to bottom. One of the results of this finding was Title IV of Public Law 219 (1949) which vested greater power in the Secretary of Defense to make financial management policy for the Department of Defense.[6] It also caused the Army to continue to look at and improve its own financial management systems. The result of these improvements was the Army Command Management Systems (ACMS). The ACMS provided improved methods for programming, budgeting,

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[5]Francis A. Champlin, COL, "Resource Management Systems and Project PRIME," Lecture (US Army Management School, Ft. Belvoir, Virginia, May 1967), p. 10.

[6]William J. Andrews, COL, An Analysis of Project PRIME in the U.S. Army. Thesis (Carlisle Barracks, 9 February 1970), p. 4.

accounting, and measuring performance. The terms "programming," "budgeting," and "accounting" sometimes mean different things to different people. For clarity, definitions are in order before proceeding--

- Programming--"Setting goals, objectives and schedules for achieving them, collecting functions and activities sharing the same objective into families (programs), and estimating resource requirements for each."[7]

- Budgeting--"Formulating detailed one-year projections of resource requirements for the programs, obtaining and allocating associated funds, and balancing priorities in the competition for limited funds."[8]

- Accounting--"Measuring results and status, usually in financial terms, for both organizational units and functional areas."[9]

The ACMS pertained to only one (Operations and Maintenance, Army--OMA) of the five appropriations applicable to the active Army. (The others are: Military Personnel, Army--MPA; Military Construction, Army--MCA; Procurement of Equipment and Missiles, Army--PEMA; and Research, Development, Test and Evaluation--RDTE.) In spite of this weakness, ACMS was considered a step forward in financial management and control.

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[7]Primer, p. 7.
[8]Ibid., p. 9.
[9]Ibid., p. 9.

Close on the heels of ACMS came the stock fund concept. The stock fund provides a means of financially accounting for and carrying items purchased with appropriate funds but not yet issued to the ultimate user (consumed) who will be charged with the expense of the items when they are issued to him. The stock fund concept has long been used in industry. It plays an even greater roll in Project PRIME than it did in ACMS. It will be explained in greater detail later.

Why Project PRIME?

If the Army already had a working resource management system, why was it necessary for the Secretary of Defense to impose a new system on the Army which would require a complete restructuring of Army financial management accounts, and retraining, and reeducation of managers and their staffs? The Department of Defense gives the following reasons for proliferation of the Project PRIME resources management system throughout the armed forces:

1. To make possible a greater degree of participation in resource management by line managers at all levels by--

a. encouraging the users of resources at all levels to explore alternatives, and

b. secure maximum mission accomplishment with available resources.[10]

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[10]US Department of Defense, Office of the Assistant Secretary of Defense (Comptroller), Pamphlet, Prime 69, (June 1968), p. 2 (hereafter referred to as "Prime 69").

2. Make financial management of operations consistent with the Five Year Defense Program.[11]

THE PROBLEM

The purpose of this research report is to determine if Project PRIME is satisfying the first of the reasons given for imposing this resource management system on the services. In doing this I will test the proposition:

Project PRIME is a valid resource management tool for field commanders.

In testing the proposition I will seek to determine how (if at all) Project PRIME helps field commanders become better managers; whether Project PRIME causes an unwarranted expenditure of additional resources to administer; the acceptance (or rejection) of the system by the using managers (commanders); and what changes are indicated.

METHODOLOGY

My research will be based on Department of Defense and Department of the Army publications on Project PRIME, the literature on military budgeting and financial management, and staff papers and notes from personal interviews of action officers of the US Army Financial and Comptroller Information Systems Command,

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[11] Ibid., p. 6.

a Class II activity of the Comptroller of the Army. The writer has had no practical experience with Project PRIME or any other resource management system. This statement is made not by way of an apology but to establish a lack of bias on the part of the writer/analyst.

ORGANIZATION

The next chapter will deal with the Department of Defense and Project PRIME. The efforts and ideas of two former Assistant Secretaries of Defense (Comptroller), Mr. Hitch and Dr. Anthony, will be examined. The uses of Project PRIME at this level will be explored. The future of Project PRIME from the Department of Defense view will be hypothesized.

Chapter Three will take a hard look at Project PRIME and the Army. We will look at the efforts of a management consultant firm, McKinsey and Co., on behalf of resource management at Ft. Carson, Colorado. The Army test of Project PRIME within the Sixth US Army will be examined. The test of the "service unit concept" at Ft. Ord, California and Ft. Lewis, Washington also will be examined. The outlook for PRIME in the Army will be forecast.

The final chapter will present the conclusions and recommendations of the study.

CHAPTER II

PROJECT PRIME AND THE DEPARTMENT OF DEFENSE

HITCHCRAFT

In 1961 General Maxwell D. Taylor, while testifying before a Subcommittee of the Senate Committee on Government Operations, said in part,

> . . . economic and budgetary factors have come to play an overriding part in determining military posture. Each year the services receive rigid budget guidelines which control the growth, direction and evolution of the Armed Forces. These guidelines are often set with little knowledge of their strategic implications.
>
> As a matter of fact, it is very difficult to determine their implications because of the way in which the defense budget is constructed. In spite of the fact that modern war is no longer fought in terms of separate Army, Navy, and Air Force, nonetheless we budget vertically in these service terms. Yet, if we are called upon to fight, we will not be interested in the services as such. We will be interested rather in task forces, these combinations of Army, Navy, and Air Force which are functional in nature such as atomic retaliatory forces, overseas deployments, continental air defenses forces, limited war expeditionary forces, and the like. But the point is that we do not keep our budget in these terms. Hence it is not an exaggeration to say that we do not know what kind and how much defenses we are buying with any specific budget.
>
> As a result of the foregoing conditions, we have the strange phenomenon of the partial loss of control of the military in a Government where all parties, including the military, are dedicated to the principal of civilian control.[1] (Underlining supplied.)

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[1]US Senate, Subcommittee on National Policy Machinery, Committee on Government Operations, (Washington D. C., 1961), pp. I, 795.

In early 1963 Mr. McNamara had this to say:

> . . . we found that the three military departments had been establishing their requirements independently of each other. I think the results can be described as chaotic: the Army planning, for example, was based, largely, on a long war of attrition, while the Air Force planning was based, largely, on a short war of nuclear bombardment. Consequently, the Army was stating a requirement for stocking months of fighting supplies against the event of a sizeable conventional conflict, while the Air Force stock requirements for such a war had to be measured in days, and not very many days at that. [2]

Mr. McNamara's first Assistant Secretary of Defense (Comptroller) was Mr. Charles J. Hitch. Mr. Hitch served four and one half years in this capacity and is given credit for initiating[3] the series of actions concerned with programming, budgeting, and management accounting we call Project PRIME.[4] Mr. Hitch, specifically, is credited with being the father of the Five Year Defense Program (FYDP), and the orientation of planning toward programs and resources. These, and others, were Mr. Hitch's contribution to solution of the problems identified by General Taylor and Mr. McNamara.

The Military Budget

The military budget submitted through the Office of Management and Budget to the Congress each year is in terms of

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[2]Robert S. McNamara, Address before the American Society of Newspaper Editors (Washington D. C., 30 April 1963).

[3]Primer, p. 1.

[4]Ibid., p. ii.

six major resources for each of the Armed Forces. These six major resources are:

Military Personnel

Equipment and Milliles (Procurement of)

Real Property (Military Construction)

Supplies and Civilian Personnel (Operation and Maintenance)

New Weapons Systems and Equipment (Research, Development, Test and Evaluation)

Guard and Reserve Forces

Each of the services submits a different proposed budget in slightly different format. The form of the budget request submission is prescribed by law. Mr. Hitch and Mr. McNamara found that they could not manage the Department of Defense in terms of the budget submission required by the Congress. They could not relate the requests for funds separated by service and by resource to sepcific objectives and missions. Mr. Hitch devised the FYDP, originally composed of nine major programs each of which crossed service lines. The original nine programs have evolved to ten, viz:

Strategic Forces

General Purpose Forces

Communications and Intelligence

Airlift/Sealift

Guard and Reserve Forces

Research and Development

Central Supply and Maintenance

Personnel Support

Administrative

Military Assistance

(Note: .. brief description of each of these programs may be found at Appendix I.)

Program Elements

Each of these major programs is further divided into program elements. A program element is a description of a program to be undertaken and a device for collecting costs.[5] The program element is the smallest cost collection unit in program terms that the services and other DOD components must report to the DOD on a recurring basis. There are about 1100 program elements.

These program elements are classified into two categories, mission and service. The mission program elements are charged not only with costs directly chargeable to mission but also with measurable service costs relatable to mission. Service program elements include service costs which cannot be related to mission elements.[6] Mission Program elements are associated with organizational entities (Tank Battalion, e.g.) and not equipment (M-60 tanks, e.g.).

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[5] Ibid., p. 30.
[6] Ibid., p. 31.

The FYDP concept permits the Secretary of Defense to make decisions according to function or mission rather than service or resource. Unfortunately, the Congress still preferred to receive the annual military budget request in the old format rather than by program. This, of course, means a double set of books. One set for the Secretary of Defense with entries by program element within major program and a second for the Congress by appropriation category (military personnel, construction, procurement, etc.) The Secretary of Defense bases his decisions concerning the budget request which will be submitted to the Congress (through the Office of Management and Budget) on the FYDP. He does this in two primary steps. The first of these steps concerns itself with decisions affecting the "independent" major force oriented programs, those which have little or no effect on other independent major programs. The first six major programs are considered to fall in this category. For decision purposes, information on the size, composition, and cost of these forces is submitted along with the rationale for the size and composition of the requested force. The remaining three major programs are considered dependent in that their size will be determined by the size and composition of the independent major programs. Decisions concerning these programs are, therefore, made after completion of the first six.

After decisions have been made and reclamas resolved, the services must then convert the approved program into the budget

request required by Congress. This, fortunately, is not too difficult. The types of resources required by the Congress can easily be identified within each program and can be aggregated as required. Computers are used for this "dog" work. The rub comes when the Congress, exercising its constitutional prerogative, appropriates something more or less than that requested. This, of course, is usually the case. If funds are reduced for civilian personnel (O and M appropriation) for example, it will usually be done by service or agency, but it will not usually indicate which major program should be cut. Where the cut (or increase) should be applied within the FYDP must be decided back at DOD. This reverse process of changing the current year program based on approved budget and appropriations, is not as easy as the process of building a budget request based on an approved current year program. It cannot (now, at least) be done by computers.

Until Project PRIME, apportionment of the approved appropriations was further complicated by the existence of a third, or more, set of books. In the case of the Army this set of books was based on the Army Management Structure (AMS) of the Army Command Management System (ACMS). The ACMS was used to divide the Operations and Maintenance, Army (O and MA) appropriation among the subordinate commands of the Department of the Army. The other appropriations (Military Personnel, e.g.) were centrally administered. The AMS existed before the FYDP. The FYDP was designed without regard to the AMS. Consequently, we have two

different systems not necessarily compatible. The existence and use of additional systems, such as ACMS, by the services, further complicated the budget request. Field input to the budget request was in AMS format. This had to be converted to FYDP format for Defense review and approval. As we have seen, the approved FYDP must then be converted to the budget request format required by Congress.

O and MA funds fall into both the independent and dependent major program categories. A decision on a major force-oriented issue could well affect the whole O and MA request. If the field were to participate in the budget request process, guidance to the field in ACMS terms must go to the field. This guidance had to be based on the FYDP major force-oriented issue decision; another conversion from one system to another was necessary.

DR. ANTHONY CLOSES THE LOOP

Dr. Robert N. Anthony, a noted management scholar and Harvard Business School Professor, was appointed to succeed Mr. Hitch as Assistant Secretary of Defense (Comptroller). Dr. Anthony perceived that his predecessors had done much to improve the management of the Armed Forces. He also perceived that he could build on what Mr. McNeil (the first DOD Comptroller) and Mr. Hitch had done to eliminate overlap and close gaps. He visualized a series of resource management systems fully compatible with the FYDP and helpful to field commanders.

He referred to this as closing the management loop. Project PRIME was to be a series of actions concerned with programming, budgeting, and management accounting of operational costs.

As we have seen, there was a lack of comparability among the existing diverse systems. It was difficult or even impossible to trace specific dollars from programs to the budget and from appropriations back to the programs then to the ultimate organizational entity responsible for execution of the program. The systems of the services were different and inconsistent. The Department of Defense, viewing similar operations in different services, could not compare them because of these differences and inconsistencies. Three major problems were identified:

1. Because budgets were expressed in terms of raw material ("people," real estate, services, etc.) and programs were expressed in terms of finished products (Strategic Forces, General Purpose Forces, etc.), there was no assurance that the operating budget reflected the total program;

2. Since the accounting structure was not the same as the program structure, there was no assurance that actual expenses were consistent with planned expenses; and

3. There was no way to insure that resources available were changed when a mission was changed.[8]

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[8]Prime 69, p. 4.

Furthermore, existing systems did not collect all the information needed to make sound decisions. At the Army Class I installation level for example, the commander was directly concerned with those costs funded by the Operation and Maintenance, Army appropriation only. This meant that material funded by PEMA (spare parts, for example) was "free" as was the utilization of military personnel. Consequently, this commander could "see" only about half of his actual costs.[9]

Costs Collected at One Installation

Before Project PRIME[10]

	TOTAL COSTS*	COSTS COLLECTED*	% OF COSTS COLLECTED
LABOR	$19.7	$10.7	54%
MATERIAL	6.7	1.4	20%
SERVICES	4.0	4.0	100%
TOTAL	$30.4	$16.1	53%

*Millions

FIGURE 1.

Because almost half of his needed resources were provided "without cost," Dr. Anthony thought that there would be insufficient motivation for the manager to manage all of his resources. Dr. Anthony also felt that since the previous systems did not

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[9] Ibid., p. 5.
[10] Ibid.

collect complete information, managers had an inadequate data base for planning.[11]

Finally, perhaps the most serious deficiency of the former systems was that they did not conform to law. Public Law 863 and subsequent Presidential Directives required the use of "accrual" accounting systems. Accrual accounting must be differentiated from "cash basis" accounting. In the latter system an expense is recognized only when "cash" is disbursed. In the former an expense is recognized when a benefit is realized whether it is actually paid for at that time.[12] Take, for example, a service contract covering a considerable period of time. Under a cash basis system the contract would be recognized as an expense when payment is made for the contract regardless of whether payment is made before or after service is performed. With an accrual system, the contract will be expensed as service is received. Thus, with a long term contract, we will probably find that it is expensed incrementally as increments of service are performed. It may be argued that the same effect could be achieved under a cash basis system by partial payments corresponding to services performed as they are received. This argument loses validity for those materials and services which

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[11] Ibid., p. 5.

[12] Myron J. Gordon and Gordon Shillinglaw, Accounting, A Management Approach (1964), pp. 91-92.

must be prepaid. The real crux, however, is that the President and Congress require accrual accounting systems.

Dr. Anthony wanted his resource management systems to eliminate the three principal deficiencies of the previous systems, non-comparability, incomplete information, and violation of Public Law 863. He wanted to gradually introduce changes into the accounting systems of service which would achieve these ends. Dr. Anthony had no question about what had to be done. When he was appointed Assistant Secretary of Defense (Comptroller) in the summer of 1965, the Secretary, Mr. McNamara, asked him to make major changes in programming, budgeting, and accounting systems to be effective no later than the beginning of fiscal year 1968 on 1 July 1967![13]

The Congress, however, was not ready for such changes. The Congress was afraid this was a case of too much too soon and could result in a diminution of Congressional controls. To insure that Project PRIME did not proceed the Congress deleted all funds for the implementation of PRIME and further directed that no monies be diverted from other purposes for any new accounting systems until 45 days after the Comptroller General, after consulting with the Director of the Bureau of the Budget, could insure

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[13]Industrial College of the Armed Forces, National Security Management-Defense Resource Management Systems: Project PRIME (1967), p. 3.

the Congress that the proposed new systems met the following criteria:[14]

> 1. Meet the requirements of all applicable laws governing budgeting, accounting and the administration of public funds and the standards and procedures established thereto.
> 2. Provide for uniform application to the extent practicable throughout the Department of Defense.
> 3. Prevent violation of the antideficiency statute (Rev. Stat. 3679; 31 USC 665).[15]

By the following April (1968) the Comptroller General was convinced that the criteria had been met. Based on his finding, the Congress authorized the implementation of Project PRIME.[16] Approval came just after Dr. Anthony left the government service. It would be up to Mr. Robert Moot, his successor, to see that Project PRIME was properly implemented.

PROJECT PRIME NOW AND BEYOND

We have seen the deficiencies of the previous system used by the Defense Components, let us look at the objectives and benefits that were to be derived from Project PRIME. PRIME has the following objectives:

1. Integrate the programming, budgeting, and accounting systems so that information in each of the systems will be

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[14]William J. Andrews, COL, An Analysis of Project PRIME in the U.S. Army Thesis (Carlisle Barracks, 1970), p. 11.

[15]Public Law 90-96, Department of Defense Appropriation Act, (1968).

[16]Robert Moot, "PRIME is Well Underway," Armed Forces Management, (October 1968), p. 101.

consistent and data will be comparable. As we have seen, before PRIME, separate systems were used for these functions. Furthermore, the systems used within the services and DOD agencies were different for the same function.

2. Focus on resources consumed with an ultimate goal of charging organizationswith all of their measurable expenses.[17]

Four major changes in the budgeting and accounting systems were directed to meet these objectives:

1. Purify appropriations.[18] As we know, before PRIME, some capital items were included in the O&M appropriation and some non-capital items were included in the PEMA appropriation. Capital items are those major items which do not loose their identity in use. Tanks are capital items. Spare parts for tanks are not. Capital items are investment costs rather than operating costs or expenses. Figure 2 shows the method for determining whether or not a specific item is an investment (capital) cost of an operating cost which was directed by DOD. It is emphasized that PRIME is concerned with <u>expenses</u> only. Unlike civilian practice, there is no attempt to expense capital goods through depreciation. The reason for this is quite simple. We, in the services, are not concerned with profit and loss statements. Depreciation in the actual worth of a capital good. Depreciation is a method of expensing a capital good over its life expectancy

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[17]Prime 69, p. 8.
[18]<u>Ibid</u>., p. 9.

INVESTMENT COST DECISION DIAGRAM[19]

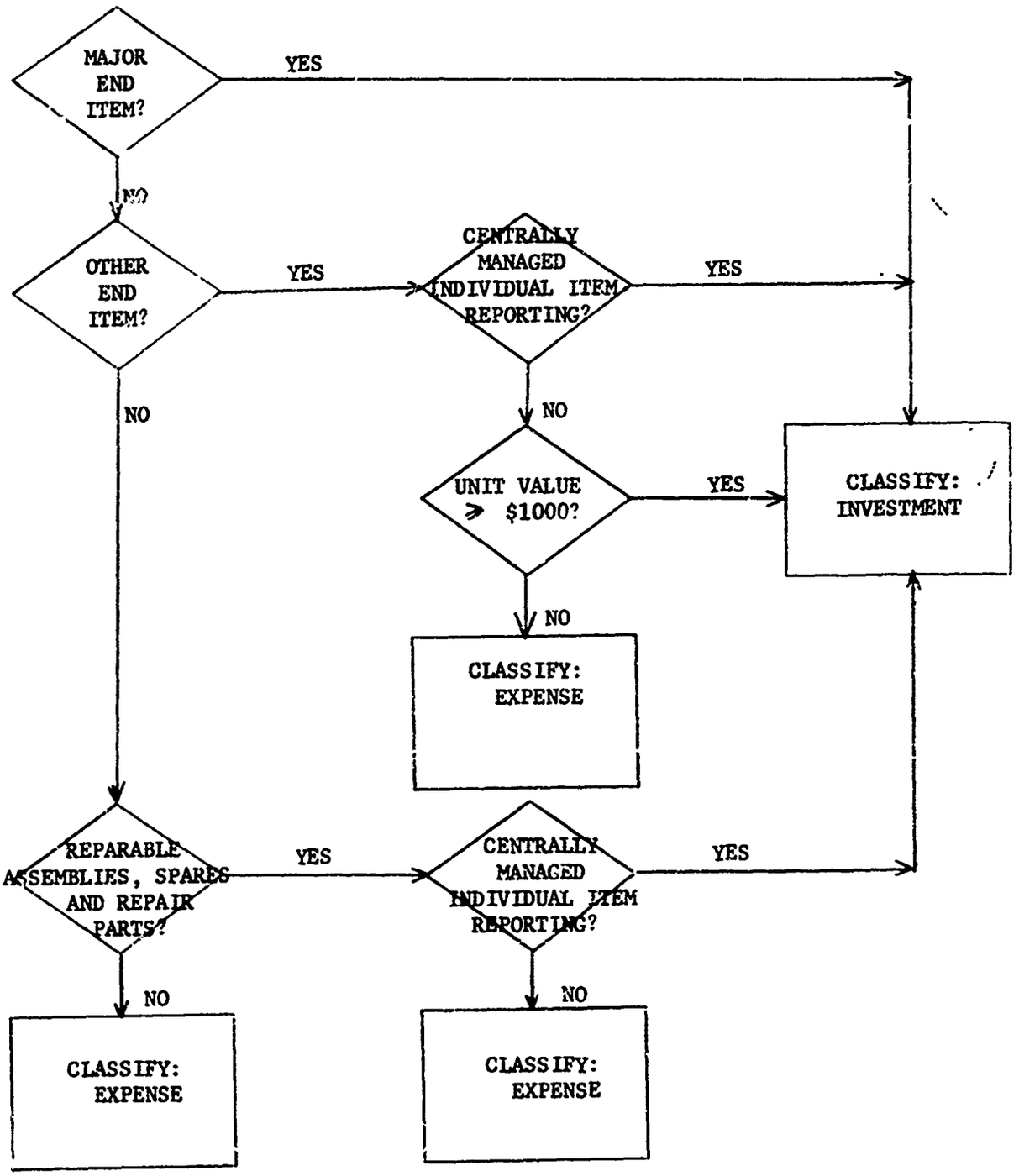

FIGURE 2.

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[19]Primer, p. 55.

so that profits will not be adversely affected the year of acquisition of the good and conversely be misleading throughout the rest of its life by being "free" (maintenance excluded, of course). We need be concerned only that expenses are the minimum for mission accomplishment. If all nonexpenses could be purged from the O&M appropriations and all noninvestments could be purged from the procurement appropriations, then the O&M appropriation would account for all operating expenses save one--military personnel. An accounting system concerned with O&M and military personnel appropriation only would provide information and control on all operating expenses.

2. Charge military personnel costs.[20] Prior to PRIME, military personnel were "free." Civilian personnel, on the other hand, were (and are) paid from O&M appropriations. To insure that commanders (managers) are required to consider the cost of military personnel, under PRIME they are charged with military personnel costs. To simplify this for bookkeepers, standard charges based on each rank and grade are used. These standard charges are essentially the average cost of all personnel within each paygrade. Included are base pay, special pay, and allowances.

3. Extend the use of working capital.[21] Working capital[22] is an accounting technique which had been used for some

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[20]Prime 69, p. 9.

[21]Prime 69, p. 9.

[22]"Working capital" as used in the DOD is not the same as in business. There, working capital is the difference between current assets and current liabilities. Gordon, p. 487.

time by industry (by a different name) and for several years before PRIME by the Armed Forces. Working capital is a device for holding costs in suspense until the items or services represented by these costs are actually used or expended. The usefulness of working capital stems from a concept and a fact. The concept, in keeping with Project PRIME, is that in the management of operating resources, the focus should be on what is accomplished with resources; that is the cost of doing a job and on the commander (manager) who is responsible for getting the mission accomplished, and the cost thereof. The fact is that, more often than not, there is a difference in time, place, or personal responsibility between the purchase of a resource and its consumption. Working capital allows us to match resources consumed with mission accomplishment.[23] There are two basic types of working capital funds, stock funds, and industrial funds. Stock funds are used as carriers for items procured outside the services. Industrial funds are for items produced within the services (at an Army arsenal, for example). Spare parts provide an example to illustrate the use of stock funds. We will use the old reliable widget. The Material Command is authorized and directed to procure 1000 widgets. It does so at a cost of $1.00 each. When they are delivered, Material Command pays $1,000.00 from O&M. None of the widgets has yet been expended in mission performance so there is no operating expense.

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[23]Primer, p. 56.

To account for the $1000 it charges its previously authorized stock fund $1000. Ninth Army requests 100 widgets to replace a like number issued. Ninth Army pays Material Command Stock Fund for these widgets from one of its own stock funds. The Commander of Camp Swampy requisitions five widgets from Ninth Army to keep things running. He reimburses the Ninth Army Stock Fund $5.00 from his expense authority. Since the C.O. of Camp Swampy is the Commander who needs the widgets for mission accomplishment, he is charged with the cost of the widgets as an operating expense. For Project PRIME, stock and industrial funds were extended to cover consumables in the O&M appropriations.[24]

4. Revise Basic Account Structure. This is the major change required by Project PRIME. The purpose of this revision is to provide a uniform structure throughout the services and DOD agencies which will insure common reporting of expense by operating expense budget entity, program elements, functional activities, and types of resources consumed.[25] Each of the services and DOD agencies will speak the same accounting language. Defense will be able to compare costs for similar operating entities of different services and agencies. The uniform expense accounts which were prescribed covered only the expense data required by the Office of the Secretary of Defense. The Services were permitted to

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[24]Prime 69, p. 9.
[25]Primer, p. 59.

amplify the OSD system for their own need providing they stayed within the confines of the basic structure.

Project PRIME has now been in operation in the Department of Defense for two and one half fiscal years. Masses of accounting data have been collected by the Services and DOD agencies and have been furnished to OSD. There has been no let up in the requirement for this data although no one is quite sure who, if anyone, is using all of it.

During fiscal year 1970, the Assistant Secretary of Defense (Comptroller) required each of the services to test the "service unit concept." The service unit is one which provides a service to operating units. Examples are post motor pools, post maintenance facilities, data processing facilities, laundries and finance offices. The costs of operating these service units is not now charged to the operating units utilizing their services. The purpose of the service unit tests was to determine the feasibility and develop procedures for charging such costs to operating units. Each of the services selected one installation for the test. The post (base) motor pool was the basis of the test. The results of the tests were inconclusive. OSD has not required the continuation of these tests in fiscal year 1971 but has strongly "encouraged" their continuation. A more detailed discussion of the Army test will be provided in the next chapter.

Since the advent of the new administration, the outlook of the Assistant Secretary of Defense (Comptroller) seems to have

changed considerably with respect to Project PRIME. Project PRIME is still the order of the day but there is no longer a high pitched selling campaign to force PRIME to every nook and cranny as fast (indeed faster) than is humanly possible. Mr. Moot seems to be genuinely sympathetic to service reservations about Project PRIME which seem to have merit. This seems to be in keeping with Mr. Laird and Mr. Packard's management philosophy and should continue.

CHAPTER III

PROJECT PRIME AND THE ARMY

> Over the last 18 years, the Army has continuously updated its resource management systems. Guiding these improvements has been the Army's overriding desire to obtain optimum forces, combat readiness, weapons, and bases at minimum costs.
>
> From the original Army Primary Program System introduced in 1949--which placed responsibility for planning, execution, and performance review in command channels and at all echelons--the Army developed its Army Command Management Systems (ACMS). This system was designed to strengthen the Army's methods of programming, budgeting, accounting, and measuring performance. Concurrent with the development of the Army Command Management System was the creation of the Army Management Structure (AMS), which provided the basic framework for planning and control throughout the Army. In addition, other refinements have been made--reducing object classes and the number of programs, funding activities through command channels in the largest blocks of money possible, and introducing a concept of "stock funds" in an effort to reduce the management problems associated with financing and controlling inventory.
>
> Today the Army stands on the threshold of implementing new resource management concepts that will further refine its present systems. . . .[1]

MCKINSEY STUDIES AT FORT CARSON

In August 1966 the management consultant firm of McKinsey & Co. was engaged to study the management of operating resources Fort Carson, Colorado. This study was a follow-on to another focused on overall Army systems for management of operating

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[1]McKinsey & Co., Strengthening Army Management of Operating Resources--a Class I Prototype (31 March 1967), p. 1 (hereafter referred to as "McKinsey Report").

resources which was completed in late fiscal year 1966.[2] The McKinsey study was concerned with three major tasks, viz:

1. Looking into the implementation of Project PRIME within the Army at Class I installations,

2. Developing improved methods for converting missions and plans into requirements, and

3. Developing improved management information systems for Class I installations which will measure accomplishments against plans.[3]

Our present concern is, of course, primarily the first task, however, each of the latter tasks contribute to the objectives of Project PRIME.

In carrying out the first task, McKinsey & Co. looked for potential problems which might arise in implementing Project PRIME and for solutions to these problems. McKinsey & Co. was also concerned with additional costs to the Army of implementing Project PRIME. Recall two Project PRIME objectives:

1. To program, budget, and report in the same structure--i.e., in terms of program elements, functions, and elements of expense.

2. To account, within the uniform structure, for all operating costs of units and activities rather than for funded obligations alone.[4]

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[2] Ibid., p. i.
[3] Ibid., p. 1-1.
[4] Ibid., p. 1-1.

Also recall that certain new (to the Department of Defense) concepts and techniques would have to be used in achieving these objectives. They are:

1. Budgeting and accounting for military personnel costs,

2. Budgeting and accounting support services by users,

3. Purifying the accounting structure to eliminate capital or investment costs from the O&M appropriation and operating costs from the procurement appropriation, and

4. Use of working capital to hold the cost of goods and services in suspense until they are actually used and "expensed."[5]

McKinsey & Co. looked at each of these as well as the Army Management Structure (AMS). They found that the AMS, with some modification, would satisfy the first objective of Project PRIME.[6] When Project PRIME was implemented, a modified AMS was used.[7]

Military Personnel Costs

McKinsey & Co. found that there would be no particular problem in collecting these costs. In the interest of economy

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[5] Ibid., p. 1-2.
[6] Ibid., p. 1-1.
[7] Department of the Army, Pamphlet 37-6 Accounting and Procedures Manual for Project PRIME under Resource Management Systems (January 1969), pp. 1-1, 1-2 (hereafter referred to as "DAPAM 37-6").

they recommended certain changes to the procedures required by DOD for collecting these costs.[8] Unfortunately, few of these recommendations were adopted.[9] One of the more significant of the unadopted recommendations was to use six composite military personnel cost rates.[10] There are at present almost one hundred cost rates for military personnel.[11] These cost rates will be discussed in more detail in the section of this chapter entitled ARMY-WIDE PROLIFERATION.

Charging Costs of Services to Users

McKinsey & Co. looked at six major activities in seeking out a candidate for services which could be logically charged to users. These six major activities (Command and Staff, Local Welfare Services, Post Engineer, Support Maintenance, Logistics Services, and Medical Care) represented at least 37 potentially chargeable services.[12] McKinsey & Co. established three criteria to narrow the field.

1. There must be a valid buyer-seller relationship. This means simply, that the buyer must have the option of determining when and how much of the service he will use. An example may be found in the post motor pool. A user may specify when, how many, and what type vehicles he needs for a particular mission.

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[8]McKinsey Report, p. 1-3.
[9]DAPAM 37-6, pp. 7-31, 7-32, 7-33, 7-48, 7-49.
[10]McKinsey Report, p. 1-3.
[11]DAPAM 37-6, pp. 7-31, 7-32.
[12]McKinsey Report, Exhibit II.

On the other hand, he has no influence on regularly scheduled post bus service over a fixed route.

2. The money involved must be significant. A threshold of $100,000 per year was selected. This represented 0.1 percent of total operating costs (including military personnel) at Ft. Carson.

3. There must be an accurate system for charging direct costs to users or such a system must be "easily established." This criterion meets a prohibition of Project PRIME that no "allocation or statistical prorations" be used.[13]

After applying these criteria, 13 candidates remained from the original list of 37. These candidates are shown in Figure 3. Note that just over 20 percent of the total money involved is represented by the candidates. Thirty day tests were run for each of the candidates to check service costing procedures. Based on these tests McKinsey recommended that Support Maintenance, Motor Pool, Laundry, and Dry Cleaning Service be charged when PRIME was implemented. They estimated that additional work required would total about one man month per month in the areas providing the service and about one and one half man days per month in the Comptroller's area.[14]

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[13] Ibid., pp. 1-4, 1-5.
[14] Ibid., pp. 1-5, 1-6.

SERVICE CHARGE CANDIDATES[15]
Estimated FY 1967 Costs*

DESCRIPTION	MPA	OMA	TOTAL
Support Maintenance			
Weapons Maintenance	$20	$158	$178
Combat Vehicles	15	235	250
Tracked/Support Vehicles	35	732	767
Electronic & Communication Equip	12	205	217
Aircraft	40	100	140
Missile Systems	30	17	47
Special Purpose Equipment	0	847	847
Related Support Maintenance	100	726	826
Logistics Services			
Commercial Communications	0	580	580
Motor Pool	100	322	422
Mess Operations	40	536	576
Laundry	0	602	602
Dry Cleaning	0	87	87
	$392	$5147	$5539
Non-Candidates	$5568	$16273	$21841
TOTAL	$5960	$21420	$27380

*Thousands

FIGURE 3.

Purifying Cost Accounts

McKinsey found that strict adherence to the PRIME definition of investment or capital items would affect funds of $300,000-$600,000 per year at Ft. Carson. Most of the items acquired were repair and utility and hospital equipment. Transfering acquisition would limit the local commanders' flexibility in buying these items.[16]

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[15] Ibid., Exhibit II.
[16] Ibid., p. 1-7.

Use of Stock Funds

McKinsey found that less than one half of one percent of Ft. Carson's total annual operating expenses represented items and services paid for in one fiscal year and "consumed" in a different year.[17] They also discovered that 25 percent of the contracts using O&M funds represented 75 percent of the contract funds. Included in the 25 percent were all contracts over $10,000. Consequently, they recommended that only contracts of $10,000 or more be carried in suspense in stock funds.

Costing Organic Battalions

As part of the Ft. Carson study, the McKinsey & Co. team investigated the feasibility of costing to the battalion level within the 5th Infantry Division (Mechanized). They found that within the Division, almost 87 percent of the operating cost was for military personnel. Of the remaining 13 percent, about nine percent was for supplies and four percent for maintenance. The team recommended that costing to battalion not be implemented without the benefit of further detailed testing to insure that the potential benefits are not outweighed by costs.

Costs

McKinsey found that the anticipated increase in workload resulting from Project PRIME would not be as great as they had

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[17] Ibid., p. 1-8.

first estimated. For Fort Carson they estimated an increased workload of about 80 man-hours per week and eight hours per month additional computer usage.

Expected Long Term Benefits

The McKinsey study concluded with several predicted long term benefits from following their recommendation and implementing Project PRIME. Selected benefits are quoted below:

> Use of a common structure: The use of a uniform structure for DOD and Army planning-programming-budgeting and accounting should improve communications throughout all echelons and encourage planning on a longer term basis than 1 year.
>
> Better long range planning information: Through the collection of total cost information in terms of output, a far better basis for establishing resource impact and for evaluating alternatives can be achieved.
>
> A better basis to assess local alternatives: Better information on the relationship of activities and resources to costs will lead to better decision making because commanders will be able to predict potential effects of alternative decisions more accurately.
>
> Greater decentralization of decision making: With uniform programming/budgeting and accounting systems that relate results to total resource consumption, many of today's existing functional controls should become obsolete. Thus it will become possible to delegate greater control over resource use to commanders. . . .
>
> Budget realism: The budget should become a realistic expression of planned and programmed mission activities. Instituting procedures for translating activities of TOE units into precise resource requirements should reduce much of the current skepticism about the 'budget world' relative to the 'real world'. In time this should enable commanders and managers to know with conviction that budgets are reflections of needed resources, and should permit realistic appraisals of shortfalls between resources provided and mission accomplishments expected. . . .
>
> Improved cost management: Changes in the way cost information is collected and presented should establish

> a more rational basis for measuring efficiency of resource utilization. This would be achieved by (1) supplying information on real costs rather than on funded obligations alone, and (2) focusing attention on resource use and results achieved rather than on resource definition and availability.[18]

They concluded their report by saying:

> In a very real sense, these changes are the extension of much effective work already done to improve the management of operating resources. However, they will require strenuous effort since, together, they add up to 'a new way of doing business.' As with any 'new way,' training and practice will be necessary before full benefits are realized. However, the ultimate value of these changes should, in our judgement, make this a priority effort throughout the Army.[19]

ARMY TESTS OF PROJECT PRIME

As we have seen, Project PRIME was not implemented on 1 July 1967 as was expected when McKinsey & Co. made its study at Fort Carson. The Congress insisted that Project PRIME not be implemented until it could be assured that PRIME would meet its needs and the needs of the Bureau of the Budget and the General Accounting Office as well as the needs of the Department of Defense. This gave the Army additional time to test Project PRIME concepts. Accordingly, a test was initiated in Sixth Army on 27 September 1967.[20]

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[18] Ibid., pp. 4-3, 4-4, 4-5.
[19] Ibid., p. 4-4.
[20] Office of the Comptroller of the Army, "Sixth Army Test of Project PRIME," (4 October 1967), p. 2.

Some of the recommendations of the McKinsey Study were tried during the test; others were not. Among those which were tried was the service unit concept, charging using units for the use of services where a buyer-seller relationship exists. The service unit concept was extended to the motor pool and post maintenance facilities.[21] Laundry and dry cleaning, the other service unit candidates, were not tested.

Personnel costs were not grouped into six composite military personnel rates throughout Sixth Army as recommended by McKinsey. Two methods were used to budget and collect these costs in Sixth Army. One method was used at Fort Ord and the other throughout the rest of Sixth Army. At Fort Ord, personnel costs were budgeted and collected by individual grade, a total of 22 different cost rates.[22] To each of these rates, "incremental" pay was added where applicable. Incremental pay is special pay such as flight crew pay and special professional pay (for physicians and dentists).[23] At the other installations, the six composite groups were used. Incremental pay was added to the composite group costs where applicable.[24]

Probably the most significant point to be made about the Sixth Army test is that the Army did not use the PRIME (FYDP) accounting structure. Instead the Army Management Structure was modified so that the data required at DOD level could be

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[21] Ibid., p. 3.
[22] Ibid., Attachment 5-2.
[23] Ibid., Attachment 5-2a.
[24] Ibid., Attachment 5-1.

extracted from AMS and be converted to the PRIME (FYDP) structure. During the test this conversion was accomplished at installation level.[25] The significance of this will be seen when we look at the proliferation of PRIME throughout the Army.

As a result of experience gained during the Sixth Army test, the Army was able to negotiate changes in PRIME with DOD before final proliferation (the other services ran tests of their own and conducted their own negotiations with DOD).[26]

ARMY-WIDE PROLIFERATION

On 1 July 1968, Project PRIME was proliferated throughout the Army under the name PRIME-'69. DOD specifically exempted units in the combat zone from the requirements of PRIME-'69.

As a result of experience gained by tests of PRIME concepts by the services, DOD made some changes which distinguish PRIME-'69 from its predecessor. The DOD permitted the Army to continue using its modified Army Management Structure at installation level instead of the FYDP structure required by PRIME. In permitting the Army to use the AMS, DOD insisted that the conversion to the FYDP structure take place at the Headquarters Department

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[25] Ibid., p. 2.

[26] Office of the Assistant Secretary of Defense (Comptroller), "Questions and Answers on Project PRIME," (undated), p. 10.

of the Army level[27] where it could be accomplished with computers.[28] The Army converted to the FYDP structure in FY 1971.[29]

Perhaps the most controversial concept of PRIME-'69 was called "automatic reducibility." Automatic reducibility referred to the O & MA appropriation. It was based on the assumption that if a command has excess military personnel, it will need fewer civilian personnel since the excess military personnel would, in theory, do the work of a like number of civilians. Hence the O & MA budget of the command concerned could be reduced automatically by the cost of the excess military personnel. Automatic reducibility would keep the overall "operating expense" budget in balance. The assumption overlooks several realities. The commander seldom has any choice in determining whether he will have any excess personnel. Nor does he have any choice over the skills and ranks of any excess personnel. Seldom will the skills of excess personnel match the needs of the commander concerned. Civil Service Regulations do not permit the commander to reduce and expand his civilian labor force to keep up with fluctuations in his assigned military strength. (A logical extension of this assumption would give a commander additional O & MA funds

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[27]John A. Bikowski, "Project Prime (sic) in the Army," Army Finance Journal (July-August 1969), p. 22.

[28]Richard Sawyer, "Project PRIME," Talking Paper, (US Army and Comptroller Information Systems Command, 4 June 1970), p. 2 (hereafter referred to as "Sawyer, Talking Paper").

[29]US Army Financial and Comptroller Information Systems Command, "What is PRIME 70-71-72," Memorandum, October 1970, p. 2.

whenever his assigned military strength falls below authorized levels. He could then hire civilians to the jobs of his missing troops. We might, then, someday find a combat unit composed solely of civilians!) The overall result was that commanders with excess military personnel were continually faced with O & MA deficits which were contrary to R.S. 3679, the antideficiency statute. The slowness of the system in processing requests for additional expense authority put many commanders in real danger of violating the law. The other services experienced similar difficulty with this concept. The Congress eliminated automatic reducibility at installation level, dictating that it not apply below major command level. Defense is studying the possible elimination of this feature altogether.[30]

A significant change from the original PRIME concept was the elimination of the requirement for distribution of service charges under the service unit concept.[31] Defense did, however, require continued test of the concept through FY 1970.[32] Consequently the test was continued at Fort Ord and was initiated at Fort Lewis. These tests were limited to the motor pool. The test at Fort Ord took full advantage of the computer to collect and distribute costs associated with motor pool. At Fort Lewis a manual system was used for this purpose. (A computer was

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[30]US Army Financial and Comptroller Information Systems Command, "PRIME Briefing," (undated), p. 3.

[31]Bikowski, p. 22.

[32]Sawyer, Talking Paper, p. 3.

available at Fort Lewis but the Army wished to determine the feasibility of the use of a manual system in conjunction with the service unit concept.) Fort Lewis soon became deluged with paper and in February 1970 test was discontinued there.[33] Defense did not require continuation of the test in FY 1971 but encouraged it. The test has been continued at Fort Ord. The computer system at Fort Ord not only collects and distributes costs under the service unit concept, but provides cost and performance data required by the Department of Defense Motor Vehicle Uniform Reporting System (DODI 4500.7, 13 August 1963).[34] Consequently, there is little added cost associated with the test from the view of the motor pool.

Motor pool personnel think that the service unit concept definitely contributes to better management.[35] (Vehicle operating costs have decreased, not only in absolute terms but in costs per mile.[36] See Figure 4.) Outside the motor pool, the test has increased the cost consciousness of the using activities.[37]

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[33]James R. Morrison, "Consideration of Discontinuing the Service Unit Test (Motor Pool) at Fort Ord, FY 1972," Talking Paper, (US Army Financial and Comptroller Information Systems Command, 30 November 1970), p. 1 (hereafter referred to as "Morrison, Talking Paper").

[34]Office of the Assistant Secretary of Defense (Comptroller), "Report of Visit to Army Service Unit Test Site (Fort Ord, California)," Memorandum, 24 November 1970, p. 1.

[35]Ibid., p. 2.

[36]Ibid., p. 3.

[37]James R. Morrison and S. A. Longo, "Trip Report on Visit to Sixth U.S. Army and Fort Ord Regarding FY71 Service Unit Test, 2-6 November 1970," Memorandum for Record. (US Army Financial and Comptroller Information Systems Command, 18 November 1970), p. 3.

This, of course, is one of the objectives of PRIME. In spite of this, the overall reaction of personnel outside the motor pool was considered inconclusive.[38] The costs associated with the test for one quarter (first quarter, FY 1971) were estimated at $2,800.[39]

SERVICE UNIT TEST[40]
Motor Pool, Fort Ord, California

DESCRIPTION	FY1968	FY1969	FY1970
Number of vehicles on hand (monthly average)	991	927	910
Number of miles driven	8,753,841	7,978,919	7,789,325
Operating cost	$1,101,259	$ 908,473	$ 751,359
Operating cost/mile	12.6¢	11.4¢	9.6¢
Maintenance cost*	$ 504,774	$ 814,263	$ 708,986
Maintenance cost/mile	5.8¢	10.2¢	9.1¢
Total motor pool cost	$1,606,033	$1,722,736	$1,460,345
Motor pool cost/mile	18.3¢	21.6¢	18.8¢
Total Base operations expense	$31,435,000	$36,370,000	$32,238,000
Personnel traincd	15,036	16,569	17,241
Post Population range	32-39,000	32-42,000	32-42,000

*Major costs were incurred by contract during FY 1969 ($267,964) and FY 1970 ($243,766) to upgrade selected vehicles because replacement rates for overage vehicles was nominal. This compares with $53,107 spent for contract maintenance in FY 1968.

FIGURE 4.

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[38]Morrison, Talking Paper, p. 2.
[39]Morrison and Longo, p. 3.
[40]Office of the Assistant Secretary of Defense (Comptroller), "Report of Visit to Army Service Unit Test Site (Fort Ord, California)," Inclosure 1.

The collection of military personnel costs was changed for PRIME-'69 as were detailed grade rates.[41] The computation of military personnel expense is based on the strength of an activity on the first of a month for every grade for the entire month. Rates are used for each of the ten officer, four warrant officer, nine enlisted, and one cadet (midshipman) pay grades. Incremental costs are averaged at service level and added to the appropriate pay grades. This means that flight crewmen, paratroopers, and ground soldiers are expensed at the same rate within paygrade. The rates within paygrade differ for each of the services because of differences in the number of personnel intitled to incremental pay and differences in longevity in grade. Figure 5 shows the 93 different rates in use in January 1969.

In December 1969, the Comptroller of the Army required each major command to submit "an initial appraisal of financial management operations under Project PRIME" by the end of the following month.[42] The reports, without exception, indicated an increase in workload particularly in the areas of programming, budgeting, automatic data processing, and management.[43] This increased workload had to be absorbed by the commands since no additional funds or personnel were provided to implement PRIME.

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[41]Bikowski, p. 22.

[42]Office of the Comptroller of the Army, "Project PRIME Appraisal Report, RCS CSCIS-(OT)-3," letter, 19 December 1968.

[43]Office of the Comptroller of the Army, "Executive Brief-Project PRIME Appraisal," memorandum, 4 February 1969, p. 1.

STANDARD RATES FOR USE IN COMPUTING COSTS OF MILITARY PERSONNEL

JANUARY 1969[44]

	MONTHLY RATES			
PAYGRADE	ARMY	NAVY	MARINES	AIR FORCE
0-10	$3,023	$3,007	$3,272	$3,135
0-9	2,532	2,508	2,491	2,657
0-8	2,284	2,338	2,343	2,381
0-7	2,028	2,073	2,048	2,115
0-6	1,830	1,860	1,879	1,941
0-5	1,474	1,560	1,532	1,626
0-4	1,188	1,312	1,279	1,367
0-3	995	1,107	1,110	1,070
0-2	831	820	820	810
0-1	607	601	621	663
W-4	1,179	1,206	1,164	1,194
W-3	1,008	1,042	995	1,095
W-2	890	893	893	---
W-1	745	788	775	---
E-9	961	967	993	945
E-8	842	860	854	833
E-7	739	745	753	743
E-6	633	646	642	659
E-5	470	525	488	573
E-4	383	416	375	431
E-3	294	306	284	299
E-2	254	239	242	241
E-1	235	223	231	218
Cadets	251	---	---	246
Midshipmen	---	246	---	---

FIGURE 5.

The increased workload was generally greater than the McKinsey estimates. The commands found PRIME to be too complex and too time and resource consuming. The management reaction was negative. Too much time was spent meeting new reporting and accounting

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[44]DAPAM 37-6, pp. 7-31, 7-32.

requirements to look for management benefits. Many commands expressed agreement with PRIME concepts but nevertheless objected to the system being imposed for the reasons given.[45] Some significant comments follow:

> Project PRIME has resulted in a great proliferation of data, but it is of questionable value under the circumstances. If time does not permit the proper analysis and evaluation of data, its mere existance is valuless.
>
> There is every indication at this point in time that Project PRIME will prove increasingly expensive in resources and produce only marginal benefits.
>
> Fund managers are dissatisfied with the additional workload involving undelivered orders and military personnel.
>
> The low level of data required to be maintained nullifies the effectiveness of the data for use by management.
>
> No beneficial purpose can be determined and very little use is being made of PRIME generated data.[46]

> We do not take exception with the philosophy, principles, or basic tenets of the resource management System, particularly when considered in light of the ultimate overall objectives. There has to be, however, a reasonable and practical determination as to that level of supervision/management beneath which the imposition of certain aspects of the PRIME application tend to produce only frenzied and frustrated activity sans economic advantage and/or improved operational or management control.[47]

> In summary, the original enthusiasm for Project PRIME, and support for its objectives appears to be giving way to a feeling of disappointment and bewilderment at the local level. . . . It is anticipated that the increased amount of data flowing through the accounting system will be utilized more and more by management

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[45] Ibid., p. 3.

[46] Office of the Comptroller of the Army, "Executive Brief-Project PRIME Appraisal," memorandum, 4 February 1969, p. 4.

[47] Department of the Army, Letterkenny Army Depot, "Project PRIME Appraisal Report, RCS CSCIS-(OT)-3," letter, 20 January 1969.

at the local level as additional experience with the system and familiarity with its capabilities is gained.[48]

While it is realized that many of these comments are just an initial reaction to a new system, unanimity indicates faults in the system. The Comptroller of the Army identified many of these faults and negotiated relief with the Office of the Assistant Secretary of Defense (Comptroller).[49]

OUTLOOK

Since Mr. Moot became Defense Comptroller, and Mr. Laird became Secretary of Defense, DOD has been less forceful in demanding complete and total implementation of PRIME as originally conceived. Let there be no mistake, PRIME has been implemented by the services and Defense activities! Defense is, however, willing to change PRIME to make it a better management tool, less onerous to lower level users.

It is becoming increasingly apparent that in the Army the local commander has little latitude in determining the quantity and quality (grade structure) of his military personnel. He has virtually no latitude with respect to Table of Organization and Equipment (TOE) units. To give the commander more flexibility

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[48]Department of the Army, Headquarters, United States Army Europe and Seventh Army, "Project PRIME Appraisal Report, RCS CSCIS-(OT)-3," letter, 30 January 1969, p. 3.

[49]Office of the Comptroller of the Army, "PRIME Review-Summary of Problems by ASD(C)," Memorandum For: Assistant Secretary of the Army (FM), 24 February 1969.

with respect to military personnel, Defense may require the Army to decentralize its manpower authorization system.[50]

The apparent success (or at least lack of failure) and modest cost of the service unit tests forebodes eventual proliferation of the concept, possibly in FY 1972.[51]

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[50] Sawyer, Talking Paper, p. 3.
[51] Ibid.

CHAPTER IV

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Dr. Anthony's concept of a Resource Management System for operating managers (commanders) is basically sound. Mr. McNamara's haste to install the system resulted in inflicting many radical changes on the services and DOD agencies without thorough testing. Even though the congress wisely delayed the proliferation of Project PRIME for a year, the services were not ready for implementation. In addition to a lack of complete testing, the campaign to sell PRIME to managers, especially at the intermediate and low levels, failed. Managers were not provided any additional resources to change over to the new system. They were too busy meeting the requirements of the system to see any immediate benefits.

Eventually Project PRIME did result in the partial integration of the programming, budgeting, and accounting systems. Complete integration in the Army has been hindered by the Land Forces Classification System which is used in the force development area instead of the FYDP structure. Efforts to merge these two systems was suspended recently when yet another structure prescribed by DOD--Fiscal Guidance Categories--appeared on the scene.[1]

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[1]Sawyer, Talking Paper, pp. 3-4.

The Congress had not yet seen fit to change the format of the budget to the FYDP. At present we seem to be moving away from integration rather than toward it.

We are moving toward the goal of charging organizations with 100 percent of their measurable expenses. Getting there may not be worth the trip. The exercise of costing military personnel is largely an exercise in futility. Army commanders have little authority to change their TOE. Changing a Table of Distribution and Allowances (TDA) can be a long painful process. Decentralization of the manpower authorization system, a possible change to make costing of military personnel meaningful, involves many problems of its own. The advantages of the Service Unit Concept, if kept within due bounds, outweigh the disadvantages.

The use of accrual accounting has little to recommend it outside the requirement of law and executive order. Business management is, to a large degree, based on management by exception. Certain limits are set on an operation or function. When these limits are exceeded, managers react. They seek out the reason for the variance and prescribe remedies. Accrual accounting keeps management by exception from sounding false alarms. Large expenditures may draw management attention. If the expenditure is for a benefit which will be realized for some time in the future, or has been realized for some time in the past, drawing management attention to the expenditure would constitute a false alarm. Business gets around this by expensing the cost

as the benefit is realized rather than when it is paid for. This is accrual accounting. Big business cannot get along without it. Small business cannot affort it because of the additional bookkeeping involved. It would appear that the services cannot afford it for the same reason. Because of the antideficiency statute (R.S. 3679) the service manager must be aware of his actual expenditures (obligations) lest he violate the law. His expenses for any particular period have no bearing on the law. Use of accrual accounting means that the manager must have a dual based accounting system, one for PRIME and one for R.S. 3679. The other use of working capital, holding the cost of an item in suspense until it is issued and expensed to the ultimate user, is worth while.

Purifying appropriations by putting all investment items in the procurement appropriation request and expense items in the operations and maintenance appropriation request poses no major problems. The Army expects to complete this task this fiscal year.[2]

Although considerable time has elapsed since Army major commands were required to submit appraisal reports in January 1969, there is still considerable evidence (Army Audit Agency Assistance Reports and Inspector General reports) of management

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[2]Office of the Comptroller of the Army. "PRIME Briefing," p. 3.

dissatisfaction and even reluctance on the part of some managers to comply with basic policies.[3]

In summary, Project PRIME has brought many new ideas for management of operating resources to the Armed Forces. Some are improvements, others are millstones. Additional effort is required to eliminate the millstones. Project PRIME does not yet provide an acceptable and valid resource management tool for field commanders. It is headed in the right direction.

RECOMMENDATIONS

Department of Defense and Department of the Army must continue to emphasize the good aspects of Project PRIME. This can be accomplished best through the service schools, especially the Command and Staff Colleges and the Senior Service Colleges. The Army Management School, the Army Logistics Management School, the Navy Post Graduate School, and the Air Force Institute of Technology offer other means for spreading the "word."

The Department of Defense should make no additional changes in programming, budgeting, and accounting systems until all the "bugs" have been removed from Project PRIME and all the objectives of Project PRIME have been met.

Until the major problems associated with PRIME have been solved, the Services and DOD Activities should be free to

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[3]Sawyer, Talking Paper, p. 5.

adopt or not adopt the Service Unit Concept as they deem appropriate for themselves.

Merge the FYDP structure, Fiscal Guidance Categories, and the Land Forces Classification System. Convince the Congress to accept the budget in FYDP terms. Request the Congress to revise the antideficiency statute to make expense based accounting acceptable for this purpose or eliminate the requirement for accrual accounting. These actions should result in truly integrated programming, budgeting, and accounting systems.

Relieve the Services of the requirement of costing military personnel in combat and other TOE units.

Unless the Congress revises the antideficiency statute, abandon or set higher thresholds for accrual accounting of prepaid expenses if within the limits of the law.

Complete the purification of the purification of operations and maintenance and procurement appropriations as quickly as possible (unless Congress agrees to accept an FYDP budget).

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APPENDIX I

FIVE YEAR DEFENSE PROGRAM

MAJOR PROGRAMS

Program 1-Strategic Forces: Includes strategic retalitory and continental air and missile defense forces.

Program 2-General Purpose Forces: Includes major fighting forces not included in Program 1 or 3.

Program 3-Intelligence and Communications: A collection of activities that are not a part of the General Purpose Forces even though they are independent in character and force-oriented. Included are intelligence and security, National Military Command System, communications, and a variety of smaller activities.

Program 4-Airlift/Sealift: Includes airlift/sealift elements of all the Services.

Program 5-Guard and Reserve Forces: Includes Guard and reserve forces of all the Services.

Program 6-Research and Development: Self explanatory.

Program 7-Central Supply and Maintenance: Includes wholesale supply and maintenance activities.

Program 8-Personnel Support: Includes training activities not associated with force-related program elements, major medical activities, military retired pay and certain other costs related to personnel.

Program 9-Administration: Includes general overhead costs.

Program 0-Military Assistance: Self explanatory.[1]

[1]Primer, pp. 34-35.