A Report by a Panel of the

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

for the Department of the Navy

The Navy Working Capital Fund and Operational Resource Management Decisions: A Case Study Analysis

NATIONAL ACADEMY OF PUBLIC ADMINISTRATION®

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The Navy Working Capital Fund and Operational Resource Management Decisions: A Case Study Analysis

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Foreword

The Navy Working Capital Fund (NWCF) is a critical funding channel for many naval requirements. Congress established working capital funds for every military department and the Department of Defense to better control and account for the costs of commercial-like programs and work. The NWCF facilitates funding of Department of Navy (DON) supply management activities, such as procuring and reselling supplies. It also supports nonsupply management activities, including the provision of industrial and commercial goods and services.

The Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN (FM&C)) contracted with the Academy to evaluate how operational resource management decisions impact the NWCF and identify strategies for improving decision-making processes, protecting the fund's integrity, and supporting DON's operational missions. This report examines the effects of three specific programmatic, budgetary, and acquisition choices on the NWCF and assesses whether program and budget decision-makers considered the potential impacts on the NWCF when making those choices. This report by a Panel of Academy Fellows provides actionable recommendations to DON that, when implemented as an integrated whole, will further support and protect the viability of the NWCF and the essential activities funded by it.

As a congressionally chartered, independent, nonpartisan, and nonprofit organization with nearly one thousand distinguished Fellows, the Academy has a unique ability to bring nationally recognized public administration experts together to help government agencies address their most pressing management challenges. We are grateful for the constructive engagement of many DOD and DON staff who provided important observations and context to inform this report. We also thank the subject matter experts who contributed to this research. I am deeply appreciative of the work of the six Academy Fellows who served on this Panel and commend the Study Team that contributed valuable insights and expertise throughout the project.

Teresa W. Gerton

President and Chief Executive Officer

National Academy of Public Administration

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Acronyms and Abbreviations

Acronym or Abbreviation	Definition
Academy	National Academy of Public Administration
APDF	Aircraft Program Data File
AFWCF	Air Force Working Capital Fund
ASN (FM&C)	Assistant Secretary of the Navy (Financial Management & Comptroller)
CAPE	Cost Assessment and Program Evaluation
CBO	Congressional Budget Office
COMFRC	Commander, Fleet Readiness Centers
CNIC	Commander, Navy Installations Command
CNO	Chief of Naval Operations
CR	continuing resolution
DOD	Department of Defense
DON	Department of the Navy
DWCF	Defense Working Capital Fund
FMB	Office of Budget
FRC	Fleet Readiness Centers
GAO	Government Accountability Office
IMF	intermediate maintenance facilities
LESC	Logistics Executive Steering Committee
NAE	Naval Aviation Enterprise
NAVAIR	Naval Air Systems Command
NAVFAC	Naval Facilities Engineering Systems Command
NAVSEA	Naval Sea Systems Command
NAVSUP	Naval Supply Systems Command
NAVSUP WSS	NAVSUP Weapon Systems Support
NOR	net operating result

OIG	Office of Inspector General
OPNAV	Office of the Chief of Naval Operations
OSD	Office of the Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PACFLT	U.S. Pacific Fleet
POM	program objective memorandum
PPBE	planning, programming, budgeting, and execution
RWO	reimbursable work order
WCF	Working Capital Fund

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Executive Summary

The Navy Working Capital Fund (NWCF) supports Department of the Navy (DON) activities by providing required goods and services across the naval enterprise on a reimbursable basis. In fulfilling its mission, the NWCF allows DON to minimize risk by providing stabilized pricing to customers and absorbing fluctuations in market prices during the year of execution. As described in this report, the NWCF provides additional benefits to its customers, including transparency of costs for goods and services, improved mission delivery, a full cost recovery operating model, increased continuity of operations, and the ability to budget for long-term investments and recapitalizations.

Despite these benefits, there is a growing concern that decision-makers outside of the NWCF do not fully grasp its operational mechanics, the substantial benefits it confers, or the potential risks program decisions pose to its financial health. This incomplete understanding can lead to decisions that inadvertently impair the NWCF, thereby diminishing future purchasing power and operational readiness. Contributing to these challenges, the DON planning, programming, budgeting, and execution (PPBE) process is seen as complex, opaque, and fractured, with different sets of players in different phases. Inadequate communication and coordination between resource sponsors, program offices, the Office of Budget, the fleet, and NWCF entities has been a key contributing factor to the challenges facing the NWCF.

To address these issues comprehensively, the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN (FM&C)) commissioned the National Academy of Public Administration (Academy) to evaluate how resource management decisions impact the NWCF and identify strategies for improving decision-making processes to safeguard the fund's integrity and DON's operational efficacy.

This report of an Academy Panel of Fellows (Panel) examines the effect of resource management decisions—including programmatic, budgetary, and execution—on the NWCF. Furthermore, it assesses whether program and budget development decision-makers consider the potential impacts of their choices on the NWCF. Finally, it provides actionable recommendations to enhance and improve DON's resource management decision-making processes, delivery methods, organizational support structures, and forecasting (near-, mid-, and long-term), as well as guidance for their effective implementation.

To facilitate the review of the resource management decision-making processes and guide data collection activities, this report utilizes a case study approach. Together with DON leadership, the Panel identified three historical cases for the study:

- Naval aviation and NWCF cash insolvency
- Removal of the Base Support business from the NWCF[2]
- Removal of naval shipyards from the NWCF

Table 1. The Panel's key findings related to each cusp event

Cusp Event	Finding
Naval Aviation and NWCF Cash Insolvency	**Finding 3.1:** The NAE set the target of delivering 341 mission capable F/A-18E/F without fully considering its potential cost implications, which put pressure on the NWCF.
	Finding 3.2: Insufficient communication and coordination between resource sponsors, program offices, and the NWCF (NAVSUP) has been a key contributing factor to the challenges associated with the early divestment of the F/A-18 A-D.
	Finding 3.3: Decision-decision makers' incomplete understanding of how the WCF works is a key barrier to improving the decision-making process.
	Finding 3.4: The lack of long-term, holistic planning for naval aviation prevents stakeholders from anticipating and preparing for changes.
	Finding 3.5: Dramatic swings in demand signals in the execution year contributed to the NWCF's cash insolvency.
Removal of Installations	**Finding 4.1:** While reducing the number of RWOs to increase auditability was the stated rationale for the FMB's decision to pull Base Support out of the NWCF, it appears that other factors played a role in the final decision.
	Finding 4.2: The FMB's desire to increase auditability by reducing RWOs was not a sufficient justification for removing Base Support from the NWCF.
Removal of Shipyards	**Finding 5.1:** The decision-making process for transitioning the shipyards to mission funding helped ensure there were no negative consequences for the NWCF.
	Finding 5.2: Transitioning the shipyards to mission funding benefited the NWCF and was likely a good decision for DON.

Table 2. The Panel's recommendations and implementation steps

Objective: Build trust and enhance collaborative working relationships among resource sponsors, program offices, and NWCF entities.	
Recommendation	Implementation Steps
Recommendation 1: Senior leaders from OPNAV, the program offices, and the NWCF should reinforce the importance of breaking down organizational silos and building a culture of transparency and trust. Developing trusting, collaborative working relationships depends on sustained commitment from leaders of all involved entities and requires a shift in organizational culture.	Demonstrate leadership commitment to cultural change through proactive communication.
	Openly acknowledge the barriers that impede effective communication, articulate a compelling reason for change, and create a clear, consistent message to staff to set expectations.

<u>Recommendation 2</u>: DON should institute formal mechanisms and processes to solicit input from NWCF entities (i.e., NAVSUP and COMFRC) during decision-making processes (e.g., before the POM is approved by the CNO). While potential impacts on the NWCF are not and should not be the deciding factor during decision-making, the NWCF should 'have a seat at the table.' Engaging NWCF entities in the decision-making process would help ensure that decision-makers factor in all potential implications and develop plans to manage anticipated financial risks.	Establish a cross-functional team comprising representatives from OPNAV (resource sponsors), program offices, NAVSUP, and COMFRC and FRCs to develop a disciplined communication approach that clearly lays out when and how to engage NWCF entities in the POM process. Currently, the NWCF is mainly considered a budget issue. The Panel believes it is critical to involve the NWCF in the programming phase so that long-term impacts of decisions on the solvency of the NWCF can be exposed early. Promoting transparent decision-making does not mean disregarding the sensitive nature of some programmatic decisions; rather, it underscores the importance of maintaining effective communication between resource sponsors, program offices, and NWCF entities at different levels to discuss potential implications, assess risks, and come to a mutual agreement on subsequent actions (e.g., continue or pause spare parts procurement).
	Compile a checklist to identify the key factors that resource sponsors should consider when developing investment or divestment proposals, including potential impacts on the NWCF and plans to mitigate financial risks.
	Formally map and codify the POM process (e.g., develop a RACI Matrix), clearly identifying the roles and responsibilities of all stakeholders and their level of involvement (i.e., responsible, accountable, consulted, and informed) in each task and decision throughout the process. The purpose is to ensure clear communication and smooth workflows across all DON components.
<u>Recommendation 3</u>: DON should consider establishing rotational programs that provide NWCF staff opportunities to work in OPNAV and program offices, and vice versa. Such opportunities would help build relationships, break down silos, and improve understanding of how the NWCF works by allowing NWCF staff to	Implement a pilot rotational program that allows NAVSUP WSS staff to work directly with resource sponsors. This pilot program would help NAVSUP WSS staff develop a comprehensive understanding of how programmatic decisions are made, key factors considered, and how NWCF's activities fit into the broader mission of the

participate in the decision-making process (e.g., the development of the POM) and bring the WCF perspective to the discussion. Similarly, OPNAV or program office staff would have the opportunity to better understand the inner workings of the NWCF and how their decisions affect the NWCF.	Navy. This program would also help bridge the gap between OPNAV and NAVSUP, foster collaboration, and enhance the Navy's decision-making process.
Recommendation 4: DON should leverage existing governance bodies and mechanisms to elevate discussions on the WCFs, streamline decision-making processes, obtain leadership support and commitment, and inform leadership of the consequences of their decisions on the WCFs.	Partner with the OUSD(C) and the WCF LESC to identify opportunities to participate in decision-making processes at the OSD level (e.g., PPBE process), play a more active role in advising DOD leadership on WCF-related issues, alert the WCFs if decisions being considered could negatively impact the WCF, and improve visibility of the WCF at the leadership level.
Recommendation 5: DON should continue and expand its efforts to develop and execute long-term plans through a collaborative process that engages various stakeholders. An integrated planning approach would allow senior leaders to develop a more holistic view of the enterprise, build relationships, engage the stakeholder community in executing plans, and coordinate with stakeholders when plans don't work out to minimize negative consequences. COMFRC's planning efforts, discussed in Chapter 3, serve as a good example of collaborative planning.	Identify potential opportunities for NAVSUP to develop and implement long-term plans through a collaborative approach, engaging with NWCF stakeholders and leveraging the COMFRC model.
Objective: Improve accountability of decision-makers for the cost impacts of their decisions by offering training programs on NWCF to senior leaders and staff and leveraging data and data analytics.	
Recommendation	Implementation Steps
Recommendation 6: DON should develop WCF training courses for senior leaders and staff with a focus on the cost impacts of their decisions. *Training courses and programs designed for senior leaders and their staff attempt to equip them with the knowledge about the NWCF needed to appreciate the link between the general fund side and the NWCF; heighten awareness of potential unintended consequences of their decisions; and make informed, effective decisions.*	Explore arrangements with other services, such as the Air Force and the Army, to take advantage of established WCF training courses and programs. Interviewees noted that most military departments are willing to share the training programs they have developed. There are opportunities to fully exploit available resources and adapt existing WCF training programs to address the Navy's specific needs and requirements.

***Recommendation 7*: DON should expand the use of technology and data and data analytics to enable decision-makers to quickly assess the cost impacts of various options and make more informed decisions.** *DON collects an array of financial data and has implemented various tools to share data and information and support decision-making. There is potential to further increase the department's capacity to build data analytics tools and fully utilize advanced technology to provide accurate and timely insights to enhance the decision-making process.*	Reach out to other services and agencies to identify best practices for expanding the use of technology and data analytics to make more informed decisions and enhance leadership accountability.

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Chapter 1: Introduction

The Navy Working Capital Fund (NWCF) is essential for supporting activities that provide necessary goods and services on a reimbursable basis to the Department of the Navy (DON). With an estimated FY 2024 budget of $34.9 billion, it equals approximately 13.6 percent of the total DON budget. As such, it is a critical source of funding for a substantial portion of naval requirements.

Established by Congress to better control and account for the costs of programs and work within the Department of Defense (DOD), the NWCF fosters a customer-provider relationship between military units and the fund itself. It supports both supply management activities, such as procuring and reselling supplies, and nonsupply management activities, including providing industrial and commercial goods and services. The NWCF is divided into four main business areas: Supply Management, Depot Maintenance, Transportation, and Research and Development.

The impetus for this study stems from a growing concern that decision-makers outside of the NWCF do not fully grasp its operational mechanics, the substantial benefits it confers, or the potential risks program decisions pose to its financial health. This incomplete understanding can lead to decisions that inadvertently impair the NWCF, thereby diminishing future purchasing power and operational readiness. To address these issues comprehensively, the Assistant Secretary of the Navy (Financial Management & Comptroller) (ASN (FM&C)) commissioned this study to evaluate how resource management decisions impact the NWCF and identify strategies for improving decision-making processes to safeguard the fund's integrity and DON's operational efficacy.

This report examines the effects of resource management decisions, including programmatic, budgetary, and acquisition choices, on the NWCF. Furthermore, it assesses whether program and budget development decision-makers consider potential impacts on the NWCF. The Study Team identified and analyzed historical "cusp events" that have led or could lead to severe financial shocks to the NWCF. For each such event, the report describes the events, the decision-making processes, outcomes, and the impact on the NWCF's financial condition and DON operational readiness. Additionally, it examines whether decision-makers considered the NWCF's status during these decisions. Finally, it identifies actionable recommendations to enhance and improve DON's resource management decision-making processes, delivery methods, organizational support structures, and forecasting (near-, mid-, and long-term), and provides actionable recommendations and guidance for effective implementation.

1.1 Scope of Work

In accordance with the Statement of Work, the Study Team defined the study scope to encompass two core objectives:

- Examine how resource management decisions (e.g., programmatic, budget, acquisition) affect the NWCF and whether resource management decision-makers in program and budget builds consider potential effects on the NWCF.

- Identify and analyze strategies to enhance and improve DON's resource management decision-making processes, process delivery, organization support structures, and near-, mid-, and long-term forecasting to improve informed decision-making.

1.2 Methodology

This thirteen-month study was conducted from October 2023 through October 2024 and was overseen by a six-member Panel of Academy Fellows with expertise in DOD acquisition and budgeting, defense operations management, working capital funds (WCF), and strategic foresight. The Panel provided ongoing guidance to a Study Team of seven, which conducted the assessment following a structured methodology employing a mixture of qualitative and quantitative research as outlined in the study work plan.

To facilitate its review of PPBE, acquisition, and other decision-making processes and to guide data collection activities, the Study Team adopted a case study approach, focusing on "cusp events." For the purpose of its analysis, the Academy defined a cusp event as a decision and resulting condition that led or could have led with the passage of time to an adverse change to the financial condition of the NWCF. Specifically, the Academy considered whether the event could be absorbed by the NWCF using current cash levels in the ordinary course of business and/or might prevent the NWCF from achieving a zero accumulated operating. Specifically, in selecting the cusp events, the Academy considered the following criteria:

- Length of time allocated to the NWCF to execute the decision or policy change
- Length of time required for the NWCF to recover from the cusp event
- Extent of adverse change (or potential change) to the financial condition of the NWCF, defined as the resulting dollar amount of operating loss and the impact on the NWCF's cash levels
- Degree of impact or potential impact on operational readiness

Using these criteria, and in consultation with DON leadership, the Panel identified three potential cusp cases for the study:

- Naval Aviation and NWCF Cash Insolvency
- Removal of the Base Support Business from the NWCF
- Removal of Naval Shipyards from the NWCF

The Study Team researched the cusp cases to understand the events, including the decision-making processes, outcomes, and impacts on the NWCF and operational readiness, and the actions NWCF leadership took in response to the events. Additionally, the Academy identified how and to what extent potential impacts on the NWCF were taken into consideration during PPBE, acquisition, and other decision-making processes. Finally, the Academy analyzed the cases to identify common themes and potential lessons learned to inform the development of findings and recommendations.

As part of its underlying research, the Study Team conducted approximately one hundred semi-structured interviews with current and former officials from the DOD and DON, and other subject

matter experts. The Study Team conducted a content analysis of interview notes to identify themes to inform the report's findings and recommendations.

The Study Team reviewed DOD and DON policy documents and publicly available studies, including those from the Government Accountability Office (GAO) and the Congressional Research Service (CRS). To support the interviews, the team analyzed historical financial data and activities of NWCF consolidated, Naval Supply Systems Command (NAVSUP), and the three Fleet Readiness Centers (FRC). Additionally, the team reviewed historical financial and operational data of the naval shipyards and Base Support (installations) to inform the study further.

In conducting its research, the Academy considered the following basic study premise:

More frequent and timely communication among NWCF leaders and decision-makers within the PPBE and acquisition processes may lead to more informed decisions that consider the potential impact on the NWCF, fewer disruptive financial outcomes for NWCF operations, and a higher level of DON operational readiness.

The study approach was broken into three phases: background research, data collection and analysis, and report preparation and rollout facilitation.

Phase 1: Background Research

During Phase 1, the Study Team conducted a literature review to build a baseline understanding of the DOD and DON PPBE processes; DOD acquisitions; the NWCF, including its mission, activities, processes, structure, and customers; and the advantages and disadvantages of WCF versus mission funding. The Study Team reviewed a variety of documents, including GAO, CRS, and Congressional Budget Office (CBO) reports; news media articles; legislation; and congressional testimony. The Study Team also began to review DOD and DON policy documents and NWCF financial data.

Initial interviews with DON budget officials and subject matter experts on the PPBE and acquisition processes and the NWCF enhanced the Study Team's baseline understanding of DOD, DON, and the NWCF.

Phase 2: Data Collection and Analysis

The Academy collected and analyzed quantitative and qualitative data from primary and secondary sources. The Study Team did this through an additional literature review to identify prior academic research and federal studies (e.g., GAO reports) specifically related to the Academy's charge. During Phase 2, the Study Team also continued to collect and analyze DOD and DON official documents.

The Academy conducted approximately one hundred interviews with current and former personnel from the DOD, Defense Logistics Agency, Navy Office of Budget (FMB), Office of the Chief of Naval Operations (OPNAV), NWCF, Marine Corps, Fleet Forces Command, NAVSUP, Naval Air Systems Command (NAVAIR), Naval Sea Systems Command (NAVSEA), naval shipyards, and subject matter experts. Appendix B provides a complete list of interviewees. The Academy also conducted site visits to FRC East and NAVSUP Headquarters to review financial data and conduct group interviews.

In addition, the Academy continued to obtain and analyze NWCF financial data, including data from FRC East, FRC Southeast, FRC Southwest, NAVSUP, and the prior base support and shipyard activities that were removed from the NWCF previously.

Phase 3: Preparation of the Report and Facilitation of Rollout

During the final phase, the Academy completed its data collection and analysis and developed findings. The findings were briefed to DON and revised based on feedback and clarifications received during the briefing. They were then used to develop actionable recommendations and implementation steps that incorporate leading change management and agile principles.

Limitations

While the report is the result of a rigorous and robust data collection and analysis effort, the Study Team was unable to obtain some documents and data, or to interview a handful of officials with key roles in the relevant decision-making processes. In addition, the deliberations and events leading up to one of the cusp cases, the removal of the shipyards from the NWCF, occurred more than twenty years ago. Many of the officials with first-hand knowledge of the case had retired and were difficult to reach.

1.3 Organization of the Report

This report consists of six chapters. A summary of the chapters appears below.

Chapter 1 (the current chapter) describes the study, including its scope, goals, and methodology. It concludes with an overview of the report's organization.

Chapter 2 provides important contextual background on the NWCF, including its mission, operational framework, financial objectives, and rate-setting process. It also enumerates the benefits of the NWCF providing required goods and services across the naval enterprise on a reimbursable basis. The chapter concludes with a description of the DON PPBE process and the NWCF's interactions with it.

Chapters 3, 4, and **5** discuss the three case studies: (1) naval aviation and NWCF cash insolvency, (2) the removal of the Base Support activity from the NWCF, and (3) the removal of the naval shipyards from the NWCF. Each chapter contains case study findings.

Chapter 6 presents recommendations stemming from the analysis of the cusp cases and provides high-level guidance on operationalizing the Panel's recommendations, including identifying high-level implementation steps incorporating leading change management and agile principles.

Chapter 2: Background on the Navy Working Capital Fund and the Planning, Programming, Budgeting, and Execution Process

2.1 Navy Working Capital Fund

Mission and Operations

The NWCF is in the Civilian Resources and Business Affairs Division (FMB-4) in the Office of the ASN (FM&C). The NWCF supports DON activities by providing required goods and services across the naval enterprise on a reimbursable basis. In fulfilling its mission, the NWCF allows DON to minimize risk when executing maintenance and supply functions by providing stabilized pricing to customers and absorbing fluctuations in market prices during the year of execution. Stabilized pricing mitigates the effects of perturbations that may arise during the year of execution, including the increasing cost of raw materials, programmatic adjustments, supply chain disruptions, and the redeployment of military assets due to geopolitical tensions. As discussed below, losses from cost fluctuations are recovered from customers in future years.

Congress established WCFs "to control and account more effectively for the cost of programs and work performed in the Department of Defense."[1] Title 10 United States Code, § 2208, provides that the Secretary of Defense may establish WCFs to finance inventories of supplies and industrial-type activities that provide common services such as repair, manufacturing, or remanufacturing.[2]

The WCF model creates a customer-provider relationship between military operating units (customers) and the WCF (provider). A customer receives an appropriation to finance a program, decides to use the services of a WCF, and initiates a reimbursable order. Once the order is accepted, it becomes a budget authority for the WCF activity to be used to cover the full cost of delivering the service. This relationship provides greater transparency and informs customers of the full cost of goods and services.

The NWCF utilizes a full cost recovery operating model where goods and services are sold to customers (e.g., the fleet) on a reimbursable basis to generate revenue, cover expenses, and maintain the cash reserve (corpus). Under the revolving fund concept, an appropriation or transfer of funds finances initial DON WCF operations. The NWCF then charges the amounts necessary to recover the full cost of goods and services provided with the objective of breaking even over the long term. Although the NWCF receives limited appropriated dollars, it is primarily funded through a combination of contract authority and spending authority from offsetting collections.[3] Additionally, Congress may provide additional appropriations to supplement the NWCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

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[1] 10 U.S.C. § 2208.
[2] 10 U.S.C. § 2208..
[3] Although both types of revolving funds are financed primarily by reimbursements from customers' appropriated accounts, Supply Management Activities use contract authority and Non-Supply Management Activities use reimbursable authority.

Navy Working Capital Fund Activities

The NWCF supports two distinct types of activities: Supply Management Activities and Non-Supply Management Activities. Supply Management Activities procure supplies from commercial sources and hold them in inventory for later sale to authorized customers. Non-Supply Management Activities provide industrial and commercial goods and services such as depot maintenance, transportation, and research and development.[4] At the direction of the ASN (FM&C), this study focused on supply management and depot maintenance, as those are the NWCF activities facing the most difficult challenges.

Supply Management (NAVSUP FY23 Revenue: $8,327,746,000)

NAVSUP performs inventory oversight functions that result in the sale of aviation and shipboard components, ship's store stock, repairables, and consumables to DON and other DOD customers. NAVSUP's central role is to ensure that DON operating forces and their equipment have the necessary supplies, spare parts, and components to conduct military engagements, various types of training, and any potential contingency requirements. NAVSUP utilizes its contract authority to obligate funds and to procure spare parts and other materials prior to customer requisition. It determines the appropriate mix of supplies and inventory levels utilizing forecasting models, historical data, and demand signals. Costs related to supplying material to customers are recouped through stabilized rate recovery processes.

Depot Maintenance (FRC FY23 Revenues: $2,854,264,000)

Depot Maintenance provides worldwide maintenance, engineering, and logistics support through mobilization, repair of aircraft, engines, components, and weapons systems, and the manufacture of parts and assemblies. Depot Maintenance consists of the FRCs and the Marine Corps Depots. The three FRCs include FRC East, Cherry Point, NC; FRC Southeast, Jacksonville, FL; and FRC Southwest, San Diego, CA). FRC customers include the Army, Navy, Air Force, non-DOD agencies (ex. NOAA), and foreign countries.

Transportation (COMSC FY23 Revenues: $3,892,446,000)

Provides over-ocean movement of supplies and provisions to deployed forces and maintains prepositioned equipment and supplies.

Research and Development (Warfare Centers and Naval Research Laboratory FY23 Revenues: $ 18,340,401,000)

Research and Development supports weapons systems, facilities and equipment for the air, land, sea, and space operating environments through development, engineering, acquisition, in-service support, and repair and maintenance.

[4] Previously, the Base Support activity and shipyards were also funded through the NWCF. DON began removing shipyards from the NWCF in 1998 and completed the process in 2006 (see Chapter 5). Base Support was removed in 2020 (see Chapter 4).

Navy Working Capital Fund Financial Objectives

Pursuant to DOD Financial Management Regulation 7000.14-R, the NWCF operates on a "break-even" basis (revenue generated equals the cost associated with receiving the revenue). The NWCF uses three key measures to assess financial performance:

- Net operating result (NOR), which represents the difference between revenue and expenses within a fiscal year
- Accumulated operating result, which measures the activity's accumulated gains and losses since the fund's inception
- Unit cost, which represents the average cost of delivering goods and services to customers (and is the primary performance indicator for the NWCF)

Cash Management

Following DOD financial policy, the NWCF must maintain a positive cash balance with the Department of the Treasury to pay bills when due and support operational requirements, near-term capital investment program disbursements, cost fluctuations, unplanned expenses, and other requirements.[5]

The NWCF cash balance is kept within an upper and lower operational range. The operational range is determined using several factors, including the activity rate of disbursements, range of operations, risk mitigation, and cash reserves to fund the acceptable upper and lower bounds.

In setting the high and low cash thresholds, NWCF must consider four elements:

- The rate of disbursement (average amount disbursed between collection cycles)
- The range of operations (difference between the highest and lowest expected cash levels based on budget assumptions and past experience)
- Risk mitigation (amount of cash beyond the range of operations to mitigate the inherent risk of unplanned and uncontrollable events)
- Cash reserves for known future requirements[6]

When cash balances are projected to fall below the lower cash requirement, WCFs can generate cash by using options such as out-of-cycle rate adjustments, surcharges, or reprogramming actions.[7]

Rate setting for Working Capital Fund Activities

The NWCF is a full cost recovery operating model where program expenses are initially charged to the NWCF and then recovered through the rates charged to its customers. As part of the

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[5] Failure to maintain a positive cash balance may result in a violation of the *Antideficiency Act* (31 U.S.C. § 1341), which prohibits federal employees from obligating or expending amounts in advance of or in excess of amounts available in an appropriation or fund unless authorized by law.
[6] DOD, *Financial Management Regulation, DOD 7000.14-R*. Vol. 2B, Chapter 9, "Defense Working Capital Fund Budget Justification Analysis." Washington, DC: Department of Defense, August 2022, 2B, 9-8.
[7] GAO, *DEPOT MAINTENANCE: DOD Should Improve Pandemic Plans and Publish Working Capital Fund* Policy, GAO-21-103, April 2021, 9, https://www.gao.gov/assets/d21103.pdf.

NWCF's annual budget submission for each upcoming fiscal year, rates are required for all individual WCF activities and are set at levels estimated to recover the budgeted costs of goods and services, including all general and administrative overhead costs, prior period gains and losses, and applicable surcharges.[8]

To accomplish these objectives, the NWCF must accurately project costs and future workload (demand forecasting). The NWCF uses several tools and data elements, including annual demand curves, historical data, and forward-looking customer consumption trends, to calculate unit prices that will yield a "break-even" recovery. Once rates are approved in the congressional budget process, they are stabilized for one year and applied to orders received from NWCF customers during the fiscal year.

The process for setting rates for the NWCF is outlined in Financial Management Regulation Volume 2B Chapter 9 and emphasizes full cost recovery, stabilized prices, and budget formulation and review. Rates are determined two years in advance and are set using various methods based on the nature of the WCF activity and its output measure. Rates include all operations costs, including labor, materials, overhead, and capital depreciation.[9] In accordance with the Financial Management Regulation, the NWCF uses four methods for rate-setting purposes, based on the nature of an activity:

- **Percentage Markup on Cost:** A cost recovery percentage is applied to the purchase or repair cost of secondary supply items to recover overhead costs and other pricing adjustments. This method is typically used for supply management DWCF activities.
- **Direct Labor Hour:** A specific dollar value, including all direct costs, overhead, and other pricing adjustments, is charged per direct labor hour associated with the completion of a customer order. This method is typically used for industrial WCF activities including depot maintenance, ordnance, and research and development.
- **Specific Unit of Output:** For WCF activities that provide services via numerous outputs that do not have a common measure for calculation, the WCF sets separate rates for each output. When multiplied by projected customer workload for each output, the rates will produce revenue that approximates, to the extent possible, recovery of the full costs.
- **Standard Fuel Price:** A standard fuel price is set for use by the Defense agencies and military departments to develop their fuel estimates for the budget.[10]

The rate-setting process poses the following challenges for the NWCF:

- The NWCF is under considerable pressure to keep its rates as low as possible to preserve customers' buying power. This is partially driven by customers' incomplete understanding about how rates are set and what they include (e.g., overhead); they only know that their costs are "higher" under the NWCF than under mission funding.

[8] As profits or losses occur in any given fiscal year, profits will contribute to lower rates in succeeding years while losses will be reflected in higher rates in succeeding years.
[9] CBO, *Comparing Working-Capital Funding and Mission Funding for Naval Shipyards*, (Washington, DC: CBO, April 2007), 9, https://www.cbo.gov/sites/default/files/110th-congress-2007-2008/reports/04-12-shipyards.pdf.
[10] DOD, *Financial Management Regulation*.

- Rates must be set two years in advance, before actual demand and prices are known. Demand can change due to programmatic changes, early divestment decisions, or deployments, and inflation can be difficult to forecast.

While challenges related to rate setting can help drive the NWCF to be more efficient, they can also result in losses for the NWCF (resulting in higher future rates and lost future customer purchasing power) or prevent it from making investments in capital improvements (which can affect future productivity). Both mitigation strategies can negatively impact future operational readiness.

Advantages of the Navy Working Capital Fund

Many DON and DOD officials, including customers, do not fully appreciate the benefits WCFs provide to federal agencies including the following:

- **Stabilized pricing:** In providing stabilized pricing for goods and services during the year of execution, the NWCF serves as a shock absorber for perturbations that may arise, such as sudden increases in inflation, programmatic adjustments, supply chain disruptions, and changes in supply and demand.
- **Transparency of costs:** The NWCF enables both providers and customers to understand the full cost of goods and services and how well they are allocating resources.[11] NWCF management tracks various cost and operating performance metrics, incentivizing the WCF to recognize efficiencies and productivity improvements to contain costs.
- **Improved mission delivery**: The WCF business model drives alignment of resources with mission requirements, customer-provider engagement, cost analysis, and informed demand forecasting. These activities help increase the overall efficiency of DON operations.
- **Full cost recovery operating model:** As described above, the NWCF utilizes a full cost recovery model. To recoup the full cost of operations, rates are set at levels estimated to recover the budgeted costs of goods and services, including all general and administrative overhead costs, prior period gains and losses, and applicable surcharges. Full cost recovery incentivizes customers to consume only what is needed to support their mission needs.
- **Increased continuity of operations:** The NWCF can continue to work until its cash corpus is insufficient, mitigating the impacts of funding instability during government shutdowns, delays in appropriations, and continuing resolutions (CR); if work conducted during any given year costs more than expected; or if appropriated funds are reprogrammed.
- **Ability to budget for long-term investments and recapitalizations:** WCF activities must recover the costs to purchase capital assets by including a Capital Investment Recovery (CIR) factor in rates billed to customers. This practice allows DON to spread the cost of capital investments and equipment recapitalization costs over an extended period.

[11] CBO, *Comparing Working-Capital Funding and Mission Funding*, 10.

2.2 Overview of the Department of the Navy Planning, Programming, Budgeting, and Execution Process

Most decisions related to or with the potential to affect the NWCF are made within the PPBE process. Within DOD's PPBE process, DON does its own planning, programming, budgeting, and execution; the outputs of DON's process are inputs to the DOD's PPBE process. (See Appendix C for additional information on the DOD PPBE process.) DON's process is managed by the ASN (FM&C) and involves close coordination with other DOD entities and stakeholders. It is used to allocate resources and ensure the Navy and Marine Corps are prepared to meet strategic and operational goals.[12]

The **planning** phase focuses on identifying future capability needs based on strategic guidance and threat and capability assessments. Outputs of this phase include the Navy strategic plan and the Marine Corps vision and strategy. Generally, this phase is viewed as having minimal impact on the NWCF.

Programming translates strategic, planning, and other guidance into proposed programs and detailed resource allocation plans. The OPNAV Programming Division (N80), under the direction of the Chief of Naval Operations (CNO) and in coordination with resource and requirements sponsors, leads the preparation of the program objective memorandum (POM), which details resource distribution for a five-year period. The OPNAV Warfare Integration Directorate (N9I) takes the lead in sorting through priorities at the beginning of the programming phase. OPNAV N80 does the final integration of the POM to ensure that resources are applied to the CNO's stated priorities. The initial rates generated by the NWCF inform the building of the POM; however, they are recalculated once the POM is complete.

Multiple reviews occur during the programming phase. ASNs and the CIO, in partnership with the ASN (FM&C), review services' program proposals for areas within their purview. Following these reviews, the ASN (FM&C) leads two integration meetings with the support of other ASNs, the Deputy CNO for Integration of Capabilities and Resources (N8), and the Commandant of the Marine Corps Programs and Resources. The purpose of these meetings is to brief the Secretary of the Navy, other senior DON officials, and the Secretary's Senior Review Group.[13] The briefing includes a review of key investments and divestments.

DON's program is submitted to Cost Assessment and Program Evaluation (CAPE) in the Office of the Secretary of Defense (OSD) for review. In response to OSD program decision memoranda and Office of Management and Budget passback, DON proposes programmatic changes.[14]

In the past, the programming phase and POM were viewed as having very little impact on the NWCF; the NWCF focuses on a two-year time frame, not an entire POM cycle. However, there are efforts underway to involve the NWCF in the POM process to help the NWCF understand how

[12] DON, *The Planning, Programming, Budgeting, and Execution Process*, SECNAV Instruction 7000.30, (Washington, DC: DON, August 26, 2021), 1–2.
[13] DON, *The Planning, Programming, Budgeting, and Execution Process*, 3. Members of the Secretary's Senior Review Group include the CNO, Commandant of the Marine Corps, Under Secretary of the Navy, Assistant Secretaries of the Navy, General Counsel and Chief Information Officer.
[14] DON, *The Planning, Programming, Budgeting, and Execution Process*, 3.

programming decisions will impact them in the future and to get earlier and more accurate demand signals which, for example, would help the NWCF to right-size its civilian workforce. In addition, giving the NWCF a seat at the table would help ensure decision-makers are considering all available information, including financial data and consequences (e.g., impacts on future rates and size of the civilian workforce). Beginning with POM 25 (covering FYs 2025–29), DON issued POM supplemental guidance including projections on the impact of investment and divestment decisions on the Naval War Centers' (NWC) civilian workforce.[15]

In addition to formal efforts to involve the NWCF in the POM process, the OPNAV Logistics & Readiness Branch (N980L) recently began having frequent, informal discussions with NAVSUP leadership during the POM build regarding spare parts availability. For example, if OPNAV N980L is no longer going to budget for a spare model or aircraft, they make sure NAVSUP leadership is aware.

Some interviewees believe that POM transparency and communication between the NWCF and programmers have improved as a result of informal and formal efforts to include the NWCF in the POM.

During the **budgeting** phase, the POM is converted into a detailed budget request, called the budget estimate submission, which justifies budget requirements for the upcoming fiscal year. The budget is the output of the first year of each POM cycle. The NWCF's rates are a budget input. The budget process is relevant to the NWCF in that it is the phase in which decisions affecting the year of execution are made.

DON uses a bottom-up approach to build its budget. For example, program managers submit budget estimates to Budget Submitting Office Comptrollers, who submit them to the FMB. The FMB manages the total Navy and Marine Corps budget. This is where trade-offs are made across different organizations and programs to develop the best combination of capabilities across sub, surface, and air to meet operational requirements. DON's budget is reviewed by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) before it is submitted to Office of Management and Budget.

Execution involves the actual allocation and monitoring of funds. Funds can be reallocated during the year of execution as necessary to address emergent requirements.[16] Sometimes several changes are made during the execution phase, with the potential to significantly impact the NWCF.

The NWCF sets rates two years in advance. In addition, to ensure the fund has the capacity to meet projected demand, the NWCF begins purchasing supplies and hiring and training personnel at least one year in advance of the year of execution. If the workload is reduced just prior to or in the year of execution, which is not uncommon, then there is a negative impact on the NWCF's

[15] POM 25 supplemental guidance applied to all NWCFs. To gain a more in-depth understanding of impacts on the civilian workforce, POM 26 supplemental guidance applies only to the Naval Air Warfare Center Aircraft Division. "Civilian Personnel Programming and Fiscal Guidance for Program Objective Memorandum (POM) Fiscal Years 2025 – 2029" and Neil W.T. Hogg, "Civilian Personnel Programming and Fiscal Guidance for Program Objective Memorandum (POM) Fiscal Years 2026 – 2030" (official memorandum, October 31, 2023) (internal document).

[16] Amounts above certain thresholds cannot be reprogrammed without congressional approval.

revenue. For example, the FRCs can learn about changes in workload when they are developing the final schedule for the upcoming execution year. At that point, spares have been purchased, the civilian workforce is in place, and the rates are locked in. Another issue is that resource sponsors often fund only a portion of a requirement, but the NWCF must plan as if the full requirement will be funded. Conversely, when customer demand is higher than anticipated, the NWCF does not have adequate time to obtain the needed parts and labor to execute.

If the NWCF receives the signal that demand will be lower than anticipated too late to react appropriately, its costs escalate and the NOR is negatively impacted. In these circumstances, the NWCF has to offset lost revenues, which is most commonly accomplished by reducing indirect costs (e.g., delaying investments in facilities and equipment) and raising future rates.

The purpose of the NWCF is to absorb fluctuations in demand that occur due to deployments and other reasons. However, interviewees indicated that at times the variance between projected and actual demand is significant, that is when the NWCF must take mitigating actions, with potential ramifications for operational readiness. Reducing spending on capital investments imperils the NWCF's ability to deliver on future requirements, and increasing rates negatively impacts customers' buying power.

Both NWCF officials and PPBE decision-makers stated that the decisions being made in the PPBE process are rightly based on operational needs and are unlikely to be adjusted because they could negatively affect the NWCF. However, decision-makers, particularly in the programming and execution phases, often make decisions with incomplete data; they do not necessarily understand the potential ramifications for the NWCF, their own components, and operational readiness.

Figure 1 depicts the timing of the PPBE phases and reviews.

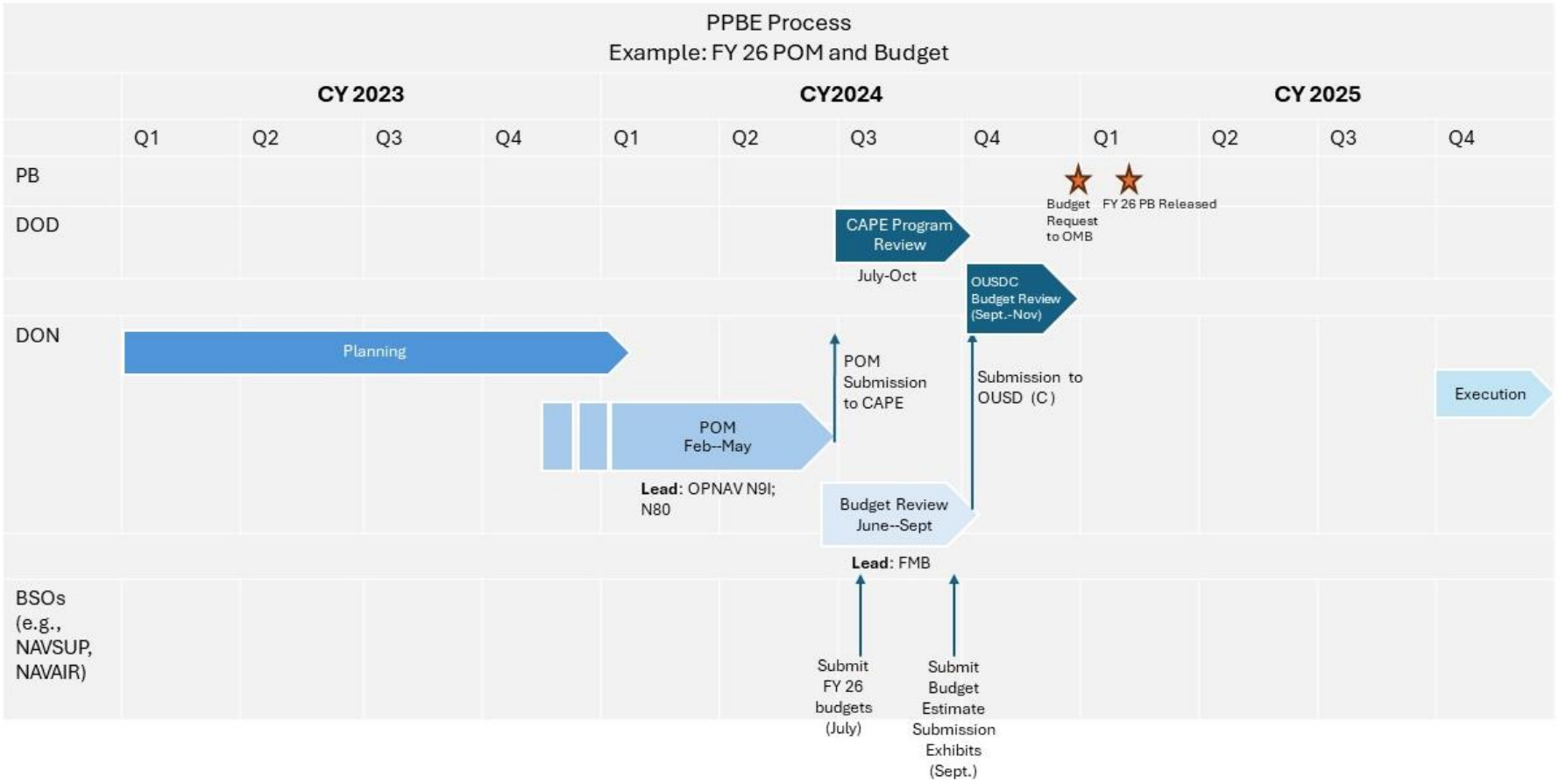

Figure 1. *Timing of the PPBE cycle for DOD, DON, and budget submitting offices. Figure created by the National Academy of Public Administration.*

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Chapter 3: Naval Aviation and Navy Working Capital Fund Cash Insolvency

3.1 Background

Naval aviation readiness has been a longstanding challenge. A salient example is the F/A-18E/F (Super Hornet), one of DON's critical aviation platforms. Due to the long delays in the F-35C Lightning II Joint Strike Fighter program, DON leaders decided to extend the service life of the Super Hornet. According to DON officials, for over a decade, only about half (240—250) of the F/A-18 Super Hornet were fully mission ready, and one-third were ready for operational tasking.

Budget constraints posed risks to aviation inventory management and maintenance support and limited the Navy's ability to address its readiness challenges. As Secretary Mattis stated in his memo, "Our department faces budget constraints and shortfalls in aviation squadrons across the force. As a result, our aviation inventory and supporting infrastructure suffer from systemic underperformance, overcapitalization, and unrealized capacity."[17] DON's APN-6 account (the account for Aircraft spares and repair parts) had been historically underfunded (approximately at a 60 percent level), and similarly, DON's sustainment accounts had been historically funded at the 50–65 percent level.

DON leaders recognized the urgency and gravity of its readiness issues and instituted a renewed focus on the readiness of naval aviation platforms. The Naval Aviation Enterprise (NAE) was tasked to tackle the widespread naval aviation readiness problems and maintain critical air assets. The NAE started the efforts to increase naval aviation readiness in FY 2018 and set the target to deliver 341 mission capable F/A-18E/F within a year.

There was a concerted effort by the Pentagon and Congress to focus on aviation readiness enablers, including spare parts, engineering support, and depots. In the POM 2017 cycle, DON anticipated receiving additional funding in the APN-6 account,[18] and additionally, a significant amount of funding was added to the Air System Support account (1A4N),[19] which is mostly related to the logistics support side of Commander, Fleet Readiness Centers (COMFRC) (i.e., fleet support teams).

To support DON's aviation readiness surge, both NAVSUP and COMFRC made significant investments. In NAVSUP's case, anticipating higher customer demand in FY 2018, NAVSUP "leaned forward" and invested approximately $ [redacted] million in inventory (including spare parts to support the F/A-18 Legacy Hornet). NAVSUP made its sales projection based on historical data, customer demand signals, and a significantly large cash balance in the NWCF account.[20] In

[17] James N. Mattis, "NDS Implementation – Mission Capability of Critical Aviation Platforms" (official memorandum, September 17, 2018), 1 (internal document).
[18] The Navy's budget data show that its APN-6 funding increased by nearly 40 percent from FY 2015 to FY 2017.
[19] The Navy's budget data show that its 1A4N account funding increased by 34 percent from FY 2016 to FY 2017.
[20] NAVSUP budget data show that NAVSUP's FY 2016 cash balance was $896,692,000. (Source: NAVSUP)

addition, COMFRC decided to increase its workforce in response to increased demand signals (i.e., increased funding in sustainment accounts). The COMFRC set its WCF rates presuming the customer demand would go up, and to meet the demand, the FRCs went through a significant recruitment phase, hiring roughly fifteen hundred to two thousand new staff.

Both NAVSUP and COMFRC made significant investments because they anticipated higher customer demand; however, sales did not materialize as expected. Interviewees cited major changes in customer demand in the execution year as one of the main challenges facing NWCF entities. Moreover, some programmatic decisions made by the Navy—such as the early divestment of the F/A-18 A-D—also added to the financial problems facing NAVSUP and COMFRC.

As a result, both COMFRC and NAVSUP experienced significant cash solvency challenges. According to FMB data, in FY 2019, COMFRC had a NOR loss of $ [redacted] million. NAVSUP's data shows that its cash balance dropped by $ [redacted] billion from FY 2018 to FY 2020. At the end of FY 2020, NAVSUP's cash balance was approximately negative $ [redacted] million and projected to continue trending downward. This chapter analyzes the underlying causes of the NWCF's cash solvency challenges in FY 2019–2021.

3.2 Findings

3.2.1 Overview

The NWCF's cash insolvency in FY 2019–2020 is not the result of one single "cusp event" but reflects the cumulative effects of multiple one-off events. While the impact of each individual event is not substantial, the combined effects of multiple events presented a significant challenge to the NWCF. It is not unusual for one or two of these types of events to happen every year, and the NWCF typically can absorb costs and recover from 'normal' fluctuations; however, when several large events happened at the same time, it was detrimental and difficult for the WCF to absorb the cost on its own. The unprecedented series of one-off events in FY 2018–2021 led to the significant cash insolvency challenges of the NWCF.

Interviewees identified a variety of factors that played a part in the NWCF cash crisis, including decisions made by DON that had an impact on the NWCF, the limitation of NAVSUP and COMFRC's forecasting capability, an inaccurate pricing model, rates suppressed by the FMB, COVID-19, and other unforeseen events (e.g., inflation, fuel costs). Some contributing factors are external and beyond the NWCF's control, while others are internal to the NWCF. The primary focus of this study is the impacts of the decisions made outside the NWCF community.

Multiple resource management decisions (e.g., programmatic decisions, execution decisions, and operational decisions) made by the Navy affected the financial performance of the NWCF and contributed to the cash insolvency challenges. The Panel and Study Team examines three types of decisions in this chapter:

- The decision to push for 341 mission capable F/A-18E/Fs
- Programmatic decisions made by the Navy (e.g., early divestment of F/A-18 A-D)
- Decisions made in the execution year

3.2.2 The Navy's Push for 341 Mission Capable F/A-18E/F

Finding 3.1: The NAE set the target of delivering 341 mission capable F/A-18E/F without fully considering its potential cost implications, which put pressure on the NWCF.

A contributing factor of the NWCF cash insolvency challenges repeatedly discussed by interviewees is the NAE's push for 341 F/A-18E/Fs. The NAE began the discussion to address the naval aviation readiness issue in January 2018. The NAE developed the naval aviation mission and vision that set the overall direction for the enterprise and provided the impetus for changing behaviors. In summer 2018, the NAE formally launched the initiative to deliver 341 mission capable F/A-18E/F within a year. In September 2018, Secretary Mattis issued a memo directing military service secretaries to achieve a minimum of 80 percent mission capability rate for tactical aviation fighters by the end of FY 2019. As several NAE officials noted, Secretary Mattis's memo reinforced the NAE's ongoing readiness improvement efforts.

Navy officials stated that, to achieve the target of 341 F/A-18E/Fs, the NAE established the Naval Sustainment System, consisting of six pillars—Supply Chain, FRC, Operational-Level maintenance, Navy type commands, Engineering, and Governance—with each led by an admiral to drive rapid progress. Many interviewees emphasized that the Naval Sustainment System has transformed how DON addresses readiness issues. The NAE established a Performance to Plan process that enables all stakeholders to work together to achieve a common goal. During the implementation of the 341 F/A-18 initiative, the senior leaders across the enterprise held weekly meetings to discuss top-level readiness metrics, identify gaps, remove barriers, and develop strategies. The Air Boss provided Performance to Plan briefings to DON's leadership on a quarterly basis.

Data analytics provides useful tools for DON to address its readiness shortfalls. NAE developed a data visualization tool—a "performance driver tree"—that includes all the key factors (e.g., people, equipment, and spare parts) that contribute to naval aviation readiness. Leveraging data analytics allowed the NAE to develop a more holistic understanding of performance drivers, make more informed decisions, and continuously refine its plan to deliver 341 F/A-18E/Fs.

While the Study Team received many positive comments about the Naval Sustainment System, the perception of some interviewees, especially officials and staff at the execution level, is that the direction to achieve 341 F/A-18E/F within a year came with significant pressure. It was an ambitious goal and a very short timeline. The Study Team was told that the FRCs had to focus solely on the F/A-18E/F work for almost nine months, and other workload was pushed to the side. One interviewee noted that achieving 341 mission capable F/A-18E/Fs was the top priority, and cost did not appear to be a concern. Additionally, the push for 341 F/A-18E/Fs put a substantial amount of pressure on the FRC's production of the F414 engines for the Super Hornet. The FRCs had to pay higher prices for materials, which led to higher prices for maintenance repair work and put strains on customers' accounts. As some interviewees noted, it was a stretch for the NAE to meet the target of delivering 341 F/A-18E/Fs within a year. Officials emphasized DON's "can-do" culture where people are always willing to take on new tasks and challenges, rather than complaining or giving up. The NAE was able to achieve its goal; however, this effort exerted considerable pressure on the agency, including the NWCF.

NAE realized that it would not be able to address its readiness challenges by simply requesting more funding; it required a significant change in operations and processes. To support the 341 F/A-18E/F effort, the FRCs implemented industry best practices to streamline processes and gain efficiency; however, changes do not happen overnight, so at that time the FRCs had to hire contractors to help hit the sixty-day turnaround time target[21] and the cost went up. FRC interviewees told the Study Team that if they had been given more time, they would have achieved the target by gaining efficiencies in the production lines rather than hiring more people. It took time for the FRCs to see real improvements in reducing the turnaround time and expediting completion.

Navy officials noted that DON did not receive additional appropriations to deliver 341 F/A-18E/Fs. Much of the initiative was accomplished in the year of execution with budgeted funds. However, it appears that the NAE proceeded with the initiative without fully considering all the details of potential consequences. Some interviewees noted that, when pressed to reduce turnaround times, the FRCs quickly recognized that they did not have the full staffing levels required to meet the sixty-day target, so they adjusted and hired more contractors in the year of execution to meet the requirements. Some stated that, prior to launching the 341 F/A-18 initiative, there wasn't sufficient discussion about the resources needed to support the 341 F/A-18E/F and potential consequences for the NWCF (e.g., potential impacts on the FRCs' workload, the availability of spare parts, the number of people the FRCs would need to hire, and the costs of hiring contractors). As a result, there wasn't a full picture of the implications of delivering 341 F/A-18E/Fs. Interviewees described the 341 initiative as a learning journey, saying that they had to learn the cost implications as they went and adjusted accordingly.

3.2.3 Programmatic Decisions Made by the Navy—Early Divestment of the F/A-18 A-D

Some programmatic decisions were made without fully considering potential impacts on the NWCF. Multiple interviewees cited the Navy's decision to accelerate the divestment of the F/A-18 (A-D) as an example of a programmatic decision that could have had significant impacts on the NWCF.

In 2014–15, the NAE leadership decided to extend the service life of the F/A-18 A-D (Legacy Hornet) from six thousand hours to ten thousand. As discussed earlier, NAVSUP invested $ [redacted] million in inventory in 2018, including parts for the legacy platform. In 2019, the Navy decided to accelerate the divestiture of the Legacy Hornet. The Navy retired its last remaining legacy aircraft in the spring of 2023.

Decision-Making Process

Resource sponsors started to consider accelerating the divestment of the F/A-18 A-D in 2017. OPNAV N980L (the Logistics and Readiness Branch) developed the divestment proposal. The two major factors that drove the decision to accelerate the F/A-18 A-D divestiture were high maintenance costs and long repair cycle time. The budgeted costs of extending the service life of the F/A-18 A-D were not accurate. Interviewees noted that, because most of the Legacy Hornet

[21] The target was to reduce the heavy maintenance turnaround times from 120+ days to less than 60 days, which was the FRCs' contribution to the 341 F/A-18E/F effort.

fleet had already exceeded the original design limits, it was very expensive to repair, maintain, and bolster the aircraft to extend its service life. For example, the Navy budgeted $ [redacted] million for a depot rework event, but the actual cost of a rework event was $ [redacted] million. In addition, the turnaround time for repairing the F/A-18 A-D aircraft was substantially longer than originally budgeted. Cost was a main driver of the divestment decision; potential implications for the NWCF were not considered during the decision-making process, according to OPNAV interviewees.

The divestment proposal was reviewed and approved by OPNAV N98 (Air Warfare), N9 (Warfighting Requirements and Capabilities), a cross-functional team within the CNO, and N8 (Integration of Capabilities and Resources) to be incorporated into the POM. In 2018, OPNAV communicated with the OSD and the congressional Defense Appropriations Committees to discuss issues related to the F/A-18 legacy platform and potential divestment. Interviewees noted that the fleet was involved along the way to provide input. Resource sponsors worked closely with the F/A-18 program office to discuss potential impacts (e.g., impacts on personnel and maintenance intervals) and the feasibility of various options. In addition, resource sponsors reached out to the FRCs to request data (e.g., turnaround time, budget material costs vs. actual costs, and depot maintenance schedules). However, some interviewees from the program office and the FRCs noted that the purpose of these data requests and discussions was not clear.

NAVSUP was not directly involved in the process. Interviewees explained that N98 had internal discussions on how the divestment decision would affect NAVSUP. It was difficult to assess the potential impacts of the early divestment on the procurement of spare parts, as NAVSUP supports both the Navy and Marine Corps, and it was not clear whether the Marine Corps would keep or sunset the legacy F/A-18.

The Navy accelerated the divestiture of the Legacy Hornet in POM 22 and subsequently in POM 23. Prior to the POM 22 cycle (summer 2019), OPNAV conducted detailed briefings with the program office to discuss the divestment plan. The POM 22 cycle started in October or November 2019, and in January or February 2020, the plan to divest the F/A-18 A-D was solidified.

At the time, the Marine Corps planned to continue operating its Legacy Hornets. However, after the Navy decided to accelerate the divesture, NAVSUP started to increase the cost for the Marine Corps to stay solvent and recover the investment they had already made to support the Legacy Hornets. Costs for the Marine Corps began to increase significantly due to the Navy's early divestiture, and therefore, the Marine Corps also expedited its process to sunset Legacy Hornets early, increasing potential negative consequences for the NWCF.

Impact on the Navy Working Capital Fund

The F/A-18 A-D early divestment could have significantly impacted the NWCF (supply management). Most parts required by the F/A-18 platform are specialized parts, and NAVSUP needs to purchase parts several years in advance to have the right inventory size to meet the fleet's requirements. NAVSUP's procurement lead times range from one to three years on average, and longer in some cases.

NAVSUP's cash solvency data over the last five years does not suggest a significant cash impact of the decision to early sunset the Legacy Hornet. NAVSUP interviewees explained that after receiving the divestment notice in September 2019, NAVSUP took immediate action to work with

industry partners to modify or cancel contracts. The estimated costs of the parts on order in the near term to support the F/A-18 A-Ds were around $ [redacted] million. NAVSUP was able to cancel most of the contracts without penalty, and only one major contract—the flight control surfaces contract—led to a $ [redacted] million cancellation fee. The Navy received a direct appropriation of $[redacted] million within the same year to offset the costs. Interviewees noted that some costs are not reflected in the financial data. For instance, most contracts do not have standard cancellation provisions, and as a result, it often requires extensive negotiations between NAVSUP and private sector vendors to cancel the contracts. Given NAVSUP's lengthy procurement lead time, any significant investment or divestment decisions pose a potential risk to the NWCF.

The early divestment of the F/A-18 A-D did not significantly impact the FRCs. However, the decision to divest predominantly impacted the workload of FRC Southwest and, according to FRC interviewees, they were able to make some transition plans after being notified of the decision.

> **Finding 3.2: Insufficient communication and coordination between resource sponsors, program offices, and the NWCF (NAVSUP) has been a key contributing factor to the challenges associated with the early divestment of the F/A-18 A-D.**

Most interviewees agree that the decision to accelerate the divestment of the F/A-18 legacy platform was in the Navy's best interest. However, it was perceived as a challenge because of insufficient communication and coordination among key players (e.g., resource sponsors, program offices, and the NWCF).

The Opaqueness of Resource Sponsors' Decision-Making Process

Multiple interviewees described the accelerated divestiture decision as "a complete surprise." The divestment of a weapon platform is typically decided by the NAE, and the decision in 2014-2015 was to extend the service life of the Legacy Hornet. However, OPNAV was concerned about the costs associated with maintaining the Legacy Hornet and decided to accelerate the divestment. As described earlier, the resource sponsor's divestment proposal went through a thorough internal vetting process within OPNAV. However, due to insufficient communication, the perception of some interviewees is that the decision was made very quickly without sufficient discussion of its potential implications.

While recognizing the value of enhancing transparency and communications, OPNAV officials explained the 'sensitive nature' of programmatic decisions and emphasized that they need to be very careful about sharing 'predecisional' information, even within the Navy, because it would put readiness at risk if NAVSUP stopped procuring but the proposal was disapproved by the OSD or Congress. The proposed divestment of MH-53E Sea Dragon helicopter provides a current example. The Navy proposed to divest the MH-53E two years sooner than the original plan. The NDAA requested that the Navy provide a letter that clearly attests that the Navy has the alternate capability to replace the MH-53E, and the letter is currently sitting with the Secretary of the Navy. Without explicit congressional approval, the Navy must continue operating the platform, and NAVSUP needs to continue investing in spare parts for it.

Adding to the complexity, NAVSUP supports both the Navy and Marine Corps. The resource sponsor was hesitant to send signals to NAVSUP, as it is difficult to assess the implications of the

Navy's divestment decision without knowledge of the Marine Corps' plan. The resource sponsor was concerned about the actions NAVSUP might take and the potential consequences. Interviewees stressed that engaging NAVSUP in the decision-making process requires a risk-based approach and careful consideration of how and when to communicate.

Interviewees stated that both the FRCs and NAVSUP have access to the *Aircraft Program Data File (APDF)*, which provides OPNAV's inventory projection (five to ten years) and reflects where the Navy is headed. The APDF is updated at least twice per year and feeds into the Navy's multiple planning efforts. Interviewees noted that OPNAV typically updates the data file after the investment/divestment decision is approved by the CNO, and APDF serves as a vehicle through which OPNAV sends out 'early' demand signals before receiving the final approval from Congress.

NAVSUP interviewees noted that they had access to the APDF but emphasized that it was still "too late" when they received the divestment signal—"the decision was already made and NWCF was an afterthought." Interviewees maintained that receiving demand signals early in the process would allow NAVSUP more flexibility to adjust and mitigate the cash solvency risks to the WCF. In addition, NAVSUP did not have the opportunity to provide input and data when the resource sponsor considered the early divestment. It is unclear whether decision-makers factored in all the potential risks posed by their decisions or whether they have a plan to offset the extra costs (or mitigate risks). The NWCF is not a key driving factor but including NWCF officials in discussions before decisions are made would give the NWCF the opportunity to plan for potential changes, as well as help decision-makers understand the full cost of their decisions.

Conflicting Signals from Resource Sponsors and Program Offices to the Navy Working Capital Fund

In the case of the F/A-18 A-D, resource sponsors engaged the program office to discuss the potential impacts of the divestment proposal. While some interviewees from the program office said that the purpose of these discussions was not always clear, the program office was at least aware that OPNAV's direction was to sunset the Legacy Hornet; however, this signal was not communicated to NAVSUP. According to multiple interviewees, the program office continued to send requests to NAVSUP to procure spare parts for the legacy platform. Shortly before the Navy announced its divestment decision, NAVSUP awarded a major contract to Boeing to support the Legacy Hornet based on the demand signals from the program office, leading to a significant cost associated with the contract termination.

The divestment of the MQ-8C Fire Scout helicopter is another case that illustrates the challenges facing NAVSUP because of insufficient communication and coordination among the program office, the resource sponsor, and the NWCF. As part of the Navigation Plan Implementation Framework effort, OPNAV formed a cross-functional team to assess proposed investment and divestment decisions, and this team determined to divest the MQ-8C early. OPNAV N98 developed the divestment proposal, which went through the regular OPNAV review and approval process within OPNAV before being included in the FY 2025 budget request. The NWCF was not an explicit part of the decision-making process. The program office was engaged in the discussions during this process. The resource sponsor did not have direct interactions with NAVSUP and expected the program office to communicate with its stakeholders—including NAVSUP—as the program office is ultimately accountable for the cost, schedule, and performance of their program

and was fully aware of the decisions being made. The APDF was updated in spring 2023 after the divestment decision was approved by the CNO.

NAVSUP engaged in some informal communication with OPNAV N98 and learned that the MQ-8C program was no longer being resourced, and the updated APDF also reflected the reduced aircraft posture. While the Navy's direction was to divest the MQ-8C platform soon, the program office continued sending NAVSUP Weapons System Support (WSS) the signal to purchase parts for the platform. NAVSUP was able to stop procuring MQ-8C material sooner and minimize unnecessary costs because of its informal communication with resource sponsors. However, NAVSUP WSS, as an Echelon 3 entity, typically does not have direct communication with OPNAV. Information flows down to the program office, which in turn sends signals to NAVSUP WSS. In some cases, the disagreement between OPNAV and the program offices leads to a scenario where NAVSUP makes investments without fully understanding OPNAV's direction.

Several other interviewees from NAVSUP and COMFRC expressed frustration over the opaqueness of the decision-making process and the lack of direct interactions with resource sponsors. The Study Team was told that not all program offices' requirements are backed by funding (resource sponsors only fund 80% of the requirements), and it is a challenge to get a clear, realistic signal of what will get funded. Some described the decision-making process as stovepiped, with limited visibility across the portfolio. Various components of the Navy—NAVAIR, NAVSEA, the FMB, and OPNAV—all have their own priority lists and interact with NAVSUP at all levels, sending conflicting demand signals. It is a fractured process, making it difficult to set cohesive, unified priorities for the Navy.

NAVSUP is rolling out a "Sales and Operations Planning" process to facilitate direct communication with resource sponsors to identify potential funding shortfalls and ensure that NAVSUP's contract authority requests are supported by sales. For example, last year, NAVSUP WSS received a requirement from the program office to spend $ [redacted] million to support the CH-53 Sea Stallion Helicopter platform. Instead of approving the spending request based on the program office's request, NAVSUP found that, according to the Program Budget Information System, only $ [redacted] million was budgeted for the CH-53 program. NAVSUP was able to work directly with resource sponsors to investigate potential funding gaps and minimize risks before making investments. NAVSUP is in the process of developing a data infrastructure dashboard that reports a range of Sales and Operations Execution metrics of each major weapon system, such as solvency, supply material availability, lead times of sales, obligation evaluation. This dashboard would enable NAVSUP leadership to quickly assess the financial conditions of each platform and its shelf health, make more informed decisions based on data, and request additional funding. Similarly, interviewees stated that COMFRC's centralized planning initiatives (a more detailed discussion of COMFRC's planning efforts appears in Section 3.4) would enable COMFRC leadership to participate in the POM decision-making process more effectively, provide input based on analytical information (rather than anecdotal information), and demonstrate how some programmatic decisions can impact the FRCs' capacity to support the Navy's mission.

Interviewees emphasized that while enhancing the direct interaction between NAVSUP and resource sponsors is valuable, program offices, which are critical to the NAE, also need to be

involved in the process. Improving the decision-making process relies on effective communication and coordination among all the major stakeholders involved.

At the DoD level, in response to the WCF cash crisis (2019–21), the OSD's WCF Logistics Executive Steering Committee (LESC) was established with the intention to improve coordination between the WCFs and their customers and balance readiness requirements with fiscal solvency. The WCF LESC is cochaired by the Deputy Assistant Secretary of Defense for Logistics and the OUSD(C) (who delegates authority to the Director for Financial Management Operations and Analysis to handle DWCF-related issues) and brings all the service WCFs together with the logistics community to address high-level issues impacting the overarching mission. The WCF LESC reviews the services' requests for additional contract authority, assesses potential risks, and provides recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Director for Financial Management Operations and Analysis. In addition, the WCF LESC is intended to serve as a vehicle for improving the visibility of the WCFs at the leadership level and facilitating more informed decision-making by highlighting the cost impact of various readiness outcomes and maintaining the linkage between the WCFs and customers. The committee has shifted its quarterly meetings to be in sync with the milestones of the PPBE process so that the LESC meetings can better support the department's budget discussions. Interviewees noted that they also use the LESC meetings to communicate with the WCFs about the priorities and decisions coming down the pike from Congress, CAPE, the OUSD(C), or Acquisition and translate how and when they would affect WCF operations.

Finding 3.3: Decision-decision makers' incomplete understanding of how the WCF works is a key barrier to improving the decision-making process.

The limited understanding of the WCF among decision-makers is a concern repeatedly expressed by interviewees. WCFs are a niche financial area that does not attract much attention and requires specialized skillsets. Very few people outside the WCF community understand how WCFs work or the connection between their decisions and the health of the WCF. Several officials interviewed don't believe that the potential impacts on the NWCF should be part of the discussion during the decision-making process, because they view the WCF as a tool that enables the agency to address unforeseen changes. However, there are limitations in the WCF's ability to absorb fluctuations. The WCF is not "free money," as some people view it. Some interviewees compared the WCF to private sector contractors and questioned whether decision-makers need to be educated on the WCF if it works properly, similar to how they do not need to know how external contractors work. Without a basic understanding of how the WCF works, it is unclear to many decision-makers how their decisions affect future WCF rates, their future purchasing power, and—by extension—operational readiness.

Some interviewees stressed the importance of being cognizant of the incentives for decision-makers to use the WCFs. Some decision-makers, without a clear understanding of how the WCF operates, tend to use the WCF as a "pressure relief valve" when facing tough budgetary times. In some cases, decision-makers use the WCF in very flexible ways that may not align with the WCF's original intent. There are incentives for decision-makers to use the WCF to bury risk, and it requires more rigor and discipline to ensure that the WCF operates as intended.

DON currently does not provide sufficient formal training on how the WCF works and its potential impacts on operational readiness. In addition, high leader and staff turnover leads to the loss of institutional knowledge of how the NWCF works and exacerbates the challenges in developing and maintaining WCF expertise. Multiple Navy officials and stakeholders pointed to the need to provide WCF training to senior leaders and their staff to help them develop a basic understanding of the WCF and how their decisions can affect the WCF. The intent is to educate decision-makers about the WCF so they can ask the right questions and make informed decisions. Several senior officials interviewed noted that they had been "self-taught" students of the WCF for a long time and felt they would have benefited from some WCF training and a better understanding of the key principles of the WCF. The most vocal advocates for the WCF are people who have WCF experience at an early point in their careers because they appreciate that it is in their own self-interest to not make decisions that may pose challenges to the WCF. In addition, it is also important for staff to receive WCF training to support the decision-making process, especially when senior leaders are not familiar with the WCF. Multiple senior officials the Study Team spoke with said that they had to solely rely on staff for advice when it comes to WCF-related issues.

The Air Force and the Army hire contractors to provide formal training on the WCF for new employees as well as leaders. The Air Force offers several basic courses designed to help the Air Force WCF (AFWCF)'s customers develop a better understanding of how their decisions affect the WCF. For example, the *Life Cycle Management Center (LCMC) Focus Week, AFWCF Overview* course is designed to provide AFWCF's customers with an overview of the AFWCF and how their activities impact the AFWCF. The *AFWCF Commander's Course* provides new Air Logistics Complex Commanders and staff with an overview of the AFWCF and helps new Commanders in their role in managing the Air Logistics Complex in relation to the AFWCF. Several interviewees found these courses useful. The Army provides a three-week Army Comptroller Course at Syracuse University that provides a basic, multidiscipline financial and resource management overview, and the WCF is embedded in this program. Interviewees discussed a few other training programs available to DOD employees. For example, the Defense Acquisitions University is planning to expand its training offerings to the WCF and other financial management areas and offers a new online training course, *Essentials of Defense Working Capital Funds (DWCF)* that provides a comprehensive review of DWCF operations. The Graduate School USA also offers a WCF course to DOD financial managers, program managers, and other civilian and military personnel. This course focuses on the differences between a DWCF and an appropriated fund program, DWCF business principles and concepts, and effective working relationships with customers and suppliers.

Many federal agencies have implemented rotational programs to broaden employee skillsets, enhance knowledge sharing, improve communication and coordination, and create a collaborative culture. Interviewees stressed that rotations would afford the NWCF staff the opportunity to interact directly with resource sponsors, program offices, or the fleet, build trust and relationships, and participate in decision-making. Similarly, staff who work on the general fund side would benefit from the opportunities to spend time in NWCF entities (e.g., NAVSUP or the FRCs) so they understand how their decisions are being fulfilled and the connection between their decisions and the WCF.

Most DON officials interviewed expressed support for identifying opportunities for rotations and sharing staff across the department. While the military side has a relatively structured rotation and career progression program, a similarly robust rotation program for the civilian workforce is lacking. Interviewees discussed a few job rotation arrangements within DON. For example, there is a long-standing tradition of having some NAVAIR personnel rotating into OPNAV N98. Interviewees noted that NAVSUP has not reached out to OPNAV to express interest, but nothing would prevent establishing a rotational program between NAVSUP and OPNAV. The OUSD(C) also offers rotational assignments to employees at different levels of the services to give them a perspective on how the DWCFs work. For example, the OUSD(C) has an employee coming in on a three-month rotation from DON to participate in the PPBE process at the OSD level and improve their understanding of how the OSD reviews a service budget.

Finding 3.4: The lack of long-term, holistic planning for naval aviation prevents stakeholders from anticipating and preparing for changes.

Currently, DON does not have detailed plans that clearly describe the future of weapon platforms and clarify the resources required to meet long-term requirements. While DON's Strategic Plan lays out the overall direction for the agency, a more detailed long-term plan is needed to translate the broad direction into tactical guidance for each weapon system. Frequent, significant shifts in priorities impede mission execution and limit the agency's ability to make effective investment decisions. Short-term flexibility versus long-term planning is not an either-or choice. While flexibility is critical to the success of DON's mission, sustained commitment to long-term goals and plans is needed. It requires a delicate balancing act between being flexible enough to address unforeseen challenges and being stable enough to provide a solid foundation.

Some interviewees argued that long-term plans often lack credibility. DON's ability to stick with long-term plans is limited by various factors beyond the agency's control, such as Congress's annual budget decisions, changes in political leadership, supply chain issues, and other unforeseen circumstances. The Panel recognized the challenges associated with long-term planning, and changes are inevitable. A thorough evaluation is needed before any changes are made. In the case of the F/A-18 legacy platform, as discussed earlier, the Navy's decision in 2014–15 was to extend the service life; however, the estimated costs of maintaining Legacy Hornet were not accurate, and a few years later, the Navy decided to accelerate the divestiture of the legacy platform. Multiple interviewees expressed frustration with the frequent changes in direction and stressed that it is important to conduct a rigorous analysis of cost, benefits, and potential risks before making the decision to purchase a new platform, extend the service life of a platform, or accelerate divestiture.

A rapidly evolving operating environment reinforces the importance of effective communication among key stakeholders. A more proactive, holistic planning approach is needed. After the Navy decided to divest the F/A-18 A-D, COMFRC and the FRCs mostly took a reactive transition approach. According to some interviewees, there wasn't a well-developed transition plan (e.g., incoming workload, workforce impacts), and decisions were made in silos without a holistic view across the NAE. For example, the F/A-18 program office was developing the F/A-18 Super Hornet Service Life Modification program and originally planned to send all workload to Boeing.

Interviewees said that the FRCs could have brought in the Super Hornet workload much sooner, had they coordinated better with the program office.

3.2.4 Decisions Made in the Execution Year

Finding 3.5: Dramatic swings in demand signals in the execution year contributed to the NWCF's cash insolvency.

Many Navy officials cited significant changes in customer demand in the execution year as a major contributing factor to the NWCF's cash insolvency challenges. The NWCF is designed to serve as a "shock absorber" and, in a normal operating environment, it has the financial strength to address uncertainty. However, the NWCF cannot absorb all fluctuations in demand at the same time. When the demand signals change significantly, it presents a challenge to the WCF.

The NWCF's operating environment is dynamic. There is always a difference between the projected workload and the actual workload NAVSUP and the FRCs receive in the year of execution. The FMB's data shows that, from FY 2017–21, COMFRC received approximately [redacted] percent of its projected workload each year. COMFRC has two main customers: the Naval Air Forces (aircraft and engine) and NAVSUP WSS (component repair). The Naval Air Forces have complete control over induction schedules. Prior to the execution year, the Naval Air Forces lay out their plans and priorities for the year, and in the execution year, it is inevitable for them to make changes to the execution plans based on operational requirements. As interviewees noted, changes occur daily or weekly, and each change is adjudicated individually. The Naval Air Forces acknowledged the challenge the NWCF faces in the execution year and noted that, while unforeseen changes are inevitable, they inform the FRCs of any changes to induction schedules as quickly as possible. In addition, on the component side, interviewees stated that NAVSUP WSS has overestimated its demand by roughly 30 percent each year over the last five years. NAVSUP's inaccurate workload prediction is mostly related to its forecasting model, and COMFRC has taken action to work closely with NAVSUP to identify root causes and better anticipate upcoming demand. Moreover, NAVSUP faces similar challenges in the execution year. The fleet makes spending decisions based on its priorities, readiness requirements, and available resources. It is not unusual for the fleet to change their spending priorities just prior to or in the execution year, and spare parts are not necessarily on the top of the fleet's priority list, especially when there are limited resources.

Navy officials the Study Team spoke with emphasized the value of staying flexible in a rapidly changing environment. In the real world, operational commanders tend to make decisions with limited fiscal constraints. It requires a cultural shift to enhance the accountability of decision-makers for the cost impacts of their decisions. The NWCF cannot operate on its own—"all bills eventually need to be paid." Decision-makers should at least be aware of how their decisions can affect WCF rates and the fleet's future buying power.

NAVSUP and the FRCs lack mechanisms to respond quickly to changes in the execution year. For example, the skillsets of artisans are specialized, requiring eighteen months to two years of training. In other words, it is challenging to quickly reassign artisans if the workload for a specific platform is insufficient. Additionally, like other federal agencies, it is difficult for DON to downsize its workforce when the workload drops. Reduction in workload leads to a "double penalty"—lower

revenues combined with higher idle time and indirect costs. Interviewees noted that COMFRC's indirect costs went up significantly because of the extensive hiring initiative, and it took several years after the cash crisis to reduce the size of its workforce through natural attrition.

A common theme that emerged from interviews with NAVSUP and COMFRC officials is the importance of stabilizing demand signals as much as possible. Interviewees from other service WCFs noted that WCFs exist to absorb fluctuations, but it is important to ensure there is a stable baseline for the WCF to work off (e.g., 60 percent of the projected workload). Efforts are underway in COMFRC and NAVSUP to stabilize demand signals. For example, COMFRC established a Centralized Coordination Office to lead the long-term (ten-year) workload planning initiative based on holistic discussions with stakeholders across the enterprise, including type commands, program offices, resource sponsors, and NAVSUP. Officials noted that adopting an integrated approach would afford COMFRC the opportunity to work closely with its stakeholder community to develop and execute its workload plan and, as a result, stabilize demand signals as much as possible. In addition, COMFRC's Centralized Coordination Office also develops an enterprise-wide five-year operational plan (updated twice per year) based on an assessment of customers' requirements and the FRCs' resources available (e.g., FTEs, tools, and equipment) to meet the requirements. Key stakeholders—such as program offices, engineering communities, and Defense Logistics Agency—are involved in the planning process. Interviewees noted this is an iterative, repeatable process intended to better support the POM and budgeting processes. The centralized planning process allows COMFRC to work closely with customers, requirements sponsors, and resource sponsors to help them understand the potential impacts of customers' long-term requirements on the FRCs' operations and the NWCF before the POM or budget is solidified. According to COMFRC officials, the purpose of the centralized planning efforts is to maintain tighter connections with customers throughout the process, stabilize customer demand, better distribute and sequence the workload, and connect all stakeholders through one central location.

NAVSUP interviewees also discussed how they work closely with stakeholders to stabilize demand signals. For example, NAVSUP participates in the development of requirements and works with program offices, requirement sponsors, and resource sponsors to align funding to support spares requirements. The Study Team's benchmarking interviews with other service WCFs found that the uncertainty in customer demand is not a unique challenge to the NWCF, and interviewees from other WCFs underscored the importance of maintaining effective, frequent communication to understand customers' spending priorities and adjusting investment plans accordingly.

DOD and DON have taken actions to leverage data analytics to improve communication among key stakeholders and make informed decisions. For example, the OSD has dashboards developed for all DWCFs that send out daily data feeds to assist decision-makers in monitoring the performance of DWCFs. Additionally, the OSD is developing forecasting tools that assist decision-makers in analyzing the potential impacts of various options. Another example discussed by interviewees is the U.S. Transportation Command's implementation of a process that leverages data analytics and technology to provide real-time insights into the financial implications of various options. DON also has implemented various tools and systems to facilitate information sharing and decision-making. The Naval Air Force Atlantic is building a machine-to-machine data visualization system, which would streamline the decision-making process by providing all stakeholders with timely access to the same information.

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Chapter 4: Removal of Installations

4.1 Introduction

The DOD installation footprint is both large and mission-critical. DOD's 538 fixed military installations, including Navy and Marine Corps bases, contain 280,000 buildings and nearly two billion square feet of building space, ranging from depots and dry docks to hangars and hospitals. Military bases occupy thirty million acres of land, including vast test and training ranges as well as waterways, parks and other protected areas.[22]

Fixed installations are the backbone of operational readiness. Bases have long supported the maintenance and deployment of weapon systems and the training and mobilization of combat forces. Increasingly, they also provide "reachback" functions in direct support of combat operations. For example, during the conflict in Afghanistan, DOD operated drones in theater from an air base in the United States. In addition to their combat support role, military bases are becoming more important as staging platforms for homeland defense missions.[23]

Despite their criticality, military bases do not compete well against ships and aircraft in the hard-fought contest for defense appropriations. The military services regularly divert funds from installation accounts to pay for operational exigencies, resulting in a deferred maintenance backlog of $134 billion for military bases DOD-wide.[24] Navy and Marine Corps installations have not been immune from this dynamic, leading to the oft-heard observation that "shore facilities are the bill payer for fleet readiness."

That said, the Navy was unique among the services in using a WCF to pay for the maintenance and other services needed to support key base infrastructure, such as utilities, transportation, and public works. By charging its customers the total cost of the services it provided, the Naval Facilities Engineering Systems Command (NAVFAC) was able to employ the technical personnel and equipment and make the capital investments needed to maintain its utilities and other base infrastructure in relatively good repair. OSD facility officials routinely pointed to the Navy's installation WCF as a best practice in installation management.

Thus, it came as a surprise to many when, beginning in 2020, the Navy transferred the Base Support business area out of its WCF and into mission funding. This chapter looks at the advantages of the WCF approach and the criticisms it faced from base commanders who objected to the way the NWCF operated, including its imposition of total costs.

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[22] *Department of Defense Fiscal Year 2025 Request for Energy, Installations & Environment Programs: Hearing before the Committee on Armed Services, Subcommittee on Readiness: House of Representatives*, 118th Cong. (2024) (statement of the Honorable Brendan Owens, Assistant Secretary of Defense (Energy, Installations & Environment)), 1, https://armedservices.house.gov/sites/evo-subsites/republicans-armedservices.house.gov/files/HON%20Owens%20Witness%20Statement_0.pdf.
[23] Jeffrey Marqusee, Craig Schultz, and Dorothy Robyn, *Power Begins at Home: Assured Energy for U.S. Military Bases*, (Reston, VA: Noblis (commissioned by the Pew Charitable Trusts), January 2017, 1, https://www.pewtrusts.org/~/media/assets/2017/01/ce_power_begins_at_home_assured_energy_for_us_military_bases.pdf.
[24] Owens, testimony on *Request for Energy, Installations & Environment Programs*, 1.

4.2 Advantages of the Navy Working Capital Fund for Base Support

Of all the activities that the Navy traditionally used a WCF to support, Base Support may have been the one best suited to that approach. Specifically, the NWCF offered four significant advantages.

First, the NWCF allowed for transparency. Most if not all base support services are commodities. The NWCF system provided very accurate, complete, and granular information on what these commodities cost, which allowed customers to make better decisions (e.g., whether to buy or lease cars for a base's motor pool).

A second advantage of the NWCF was stability. Stabilized rates for utilities, which could be very volatile in some geographic areas, was particularly important. If necessary, the NWCF could operate at a loss for a year or two, which helped smooth out year-to-year variances and give supported commands (i.e., customers) a more predictable budget process.

The congressional appropriations process is another, growing source of instability, as agencies expecting a new round of mission funding instead have to deal with CRs. Here again, the Navy's reliance on a WCF allowed critical Base Support activities to continue without interruption.

A third advantage of the NWCF was flexibility. With mission funding, an agency has to anticipate changes in demand for its services well in advance and budget accordingly. With the NWCF, NAVFAC could surge or contract its workforce in a matter of months, not years.

Finally, the NWCF allowed NAVFAC to allocate the full cost of utility systems and other critical infrastructure to non-Navy tenants on a Navy base. A typical military base houses several dozen tenants, including other military services, federal civilian agencies, and commercial entities. Use of the NWCF ensured that the base McDonald's, among other tenants, paid its fair share.

The benefits of the WCF approach to Base Support were evident in, among other things, the Navy's track record (or lack thereof) on utility privatization. Beginning in the 1990s, the Army and Air Force "privatized" more than five hundred of the utility systems on their bases (electricity, natural gas, water, and wastewater) as a way to finance the massive investment their poorly maintained systems required. The Navy largely eschewed utility privatization because years of proactive investment by the NWCF had endowed Navy bases with a relatively well-functioning critical utility infrastructure.[25]

4.3 Organizational Context

The NWCF's Base Support activity operated in a complex organizational environment that changed over time. As a result, although they shared the overall goal of improved Base Support,

[25] Dorothy Robyn, "'Privatization' of non-inherently governmental functions: Why public-private partnerships are so effective—and so rare—in the federal government," (Inherently Governmental series paper, The Brookings Institution, June 2024), https://www.brookings.edu/articles/privatization-of-non-inherently-governmental-functions-why-public-private-partnerships-are-so-effective-and-so-rare-in-the-federal-government/. While utility privatization is an extremely valuable mechanism, allowing a military base to avoid further deterioration of its critical utility infrastructure, the deals are complex—a typical one takes three to four years to complete—and they lock the base into a long-term (typically fifty-year) contract to purchase the utility as a service.

NAVFAC and its primary supported command -- Commander, Naval Installations Command (CNIC) -- did not always see eye to eye when it came to the NWCF. One source of tension was the sheer novelty of the WCF approach. The CNIC was created in 2003 in part to provide an institutional voice for installations in a budget process that routinely disfavored them. Many if not most of the installation commanders for whom the CNIC spoke had "grown up" with mission funding and were unfamiliar with the WCF approach to Base Support.

The NWCF's imposition of total costs was a particular source of concern to some base commanders. Accustomed to paying only the direct cost of utilities and other services, these commanders saw NWCF Base Support services, which included overhead, as expensive by comparison.

Finally, NAVFAC engineers and base commanders sometimes had differing investment priorities. As engineers, the NAVFAC NWCF staff tended to favor using limited funds to maintain the critical infrastructure on a military base. By contrast, base commanders took nonengineering considerations into account—for example, the value to employee morale of investing in refurbished gym facilities.

This tension over investment priorities was exacerbated in 2004, when a change in the chain of command for Navy public works officers appeared to shift some of the responsibility for determining the priorities for NWCF investment from the CNIC to NAVFAC.[26] Some in the CNIC came to see the NAVFAC-run NWCF as a "black box" or "hard to control," and did not understand how decisions were made or the broader value of the NWCF to base commanders.

4.4 Removal of Base Support from the Navy Working Capital Fund

When NAVFAC carried out a project for the CNIC, the contractual vehicle was a reimbursable work order (RWO). For several years, DON Statements of Assurance cited significant issues with how reimbursable work was managed, generally. RWOs within the Base Support business area, specifically, were thought to pose challenges to demonstrating internal controls, complicating audit compliance. These frequently occurring transactions often involved small dollar amounts that demanded considerable administrative effort. Thus, transferring funds through RWOs created risks in the financial statements and limited the ability to clear cleaner audits.

In FY 2017, the DON Annual Financial Report identified RWOs as one of seven "auditor-identified financial statement areas with material weaknesses."[27] At the time, DON had approximately $20 billion in RWOs and struggled to produce evidence of internal controls. In 2016, RWO transactions between the CNIC and NAVFAC totaled nearly $2 billion. Although CNIC-NAVFAC RWOs were very auditable—the Base Support NWCF activity tracked costs at a highly granular level—they became one target of a broader effort to improve the Navy's auditability. Highlights of that complex, multiyear process, which ultimately resulted in a decision to move Base Support out of the NWCF, included the following:

[26] "NAVFAC Washington History," NAVFAC Washington, accessed on September 16, 2024, https://atlantic.navfac.navy.mil/NAVFAC-Worldwide/NAVFAC-Washington/About-Us/History/.
[27] DON, *Accountability to America: Department of the Navy Fiscal Year 2017 Annual Financial Report* (Washington, DC: DON, November 2017), 132, https://media.defense.gov/2017/Nov/22/2001847639/-1/-1/1/DODIG-2018-010.PDF.

- In May 2016, the FMB initiated a study of CNIC-NAVFAC RWOs. The FMB concluded that use of the NWCF for Base Support created significant paperwork duplication. The FMB also called for the CNIC and NAVFAC to consolidate their respective budget-submitting organizations to reduce audit risk.
- As a result of the FMB's RWO study, the ASN (FM&C) directed the FMB to work with the CNIC and NAVFAC to determine which financial arrangement—NWCF or mission funding—would be most effective and auditable for carrying out Base Support activities.
- In February 2018, the FMB organized a formal working group of staff from the FMB, CNIC, and NAVFAC to comply with the ASN (FM&C)'s directive. The working group failed to identify any substantive benefits to be gained by moving Base Support out of the NWCF, and it identified a long list of costs that such an action would entail—in essence, the loss of the very advantages of the NWCF identified at the start of this chapter (transparency, stability, flexibility, and optimal cost allocation).
- Despite the working group's lopsided cost-benefit calculation, in July 2018, the FMB determined that WCF funding of Base Support should be replaced with mission funding. The FMB argued that the change would improve internal controls and efficiency both by reducing the number of RWOs and by giving the CNIC direct control over (mission) funding decisions. The FMB subsequently initiated that change and, as of May 2024, the process was nearing an end.

It is worth noting that the estimated "buyout cost" of the FMB's decision proved to be highly optimistic. In 2020, the FMB predicted that it would take $[redacted]million to compensate the NWCF for costs it would incur due to the shift to mission funding (e.g., accrued annual leave liability for NWCF-funded personnel and loss of overhead payments from non-Navy customers).[28] However, the actual buyout costs far exceeded that amount. In the end, the NWCF received nearly $900 million in buyout costs – an indication that the NWCF was significantly underfunding its Base Support accounts (possibly by suppressing the NWCF rate structure) at the time of the FMB decision.[29]

4.5 Findings

The substantive costs and benefits of removing Base Support from the NWCF will take years to assess. However, the Navy already has some data on one estimated effect—namely, the use of

[28] DON, *NWCF - Realign FEC from NWCF to Mission Funding* (issue paper 68165, 2018) (internal document).
[29] The NWCF received $731 million as part of the FY 2020 Above Threshold Reprogramming Action and a $147.7 million intra-NWCF transfer from the Naval Expeditionary Warfare Center to the FEC. DOD OUSD(C), "Defense Working Capital Fund Prior Approval Request," August 31, 2020, https://comptroller.defense.gov/Portals/45/Documents/execution/reprogramming/fy2020/prior1415s/20-13_PA_Defense_Working_Capital_Fund_Request.pdf.

RWOs. In 2023, the dollar volume of RWOs had dropped by only 29 percent from 2020.[30] In retrospect, this is not surprising. The consolidation of the CNIC and NAVFAC budget-submitting offices and the shift to mission funding did not change the transactional nature of NAVFAC's work for the CNIC. It merely shifted the locus of the transactions—from RWOs *between* two separate commands to RWOs *within* their now-consolidated budget office.[31] .

Finding 4.1: While reducing the number of RWOs to increase auditability was the stated rationale for the FMB's decision to pull Base Support out of the NWCF, it appears that other factors played a role in the final decision.

Ultimately, the removal of installations from the NWCF was not only about improving auditability. It was also about accommodating CNIC concerns with the NWCF—concerns that may in part have reflected poor communication between NAVFAC and the CNIC, and the CNIC's lack of understanding of the value of the NWCF.

The Navy's decision to eliminate Base Support from the NWCF was short-sighted in the Panel's view. The Navy's military bases are critical assets worth billions of dollars, and the Navy needs to manage them with the most business-like tools available. The NWCF offered more transparency, flexibility, and accountability than mission funding and the use of a WCF approach was a proven one that OSD officials, among others, routinely cited as a model. The Navy's ability to avoid the cost and complexity of utility privatization is but one indication that the approach was working in the face of strong pressure to make "shore facilities the bill payer for fleet readiness."

The NWCF's use of total-cost funding was particularly essential to protect. But, as several interviewees indicated, customers often believe NWCF rates are inflated compared to mission funding, which does not include the full cost of goods and services. While unstated, this attitude, which is hardly limited to the Navy, likely contributed to the decision to remove Base Support from the NWCF.

Finding 4.2: The FMB's desire to increase auditability by reducing RWOs was not a sufficient justification for removing Base Support from the NWCF.

While the official justification for transitioning Base Support out of the NWCF centered on auditability, critics of the decision to remove it indicated that the NWCF was highly auditable.[32] With cost accounting categories for nearly every conceivable activity, the NWCF was able to provide detailed and granular financial tracking. Transitioning Base Support activities out of the

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[30] In FY 2022, NWCF saw $804,000 in gross total accounts receivable compared to $1.12 million in FY 2020. DON, *Department of the Navy Fiscal Year 2022 Agency Financial Report* (Washington, DC: DON, November 2022), 262, https://www.secnav.navy.mil/fmc/FR/FY%202022%20Department%20of%20Navy%20Agency%20Financial%20Report%20(AFR)_FINAL_FOR%20PUBLISHING%20(1).pdf; DON, *Accountability to America*: *Department of the Navy Fiscal Year 2020 Agency Financial Report* (Washington, DC: DON, December 2020), 167, https://www.secnav.navy.mil/fmc/fmo/Documents/2020%20Annual%20Financial%20Report.pdf.

[31] More broadly, a 2023 internal report concluded that the Navy's RWO process writ large remains a material weakness in the department's financial reports, due to the continued absence of appropriate policies, procedures and controls. DON, *Department of the Navy Fiscal Year 2023 Annual Financial Report*: *Operating Around the World* (Washington, DC: DON, November 2023), https://www.secnav.navy.mil/fmc/FR/FY_2023_DON_Agency%20Financial_Report_FINAL_11.15.2023.pdf.

[32] The 2018 Working Group agreed that there were other alternatives to improving auditability beyond removing Base Support from the NWCF.

NWCF led to the CNIC tracking resources expended on an activity rather than understanding the total cost of the activity. This change was seen as a way to simplify financial oversight, even though it might not provide a complete picture of the costs involved. The emphasis was on making the financial processes more transparent and easier to manage, albeit at the expense of detailed cost tracking.

The Panel remains uncertain about the degree to which the Navy's WCF decision was driven by concerns about auditability, the stated rationale, versus an unstated desire to accommodate CNIC concerns with the NWCF. To be sure, both sets of concerns merited attention. However, the Panel feels that the Navy could and should have addressed them without jettisoning NWCF funding itself.

More broadly, the Base Support saga is a case study in why the Navy must protect the NWCF. WCF funding is a limited but extremely important tool in the Navy's toolbox. However, as several chapters in this report illustrate, threats to the viability of the NWCF can take various forms. The Navy needs to guard against these threats to protect this critical tool.

Chapter 5: Removal of Shipyards

5.1 Background and History

DON began removing the shipyards from the NWCF in the late 1990s as a component of implementing its regional maintenance plan. Unlike the removal of installations from the NWCF, the decision to remove all four shipyards was made over the course of several years and was subject to significant study.

There are three levels of ship maintenance:

- Day-to-day maintenance while the ship is at sea
- Intermediate maintenance conducted at intermediate maintenance facilities (IMF)
- Depot maintenance (major overhauls) performed at the shipyards every few years

Intermediate maintenance typically takes three to four days, while depot maintenance can span multiple years.

Under the NWCF, the fleet and NAVSEA jointly funded the shipyards and shared responsibility for them, with NAVSEA managing the execution of availability. "Decisions were made on an availability-by-availability basis, with little or no involvement from the Fleet Commander."[33] Congress appropriated money to the Atlantic and Pacific Fleets for ship maintenance and to NAVSEA for modifications and conversions; these "customers" used appropriated funds to "purchase" services from the shipyards.[34] The shipyards set prices based on planned workloads and all expected associated costs, including labor, overhead, and capital depreciation (the direct cost of materials were billed separately). Customers set their budgets to cover the cost of the work they expected to purchase from the shipyards that year and funds were obligated to the NWCF for the full cost of work before it could begin.[35] Shipyards experienced net profits or losses when there were differences between expected and actual demand or costs. The NWCF incorporated profits and losses into the next cycle of rate setting.[36]

With the transition to mission funding (direct appropriations), a portion of DON's appropriations funds the shipyards directly. The fleet controls operations and maintenance funds, which are used for routine, preventative, and corrective maintenance and NAVSEA controls ship and conversion funds, which pay for major alterations, upgrades, and new construction.[37] Unlike when shipyards were under the NWCF, NAVSEA, OPNAV, and Fleet Commanders communicate with each other about and understand the shipyards' challenges, budgets, and priorities.[38]

DON made the decision to remove the shipyards from the NWCF as the result of multiple factors converging in the 1990s and early 2000s. When WCF financial management was returned to the services from the Defense Business Operations Fund (DBOF) in February 1995, the amount of

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[33] DON, *Puget Sound Naval Shipyard and Naval Intermediate Maintenance Facility Prototype: Lessons Learned*, 4.
[34] CBO, *The Navy's Needs for a Stronger Shipyard Workforce*, (Washington, DC: CBO, April 2007), 7, https://www.cbo.gov/sites/default/files/110th-congress-2007-2008/reports/04-12-shipyards.pdf., 7.
[35] CBO, *Comparing Working-Capital Funding and Mission Funding*, 9.
[36] CBO, *Comparing Working-Capital Funding and Mission Funding*, 10.
[37] CBO, *Comparing Working-Capital Funding and Mission Funding*, 2.
[38] DON, *Puget Sound Naval Shipyard*, 4.

cash transferred was insufficient to cover outstanding DBOF liabilities.[39] More than two years later, GAO told Congress that the service WCFs were not yet operating on a break-even basis. GAO attributed losses to several factors, including "(1) overly optimistic productivity assumptions, (2) unrealistic cost-reduction goals, and (3) lower-than-expected workloads." These conditions and practices were longstanding, and GAO believed the service-level funds would continue to experience losses for these reasons.[40]

As a result, the service WCFs had to rely on advance billing.[41] In July 1994, the Under Secretary of Defense (Comptroller) (USD(C)) stopped advance billing except in two DON activities, one of which was the shipyards.[42],[43]

The NWCF also had to rely on surcharges. For example, the NWCF added surcharges to FY 1998 rates to recoup operating losses it predicted would occur by the end of FY 1997; the estimated end-of-year accumulated operating result for the shipyards was a loss of between $25 and $100 million.[44] These estimated losses were partially due to workload delays and cancelations. For example, DON included an estimated 491,000 direct labor hours to repair one ship in its February 1997 budget submission. However, just two months later (and about four months before work was supposed to start), a major portion of the work was deferred, and the estimate of direct labor hours was reduced to about 144,000. NAVSEA was unable to reduce labor and overhead costs in time to offset the loss in revenues, which GAO estimated would total around $20 million.[45] A similar situation occurred the following year when the workload hours for one ship were cut by about 68 percent.[46]

Also in the early 1990s, DON went from having eight shipyards to four, and from about six hundred ships to less than 500. At around the same time, large numbers of those ships were conducting operations in Desert Storm, and ships that were supposed to go into the shipyards were deployed. This confluence of issues resulted in both excess maintenance infrastructure and idle workers who could not easily be shifted to intermediate maintenance projects. For example, around 1000 skilled workers were idle at the Norfolk Naval Shipyard after ships were deployed for Operation Desert Storm.[47]

DON, therefore, developed a regional maintenance plan to consolidate the IMFs and shipyards. It was believed that maintenance consolidation would improve efficiency by providing the ability to shift personnel to other work if an availability did not come in and by rightsizing the maintenance infrastructure.

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[39] NWCF negative cash balances were not new and predated the creation of DBOF.
[40] GAO, *DEFENSE DEPOT MAINTENANCE: Challenges Facing DOD in Managing Working Capital Funds*, May 7, 1997, 14, GAO/T-NSIAD/AIMD-97-152, https://www.gao.gov/assets/t-nsiad/aimd-97-152.pdf.
[41] GAO, *DEFENSE DEPOT MAINTENANCE: Challenges*, 1.
[42] GAO, *DEFENSE DEPOT MAINTENANCE: Challenges*, 10.
[43] For the twenty-four months from February 1995 – January 1997 the NWCF's cash balance would have been negative for all but three months without advance billing. GAO, *DEFENSE DEPOT MAINTENANCE: Challenges,* 11–12.
[44] GAO, *DEFENSE DEPOT MAINTENANCE: Challenges*, 13–14.
[45] GAO, *DEFENSE DEPOT MAINTENANCE: Challenges*, 15.
[46] GAO, *DEFENSE DEPOT MAINTENANCE: Challenges*, 16.
[47] CBO, *Comparing Working-Capital Funding and Mission Funding, April 2007*, 12.

5.2 Arguments for and against Removing the Shipyards from the Navy Working Capital Fund

The primary reason the shipyards were removed from the NWCF was because fully integrating the IMFs and shipyards required a single funding mechanism. Decision-makers believed it would be simpler to transition the shipyards to mission funding than to convert the IMFs to NWCF funding because the fleet would have control of the shipyards after the consolidation, and the fleet was funded through appropriations.

In addition, the fleet wanted to transition to mission funding because it would give them more direct control over the shipyards, rather than having to go through NAVSEA. The easiest way to give the fleet decision-making authority was to provide them with appropriated funds. Giving money to fleet commanders enabled them (not NAVSEA) to decide which ships would get which levels of maintenance.

DON expected the removal of the shipyards from the NWCF to improve efficiency and provide greater flexibility to respond to the fleet's emergent priorities. Under the NWCF, the fleet could not shift projects easily to meet national security needs; the NWCF could not do any work unless it received a reimbursable document, which had the potential to cause delays.[48] The problem with that system was that boats tend to break unexpectedly. When an emergent repair was required, the customer would have to get an estimate from the shipyard, find the money, and send a funding document before work could begin. If the fleet did not have the funds to pay for an emergent repair, then it would have to direct the shipyard to use money from a different availability and change the schedule, which also required a change to the funding documents. Interviewees described making changes to address unexpected work as an arduous process. Work for deployers is urgent and the NWCF could not pivot quickly to provide the rapid response the fleet required.

Another argument in favor of mission funding was a reduced risk of idle workers due to last-minute schedule changes.[49] For example, it was common to have a planned availability for the fourth quarter of the year and for the fleet to inform the shipyard sixty days in advance that the ship would not be available. Under the NWCF, workers could not be assigned to other shipyard projects without project-specific funding upfront and paperwork from the customer. It was also more difficult to assign idle workers to IMF projects because of the different funding streams While some sharing of personnel between IMFs and shipyards had occurred before consolidation, there was more of an administrative burden, which caused delays.[50] Therefore, it was not uncommon for shipyards to assign excess labor to things like facility maintenance and groundskeeping, and the NWCF would experience a loss for that year. In contrast, under mission funding, the shipyards can shift workers to other projects or to nearby IMFs without additional funding or paperwork.

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[48] CBO, *Comparing Working-Capital Funding and Mission Funding*, 2.
[49] CBO, *Comparing Working-Capital Funding and Mission Funding*, 2.
[50] GAO, *DEPOT MAINTENANCE: Improvements Needed to Achieve Benefits from Consolidations and Funding Changes at Naval Shipyards*, September 2996, GAO-06-989, 7, https://www.gao.gov/assets/gao-06-989.pdf.

Though not the primary reason the shipyards were transitioned to mission funding, the fleet also was unhappy with NWCF rates. Losses from scheduling changes had to be recouped in future rates, leading to what some interviewees dubbed a "death spiral": the fleet paid higher and higher maintenance costs, which meant it could afford less maintenance, which meant that the shipyards had to charge higher rates—and so on. It's likely that the NWCF's use of advance billing and surcharges in the 1990s exacerbated the situation.

But it wasn't simply prices that the fleet was unhappy about; the fleet viewed the rate-setting process as opaque and did not necessarily understand what was included in them. In addition, the fleet was not always fully aware of what the rate increases were going to be and were not able to budget appropriately for them.

Those opposed to removing the shipyards from the NWCF expressed concerns regarding the loss of performance accountability and business-like practices. Some within DOD and Congress criticized mission funding, believing that costs and operations are less transparent, incentives are less businesslike, and it could make it more difficult for shipyards to obtain the funding needed for capital improvements.[51]

Critics of transitioning the shipyards to mission funding also were worried that continuity of operations could be disrupted if Congress did not pass a budget on time or a CR, work conducted by a shipyard in any given year cost more than expected, or appropriated funds were reprogrammed. However, DON argued that, even under the NWCF, shipyards could operate only for a short time after customers' appropriated funds ran out in the event that Congress did not pass a budget or CR.[52]

Finally, the DOD was concerned that removing the shipyards from the NWCF could result in higher rates for the remaining fund activities because overhead costs would be spread across fewer customers. (It does not appear that rates increased for the remaining NWCF activities as a result of the removal of the shipyards.)

5.3 Decision-Making Process

There were multiple decision-making processes, spanning several years. Within DON, the fleet, NAVSEA, ASN(FM&C), CNO, and Secretary of the Navy were involved, but the shipyards were not. Acquisition, Technology, and Logistics; the USD(C); and Deputy Secretary of Defense reviewed and weighed in on the Navy's decisions, with the Secretary of Defense making the final decisions before submitting them to Congress for approval.

The Pacific Fleet (PACFLT) was the driver for transitioning the west coast shipyards to mission funding, with the backing of NAVSEA and the Secretary of the Navy (among others). According to interviewees, the effects on the WCF were considered during the decision-making process. In fact, the ASN (FM&C), as well as other FMB and NWCF officials also supported removing the shipyards because they were a drain on cash.

[51] CBO, *Comparing Working-Capital Funding and Mission Funding*, 1.
[52] CBO, *Comparing Working-Capital Funding and Mission Funding*, 23–24.

The consolidation of IMFs and shipyards began with the Pearl Harbor pilot study in FY 1998–99. PACFLT took over the ownership and overall management of the consolidated Pearl Harbor Facility, while NAVSEA continued to be the shipyard's technical and operating authority. The pilot's purpose was not to evaluate the pros and cons of WCF versus mission funding but to determine the benefits of consolidating different levels of maintenance work.[53]

The decision to implement mission funding at Pearl Harbor was due primarily to it matching the financial structure of PACFLT, the largest customer.[54] PACFLT also believed mission funding provided more flexibility and better supported the pilot's goals, namely improved efficiency and lower overall costs. In addition, some PACFLT and Pearl Harbor Naval Shipyard officials believed that the NWCF's rates were inflated as a result of including depreciation and select support costs, which are typically not included in activities paid for with mission funding.[55] Therefore, PACFLT felt that moving the IMF to the NWCF, rather than the other way around, would be too costly.[56]

DOD and DON had differing views on transitioning the shipyards to mission funding and the effect it would have on the financial management of Pearl Harbor, as well as on the shipyards and other activities remaining in the NWCF. OUSD(C) was concerned that the removal of all the shipyards would increase the rates for all other activities remaining in the fund because they would have to shoulder more of the overhead costs. The CNO and NAVSEA did not believe that the removal of the shipyards would have a significant impact on rates for the remaining activities.[57]

DOD also was concerned about mission funding's impact on cost visibility and accountability, the facility's ability to continue work during funding gaps or when maintenance costs were higher than appropriations, and the ability of DON to secure adequate funding for capital improvements.[58] The OSD's concern about the shipyards' ability to continue work if costs exceeded appropriations was based on what happened in 1999, during the Pearl Harbor pilot. PACFLT transferred additional funds to the Pearl Harbor Naval Shipyard, but shipyard officials said "a funding shortfall made it difficult to execute planned work on schedule because of uncertainties about whether the necessary funds would be obtained from another source in sufficient time to meet schedules.[59] The OSD also had concerns about the buyout, believing that either DON would have to request appropriated funds to buy out the NWCF's assets, or all remaining activities would have to pay higher rates.[60]

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[53] Andrew M. Cain, "Comparison of the Navy Working Capital Fund and Mission Funding as Applied to Navy Shipyards," (Master's thesis, Naval Postgraduate School, June 2006), 42, https://apps.dtic.mil/sti/tr/pdf/ADA451752.pdf.
[54] GAO, *DEPOT MAINTENANCE: Status of the Navy's Pearl Harbor Pilot Project*, September 1999, GAO/NSIAD-99-199, 19, https://www.gao.gov/assets/nsiad-99-199.pdf.
[55] GAO, *DEPOT MAINTENANCE: Key Financial Issues for Consolidations at Pearl Harbor and Elsewhere Are Still Unresolved*, January 2001, GAO-01-19, 9–10, https://www.gao.gov/assets/gao-01-19.pdf and GAO, *DEPOT MAINTENANCE: Status of the Navy's Pearl Harbor Pilot Project*, 6.
[56] GAO, *DEPOT MAINTENANCE: Status of the Navy's Pearl Harbor Pilot Project*, 22.
[57] GAO, *DEPOT MAINTENANCE: Status of the Navy's Pearl Harbor Pilot Project*, 19.
[58] GAO, *DEPOT MAINTENANCE: Key Financial Issues for Consolidations*, 10.
[59] GAO, *DEPOT MAINTENANCE: Key Financial Issues for Consolidations*, 39.
[60] GAO, *DEPOT MAINTENANCE: Key Financial Issues for Consolidations*, 28.

Despite these concerns, the OUSD(C) approved making mission funding permanent at Pearl Harbor in December 2000.[61]

Believing that it would take at least two years for DON to determine if the integration of IMFs and depots would prove to be cost effective, Congress prohibited the expansion of the Pearl Harbor pilot to other locations until at least six months after submitting findings to the appropriations committees on or after April 1, 1999.[62]

After the Pearl Harbor pilot, DON wanted to consolidate the three remaining shipyards and outlined its plans in a 2002 PBD.[63] The USD(C) did not approve the proposal due to concerns related to total cost visibility and performance accountability. However, the ASN (FM&C) at the time disagreed with the USD(C), citing the flexibility mission funding gave DON to respond to emergent requirements. Some interviewees indicated that NWCF officials also supported the removal of the shipyards, likely because they were a drain on the cash corpus, as discussed earlier.

The June 2003 PBD approved the Puget Sound prototype, which ran from October 1, 2003–September 30, 2005.[64] In 2006, DON concluded that the Puget Sound prototype reaffirmed its "position that mission funding provides for a more agile workforce that can best satisfy fleet maintenance priorities without sacrificing cost visibility, performance accountability, or quality of work.[65]

In 2003, the House Appropriations Committee was supportive of the transition of Puget Sound to mission funding, saying that the Pearl Harbor pilot had resulted in increased flexibility to respond to emergent requirements and improved the efficiency of the workforce while maintaining strong performance accountability. The committee also believed that maintenance consolidation and the planned financial strategy would result in more efficient tracking of detailed maintenance costs. The committee noted that having two of the shipyards funded through the WCF and two through mission funding could lead to a confusing situation. Therefore, the committee strongly encouraged DON to transition the Norfolk and Portsmouth shipyards to mission funding by the end of FY 2005.[66]

In contrast, Senate authorizers were "troubled" by plans to transition Puget Sound to mission funding, believing that the Pearl Harbor pilot had not been adequately studied and that the removal of Puget Sound from the WCF would "put an undue burden" on the east coast shipyards remaining in the fund. The committee directed DON to conduct a study on Pearl Harbor lessons

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[61] DON, *Report on Direct Funding for Puget Sound Naval Shipyard & Report on Proposed Congressional Budget Exhibits for Navy Mission-Funded Shipyards*, March 2006, 5, https://apps.dtic.mil/sti/pdfs/ADA476122.pdf.
[62] House of Representatives, *Making Appropriations for the Department of Defense for the Fiscal Year Ending September 30, 1998, and for Other Purposes*, 105th Cong., 1st sess., H. Rep. 105-265, 1997, 71, https://www.congress.gov/105/crpt/hrpt265/CRPT-105hrpt265.pdf.
[63] DOD OIG, *Financial Management: Puget Sound Naval Shipyard Mission-Funded Prototype*, December 9, 2005, D-2006-037, 1, https://media.defense.gov/2005/Dec/09/2001713063/-1/-1/1/06-037.pdf.
[64] DON, *Report on Direct Funding for Puget Sound*, 5.
[65] DON, *Report on Direct Funding for Puget Sound*, 11.
[66] House Committee on Appropriations, *Department of Defense Appropriations Bill, 2004: Report of the Committee on Appropriations Together with Additional Views*, 108th Cong., 1st sess., H. Rep. 108-187, 2003, 67, https://www.congress.gov/108/crpt/hrpt187/CRPT-108hrpt187.pdf.

learned and costs and benefits of mission funding before converting Puget Sound to mission funding. The report to Congress should also discuss the effects on the other shipyards.[67]

DON said the decision to transition Puget Sound to mission funding was based on four factors:

1. Responsive to fleet needs: If a ship needs to be deployed early, the fleet can adjust work priorities to enable the required maintenance. Under the NWCF, additional funding for emergent work had to be made available in the execution year.

2. Efficient use of resources: Specific customer funding was required for all work under the NWCF. This led, at times, to an idle workforce even when other ships might have been available that required maintenance.

3. Facilities integration and consolidation of maintenance infrastructure within a region: In some locations, the shipyards and IMFs are in close proximity to each other, but different funding streams prevent them from sharing resources and "singling up" infrastructure.

4. Positive execution year financial controls: Under mission funding, there is direct, positive control over funds in the year of execution. In the NWCF, when execution year costs varied from planned costs, it resulted in rate increases two years in the future.[68]

In 2005, the DOD Office of Inspector General (OIG) undertook a review of the Puget Sound prototype at the request of the OUSD(C) to ensure remaining shipyards were not transitioned to mission funding without adequate study. The OIG concluded that the Puget Sound prototype did not provide a basis for DON's decision to transition other shipyards to mission funding both because the metrics used were "unreliable" and because they were designed to measure the effects of the consolidation, not the transition to mission funding.[69] The OIG found that there might be some benefits to mission funding, such as the oft-cited flexibility to move the workforce between IMFs and shipyards as needed, but the OIG was unable to validate DON's claims regarding the advantages of mission funding over the NWCF. (GAO's review of the Pearl Harbor pilot yielded similar findings.)[70]

DON disagreed with the OIG's conclusion, saying the study was flawed because it attempted to link the effectiveness of the funding mechanism to shipyard success. At the same time, however, DON made claims that mission funding facilitated efficiency and effectiveness while having no effect on operating efficiency.[71] Both the OIG and GAO determined that DON lacked evidence to support those claims.[72] In addition, GAO found that, in the absence of cost visibility and

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[67] Senate Committee on Armed Services, *National Defense Authorization Act for Fiscal Year 2004*, 108th Cong., 1st sess., 2003, S. Rep. 108-46, 299, https://www.congress.gov/108/crpt/srpt46/CRPT-108srpt46.pdf.
[68] *Department of Defense Appropriations for 2004: Hearings Before a Subcommittee of the Committee on Appropriations,* 108th Cong., 1st sess. (2003), 325–326, https://www.congress.gov/108/chrg/CHRG-108hhrg92804/CHRG-108hhrg92804.pdf.
[69] DOD OIG, *Financial Management: Puget Sound*, i.
[70] GAO, *DEPOT MAINTENANCE: Key Financial Issues for Consolidations*, 11 and GAO, *DEPOT MAINTENANCE: Improvements Needed*, 3.
[71] DOD OIG, *Financial Management: Puget Sound*, 10.
[72] DOD OIG, *Financial Management: Puget Sound*, 10 and GAO, *DEPOT MAINTENANCE: Improvements Needed*, 3-4.

performance accountability, the Secretary of Defense and DON officials lacked "complete, reliable data" on which to base fully informed ship maintenance management decisions.[73]

As a result of its findings, the OIG recommended that the OUSD(C) continue the Puget Sound prototype and recommended against transferring the East Coast shipyards to mission funding until the rest of the OIG's recommendations (e.g., establishing goals and metrics to evaluate the transition to mission funding) were implemented. DON responded that the prototype had been a success, and that mission funding should become permanent for Puget Sound.[74]

Congress also pushed back on the decision. One concern was that they would no longer receive data annually on shipyard costs, man days, etc. DON argued that the same data would continue to be available, but the CBO found that cost data became less available after the switch to mission funding and GAO found that the financial system under mission funding did not account for the full cost of operations, such as depreciation and technical and financial support services.[75] Some congressional committees also faulted DON for failing to demonstrate that mission funding improved performance and cost-effectiveness. According to the GAO, DON did not have the data to establish a baseline before initiating the Pearl Harbor pilot and did not collect data during either the Pearl Harbor pilot or the Puget Sound prototype that demonstrated the advantages or disadvantages of mission versus NWCF funding.[76]

Specifically, GAO found that DON did not provide evidence in support of its assertions that mission funding is the best mechanism for meeting the fleet's priorities without negatively impacting cost visibility, performance accountability, or quality of work.[77] In addition, DON did not provide data to support the claim that mission funding gave the Navy more flexibility to reprioritize work, minimize the financial impact of unplanned maintenance, and optimize the use of all available resources in a region to respond to emergent operational requirements.[78]

Due to lingering concerns, in 2005 the Senate authorizers recommended a provision that would prohibit DON from converting the east coast shipyards to mission funding until six months after the congressional defense committee received a report on the Puget Sound prototype or October 1, 2006, whichever occurred later. The committee noted that DON converted Puget Sound to mission funding in spite of its concerns and was planning to convert the east coast shipyards in the near future, despite not adequately studying the Puget Sound transition.[79]

Notwithstanding the OIG's recommendation and DOD and congressional concern, in December 2005 the OSD approved permanent mission funding for Puget Sound and the transition of the

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[73] GAO, *DEPOT MAINTENANCE: Key Financial Issues for Consolidations*, 11.
[74] DOD OIG, *Financial Management: Puget Sound*, 12.
[75] CBO, *Comparing Working-Capital Funding and Mission Funding*, 10 and GAO, *DEPOT MAINTENANCE: Key Financial Issues for Consolidations*, 14. Some interviewees indicated that cost visibility has improved over time with the migration to new accounting systems.
[76] CBO, *Comparing Working-Capital Funding and Mission Funding*, 10 and GAO, *DEPOT MAINTENANCE: Improvements Needed*, 3.
[77] GAO, *DEPOT MAINTENANCE: Improvements Needed*, 4.
[78] GAO, *DEPOT MAINTENANCE: Improvements Needed*, 7.
[79] Senate Committee on Armed Services, *National Defense Authorization Act for Fiscal Year 2006*, 109th Cong., 1st sess., 2005, S. Rep. 109-69, 279, https://www.congress.gov/109/crpt/srpt69/CRPT-109srpt69.pdf.

East Coast shipyards to mission funding beginning FY 2007, subject to congressional approval.[80] Interviewees indicated that it would be typical for DOD to defer to DON on matters such as which activities were funded through the NWCF.

The FMB and Deputy CNO for Integration of Capabilities and Resources (N8) led the discussions, which included the House Armed Services Committee and shipyard staff. While shipyard staff were not part of the decision-making process, they validated forecasts, provided business and financial data, and gave input on the pros and cons of moving to mission funding. The primary justification for removing the East Coast shipyards from the NWCF was that DON wanted to move to a "one shipyard" approach versus managing each shipyard as a separate entity; to accomplish that goal, all shipyards needed to use the same financing system.

5.4 Impact of the Decision on the Shipyards

While the CBO concluded that there were advantages and disadvantages to both mission and NWCF funding,[81] on balance, DON believes the disadvantages of mission funding for the shipyards are more than offset by the chief advantage, which is the ability to quickly respond to emergent requirements by reprioritizing work and moving personnel as needed.[82] However, it is almost impossible to parse and quantify the benefits of mission funding over the NWCF because the consolidation of maintenance facilities occurred simultaneously.[83] In addition, as discussed above, the metrics used by DON were designed to evaluate the effects of the consolidation rather than the pros and cons of the different funding mechanisms.

According to DON, mission funding for the shipyards is superior to the NWCF for several reasons, including sharing resources among maintenance facilities, matching worker skills with fleet priorities, and reallocating funding as needed. These characteristics of mission funding mitigate labor shortages, surpluses, and schedule delays.[84]

The problem of idle shipyards was solved because if ships scheduled for maintenance were deployed, the scheduled availability for other ships could be moved up. In addition, the ability to move resources without worrying about the color of money gives regional commanders much-needed flexibility to deploy assets as necessary when the unexpected happens. For example, in 1998, about six months into the Pearl Harbor pilot, DON told Congress that the consolidation of the Pearl Harbor IMF and Shipyard created a common pool of workers that could be deployed as needed.[85] Labor costs under mission funding are fully paid for, so moving workers between facilities requires minimal paperwork and no exchange of funding paperwork between customers and shipyards. In contrast, under the NWCF, labor is paid for by customer obligations before work can start on a project, making it more complicated to shift resources to different projects; more paperwork is required, which could cause delays—which in turn could result in idle workers and

[80] DON, *Report on Direct Funding for Puget Sound*, 5.
[81] CBO, *Comparing Working-Capital Funding and Mission Funding*, 2.
[82] GAO, *DEPOT MAINTENANCE: Improvements Needed*, 7.
[83] Cain, "Comparison of the Navy Working Capital Fund and Mission Funding," 44.
[84] CBO, *Comparing Working-Capital Funding and Mission Funding*, 12.
[85] *Military Construction Appropriations for Fiscal Year 1999: Hearings before the Senate Committee on Appropriations, Subcommittee on Military Construction*, 105th Cong., 2nd sess. (1998), 167, https://www.congress.gov/105/chrg/CHRG-105shrg46111/CHRG-105shrg46111.pdf.

delayed maintenance.[86] However, CBO found that the operational flexibility afforded by mission funding is rarely needed.[87]

The OSD believed the NWCF's ability to work during funding gaps was an advantage over mission funding. But DON officials contended this was a "minor factor" compared to the benefits of mission funding because such periods would, at most, last for a few weeks.[88] The shipyards lost some flexibility to work during funding gaps under mission funding but—since the work is vital—much of it can continue under CR authority. Also, as of 2006, there had been no funding gaps that precluded operations at Pearl Harbor or Puget Sound since their conversions to mission funding.[89]

That does not mean that CRs are not more disruptive under mission funding versus WCF; interviewees indicated that the shipyards must spend significant time before a CR to determine what work can and cannot continue. In recent years, some of the CRs have been quite long, posing a significant challenge under mission funding and making it more difficult for the shipyards to execute some of their lower-priority work.

Priorities can be realigned in the year of execution much more easily with mission funding than under the WCF. This has happened on many occasions. The fleet can quickly make the decision, and the shipyard can respond quickly without having to worry about funding. For example, in 2008 the USS George Washington had a fire while moving from the Atlantic to the Pacific to deploy. It pulled into San Diego, and it was possible to instantly move millions of dollars and set up a customer order accounting record for fire recovery and start working. In the WCF, PACFLT (the customer) would have had to submit an RWO before work could begin.

Some shipyard officials reported that mission funding is simpler to manage. For example, the WCF requires detailed monthly financial statements. However, the downside is that the shipyards no longer track overhead costs to the extent that they were tracked under the NWCF. The shipyards can track costs with the same granularity as under the WCF, but they lack the incentives to do so. Therefore, shipyards cannot charge the full cost when renting equipment or doing work for non-DOD entities as required by the DOD Financial Management Regulation.[90]

5.5 Impact on the Navy Working Capital Fund

Some interviewees believe that removing the shipyards benefitted the WCF because it was good for the cash corpus and helped stabilize the NWCF. As discussed earlier, the NWCF had to rely on advanced billing and surcharges in the late 1990s to maintain a positive cash balance. Most of the losses the NWCF was experiencing at the time were attributable to the depots and the shipyards.[91] For example

[86] CBO, *Comparing Working-Capital Funding and Mission Funding*, 12–13.
[87] CBO, *Comparing Working-Capital Funding and Mission Funding*, 13.
[88] GAO, *DEPOT MAINTENANCE: Key Financial Issues for Consolidations*, 16.
[89] DON, *Report on Direct Funding for Puget Sound*, 7.
[90] DOD OIG, *Financial Management: Puget Sound Naval Shipyard*, 10.
[91] GAO, *FINANCIAL MANAGEMENT: Navy Industrial Fund Has Not Recovered Costs*, GAO/AFMD-93-18, March 1993, 13, https://www.gao.gov/assets/afmd-93-18.pdf .

- Pearl Harbor Naval Shipyard generated negative net operating results every year from FY 1992–98 when it was removed from the NWCF, with losses totaling more than $43 million;[92]
- From FY 1989–91, shipyard losses totaled $591 million.[93]

Four factors contributed to the losses:

1. Actual workloads lower than predicted workloads
2. Rate guidance that resulted in the shipyards charging less than the estimated costs
3. Practice of charging the (usually) lower prices of the year when work started for workloads spanning multiple years
4. Use of outdated work standards to set prices, resulting in customers not being charged for all work[94]

While the USD(C)'s concerns about the effects of the removal of the shipyards on the activities remaining in the NWCF were valid, it does not appear that there was any negative impact on the rates of remaining customers. One interviewee explained that that, although the NWCF is a corporate entity, each activity stands on its own, like its own WCF. Therefore, the removal of the shipyards probably had no impact on the remaining "WCFs."

When the shipyards were transitioned to mission funding, DON had to reimburse (or "buy out") the NWCF for any assets for which the value had not yet been recovered (e.g., undepreciated capital assets, accrued employee leave, accounts payable less accounts receivable, and accumulated operating results.[95] For the east coast shipyards, those assets included unexpected capital outlays, accounts payable less receivable, accumulated operating results, and accrued annual leave liability, for an estimated total of $136.3 million ($68 million for Norfolk and $68.3 million for Portsmouth).[96]

5.6 Funding Mechanism Impact on Operational Readiness

DON believes that mission funding improved operational readiness by providing the flexibility to reassign resources to emergent priorities without first having to find funding and submit paperwork.[97] Further, mission funding has resulted in the fleet having increased influence over the planning and prioritization of shipyard work. Under the NWCF model, the shipyards made most decisions regarding work prioritization, primarily based on schedule deadlines and NOR.[98] Since the fleet's priorities are likely to be more closely aligned with operational requirements, an outcome of mission funding might be an improvement in how DON's resources are allocated.[99]

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[92] John S. Turner, "The Pearl Harbor Fleet Maintenance Pilot Program: Conversion from the Navy Working Capital Fund to Appropriated Funding," (Master's thesis, Naval Postgraduate School, June 2002), 11, https://apps.dtic.mil/sti/pdfs/ADA406008.pdf.
[93] GAO, *FINANCIAL MANAGEMENT: Navy Industrial Fund*, 13.
[94] GAO, *FINANCIAL MANAGEMENT: Navy Industrial Fund*, 13,
[95] CBO, *Comparing Working-Capital Funding and Mission Funding*, 23.
[96] DON, *Report on Direct Funding for Puget Sound*, 7.
[97] DOD OIG, *Financial Management: Puget Sound*, 1.
[98] CBO, *Comparing Working-Capital Funding and Mission Funding*, 21.
[99] CBO, *Comparing Working-Capital Funding and Mission Funding*, 22.

In contrast, CBO found no link between funding mechanism and operational performance in the areas it was able to assess.[100] Specifically, schedule adherence, capital replenishment, and administrative efficiency (how efficiently the shipyards use their workforce) were not affected by the funding mechanism. However, based on the data provided by DON, CBO could not compare the quality of work under the two funding mechanisms.[101] However, "officials at all four shipyards stated that after the initial transition was complete, the change in funding mechanism had little effect on either the quality or the cost of the work being performed."[102]

Most interviewees also believed that the funding mechanism does not affect operational readiness. NWCF and mission funding are not systems of execution but rather how capabilities are paid for. Therefore, interviewees did not believe that the financial system used would change outcomes. In their minds, if anything affected readiness, it would be the consolidation of maintenance facilities.

Finding 5.1: The decision-making process for transitioning the shipyards to mission funding helped ensure there were no negative consequences for the NWCF.

The removal of the shipyards from the NWCF is an example of a significant decision that could have had dire consequences for the NWCF. However, characteristics of the decision-making process make this a model for how such decisions can be made in a way that prevents negative impacts on the NWCF:

- The impact of the decision on the NWCF was considered by DON, DOD, and Congress throughout the process.
- The decision was implemented slowly, over several years (1998–2006), allowing adequate time for planning.
- Beginning the process with two pilots that were studied by GAO and the DOD OIG provided an opportunity to evaluate the impact on the shipyards, operational readiness, and the NWCF. It also generated lessons learned that could inform each subsequent transition to mission funding.

Finding 5.2: Transitioning the shipyards to mission funding benefited the NWCF and was likely a good decision for DON.

Overall, the removal of the shipyards from the NWCF was likely the right decision for DON because it had a positive result for the NWCF (removing an activity that was a drain on the cash corpus and posed a risk for the NWCF) and a neutral (according to CBO and GAO) or positive (according to DON) result for shipyard performance and operational readiness. While the Pearl Harbor pilot and Puget Sound prototype were designed to assess the effects of facility consolidation versus the optimal funding source, GAO and CBO ultimately concluded that the transition of the shipyards to mission funding did not affect performance. There are some challenges with mission funding, but shipyard officials reported that they have "made it work." In

[100] CBO, *Comparing Working-Capital Funding and Mission Funding*, 13.
[101] CBO, *Comparing Working-Capital Funding and Mission Funding*, 13–14, 18–19.
[102] GAO, *NAVAL SHIPYARDS*: Action Needed to Improve Poor Conditions that Affect Operations, GAO-17-548, September 2017, 46, https://www.gao.gov/assets/d17548.pdf.

addition, they (and CBO and GAO) identified some advantages to mission funding (e.g., flexibility and less burdensome accounting practices).

Most importantly, how the shipyards are funded does not appear to influence operational readiness. Despite the limitations of the metrics and data DON used to evaluate the Pearl Harbor and Puget Sound pilots, both the GAO and CBO found that schedule adherence and other performance metrics related to operational readiness were unaffected. DON maintains that the shipyards' ability to respond with agility to emergent requirements, which it ascribes to mission funding, has improved operational readiness. In addition, giving the fleets greater control over the shipyards has likely helped ensure that shipyard priorities are aligned with operational requirements.

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Chapter 6: Panel Recommendations and Implementation Steps

In the preceding chapters, the Panel has examined three cases to understand how various resource management decisions were made, how key players interacted with each other, and how these decisions affected the NWCF. Based on its analysis, the Panel provides a set of recommendations to enhance and improve DON's resource management decision-making processes. The Panel's recommendations are organized under two major objectives, and each recommendation is supported by high-level implementation steps.

6.1 Panel Recommendations

Objective: Build trust and enhance collaborative working relationships among resource sponsors, program offices, and NWCF entities.

Recommendation 1: ***Senior leaders from OPNAV, the program offices, and the NWCF should reinforce the importance of breaking down organizational silos and building a culture of transparency and trust.*** Developing trusting, collaborative working relationships depends on sustained commitment from leaders of all involved entities and requires a shift in organizational culture.

Implementation Steps

- Demonstrate leadership commitment to cultural change through proactive communication.
- Openly acknowledge the barriers that impede effective communication, articulate a compelling reason for change, and create a clear, consistent message to staff to set expectations.

Recommendation 2: ***DON should institute formal mechanisms and processes to solicit input from NWCF entities (i.e., NAVSUP and COMFRC) during decision-making processes (e.g., before the POM is approved by the CNO).*** While potential impacts on the NWCF are not and should not be the deciding factor during decision-making, the NWCF should 'have a seat at the table.' Engaging NWCF entities in the decision-making process would help ensure that decision-makers factor in all potential implications and develop plans to manage anticipated financial risks.

Implementation Steps

- Establish a cross-functional team comprising representatives from OPNAV (resource sponsors), program offices, NAVSUP, and COMFRC and the FRCs to develop a disciplined communication approach that clearly lays out when and how to engage NWCF entities in the POM process. Currently, the NWCF is mainly considered a budget issue. The Panel believes it is critical to involve the NWCF in the programming phase so that long-term impacts of decisions on the solvency of the NWCF can be exposed early. Promoting transparent decision-making does not mean disregarding the sensitive nature of some programmatic decisions; rather, it underscores the importance of maintaining effective

communication between resource sponsors, program offices, and NWCF entities at different levels to discuss potential implications, assess risks, and come to a mutual agreement on subsequent actions (e.g., continue or pause spare parts procurement).
- Compile a checklist to identify the key factors that resource sponsors should consider when developing investment or divestment proposals, including potential impacts on the NWCF and plans to mitigate financial risks.
- Formally map and codify the POM process (e.g., develop a RACI Matrix), clearly identifying the roles and responsibilities of all stakeholders and their level of involvement (i.e., responsible, accountable, consulted, and informed) in each task and decision throughout the process. The purpose is to ensure clear communication and smooth workflows across all DON components.

Recommendation 3: ***DON should consider establishing rotational programs that provide NWCF staff opportunities to work in OPNAV and program offices, and vice versa.*** Such opportunities would help build relationships, break down silos, and improve understanding of how the NWCF works by allowing NWCF staff to participate in the decision-making process (e.g., the development of the POM) and bring the WCF perspective to the discussion. Similarly, OPNAV or program office staff would have the opportunity to better understand the inner workings of the NWCF and how their decisions affect the NWCF.

Implementation Steps

- Implement a pilot rotational program that allows NAVSUP WSS staff to work directly with resource sponsors. This pilot program would help NAVSUP WSS staff develop a comprehensive understanding of how programmatic decisions are made, key factors considered, and how NWCF's activities fit into the broader mission of the Navy. This program would also help bridge the gap between OPNAV and NAVSUP, foster collaboration, and enhance the Navy's decision-making process.

Recommendation 4: ***DON should leverage existing governance bodies and mechanisms to elevate discussions on the WCFs, streamline decision-making processes, obtain leadership support and commitment, and inform leadership of the consequences of their decisions on the WCFs.***

Implementation Steps

- Partner with the OUSD(C) and the WCF LESC to identify opportunities to participate in decision-making processes at the OSD level (e.g., PPBE process), play a more active role in advising DOD leadership on WCF-related issues, alert the WCFs if decisions being considered could negatively impact the WCF, and improve visibility of the WCF at the leadership level.

Recommendation 5: ***DON should continue and expand its efforts to develop and execute long-term plans through a collaborative process that engages various stakeholders.*** An integrated planning approach would allow senior leaders to develop a more holistic view of the enterprise, build relationships, engage the stakeholder community in executing plans, and coordinate with stakeholders when plans don't work out to minimize

negative consequences. COMFRC's planning efforts, discussed in Chapter 3, serve as a good example of collaborative planning.

Implementation Steps

- Identify potential opportunities for NAVSUP to develop and implement long-term plans through a collaborative approach, engaging with NWCF stakeholders and leveraging the COMFRC model.

Objective: Improve accountability of decision-makers for the cost impacts of their decisions by offering training programs on NWCF to senior leaders and staff and leveraging data and data analytics.

Recommendation 6: *DON should develop WCF training courses for senior leaders and staff with a focus on the cost impacts of their decisions.* Training courses and programs designed for senior leaders and their staff attempt to equip them with the knowledge about the NWCF needed to appreciate the link between the general fund side and the NWCF; heighten awareness of potential unintended consequences of their decisions; and make informed, effective decisions.

Implementation Steps

- Explore arrangements with other services, such as the Air Force and the Army, to take advantage of established WCF training courses and programs. Interviewees noted that most military departments are willing to share the training programs they have developed. There are opportunities to fully exploit available resources and adapt existing WCF training programs to address the Navy's specific needs and requirements.

Recommendation 7: *DON should expand the use of technology and data and data analytics to enable decision-makers to quickly assess the cost impacts of various options and make more informed decisions.* DON collects an array of financial data and has implemented various tools to share data and information and support decision-making. There is potential to further increase the department's capacity to build data analytics tools and fully utilize advanced technology to provide accurate and timely insights to enhance the decision-making process.

Implementation Steps

- Reach out to other services and agencies to identify best practices for expanding the use of technology and data analytics to make more informed decisions and enhance leadership accountability.

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Appendices

Appendix A: Panel and Study Team Member Biographies

Panel of Academy Fellows

James Taylor, Chair: James Taylor is a seasoned financial and management expert with a distinguished career in both public service and the private sector. He served as Managing Director at Grant Thornton, LLP from 2014 to 2020. Taylor's extensive public service includes roles such as Senior Advisor to the Commissioner for the Affordable Care Act at the Internal Revenue Service, U.S. Department of the Treasury (2013-2014), and Chief Financial Officer at the U.S. Department of Labor (2010-2013). His previous positions include Deputy Inspector General at the U.S. Department of Homeland Security (2005-2010) and Deputy Chief Financial Officer at both the U.S. Department of Commerce (1999-2005) and the Federal Emergency Management Agency (1993-1999).

Elliott Branch: Elliott Branch has had a notable career in defense acquisition and procurement. He has served as Deputy Assistant Secretary of the Navy for Acquisition and Procurement at the U.S. Department of the Navy from 2009 to 2019. Branch also held key positions such as Civilian Director of Contracts at the Naval Sea Systems Command and Senior Program Director at Atlantic Management Center Inc. His earlier roles include Chief Procurement Officer for the Government of the District of Columbia and various positions within the U.S. Navy, including Project Executive Officer and Executive Director for Acquisition and Business Management.

VADM Lewis Crenshaw USN, Ret.: VADM Crenshaw has had a distinguished career in defense and consulting, currently serving as President and Founder of Crenshaw Consulting Associates LLC. He has been a prominent figure as Chairman of the Navy Safe Harbor Foundation since 2008. Crenshaw's extensive experience includes roles as Principal at Grant Thornton LLP and Executive Director for Defense and Intelligence within the Global Public Sector at Grant Thornton. His notable public service in the US Navy for over 30 years includes positions such as Deputy Chief of Naval Operations for Resource, Requirements, and Analysis (N8), and Commander of Navy Region Europe, reflecting his deep expertise in naval operations and defense management. VADM Crenshaw is a Certified Defense Financial Manager.

Peter Levine: Peter Levine is a seasoned defense policy expert currently serving as a Senior Fellow in the Strategy, Forces, and Resources Division at the Institute for Defense Analyses. His notable past roles include Acting Under Secretary of Defense for Personnel and Readiness and Deputy Chief Management Officer at the Department of Defense. Levine also held the roles of Staff Director and General Counsel for the Senate Armed Services Committee, contributing to defense legislation and oversight from 1996 to 2014. Earlier in his career, he worked as Counsel for Senator Carl Levin and held roles with the Senate Governmental Affairs Committee and Crowell & Moring.

Dorothy Robyn: Dorothy Robyn is a public policy expert who is currently a Senior Fellow at the Institute for Global Sustainability at Boston University and at the Information Technology & Innovation Foundation. She has held senior positions in the federal government, including Commissioner of Public Buildings at the General Services Administration (2012-2014), Deputy

Under Secretary of Defense for Installations & Environment at the Department of Defense (2009-2012) and Special Assistant to the President for Economic Policy at the White House (1993-2001). In her DoD role, Robyn was the senior official with department-wide oversight of U.S. military bases. Robyn has also been a Principal with The Brattle Group and a Guest Scholar at The Brookings Institution. Earlier in her career, she was an Assistant Professor at Harvard University's Kennedy School of Government. Robyn has written extensively on the challenges facing DoD's military installations.

Sean Stackley: Sean Stackley is a distinguished leader in naval and defense sectors, having served as Corporate Senior Vice President for Strategy & Technology at L3Harris Technologies from 2018-2024, Acting Secretary of the Navy in 2017, Assistant Secretary of the Navy for Research, Development & Acquisition from 2008-2017, and Professional Staff Member on the Senate Armed Services Committee from 2005-2008. Stackley also contributed as Special Assistant to the Deputy Secretary of Defense in support of the congressionally mandated reorganization of Defense Acquisition, in 2017. He served as an officer in the U.S. Navy, from 1979-2005, with extensive fleet, industrial, and program management assignments leading to his selection as Shipbuilding Program Manager for the lead ship of the SAN ANTONIO (LPD 17) Class. Stackley earned his Master's Degrees from the Massachusetts Institute of Technology and is a Distinguished Graduate of the U.S. Naval Academy.

Study Team

Brenna Isman, *Director of Academy Studies*: Brenna oversees the Academy studies, providing strategic leadership, project oversight, and subject matter expertise to the professional study teams. Before this, she was a Project Director managing projects focused on organizational governance and management, strategic planning, and change management. Her research engagements have included working with the National Aeronautics and Space Administration, the Environmental Protection Agency, the Social Security Administration, the Department of Veterans Affairs, and multiple regulatory and Inspector General offices. Before joining the Academy, Brenna was a Senior Consultant for the Ambit Group and a Consultant with Mercer Human Resource Consulting. Brenna holds a Master of Business Administration (MBA) from American University and a Bachelor of Science (BS) in Human Resource Management from the University of Delaware.

Mark Thorum, *Project Director*: Dr. Thorum joined the Academy as a Senior Advisor and Project Director in May 2019. Dr. Thorum previously served as the Assistant Inspector General (AIG) for Inspections and Evaluations and the AIG for Management and Policy with the Office of Inspector General (OIG), Export-Import Bank of the United States. Dr. Thorum has more than 25 years of experience with independent evaluation, structured finance, risk mitigation, and capital markets advisory with both the federal government and international financial institutions. He holds a Ph.D. from the Virginia Polytechnic Institute and State University - School of Public and International Affairs. He received an M.A. from The Johns Hopkins University – School of Advanced International Studies and a D.E.A. from the Institut d'études politiques de Paris (Institute of Political Studies) Paris, France.

Maria Rapuano, *Senior Advisor*: Maria has served as a Deputy Project Director and as a Senior Advisor for several Academy projects. Her areas of expertise include public policy, strategic

planning, organizational design, and change management. She holds an MA in International Affairs from American University and a BA in Government from the College of William and Mary.

Kate Connor, *Senior Research Analyst*: Ms. Connor joined the Academy in 2018 and has served on several Academy studies, including work for the U.S. Department of Commerce Office of Inspector General and the Defense Nuclear Facilities Safety Board. Prior to joining the Academy, she served as a Public Policy and Government Relations Intern with the American Association of University Women and as an intern on the U.S. Senate Committee on the Budget. Ms. Connor taught high school social studies for several years before graduating from Georgetown University with a Master's in Public Policy. Ms. Connor also holds a Bachelor of Arts in History and Political Science and a Master's in Teaching from the University of North Carolina at Chapel Hill.

Chloe Yang, *Senior Research Analyst*: Chloe is a Senior Research Analyst at the Academy. Since joining the Academy in 2009, she has worked on projects with a range of federal and state agencies, including the Office of Personnel Management, the National Oceanic and Atmospheric Administration, the State Chamber of Oklahoma, and the Bureau of Transportation Statistics. Before joining the Academy, Ms. Yang was the research intern at the Foundation Environmental Security and Sustainability. She has also worked as an intern at the Woodrow Wilson Center for Scholars and a research assistant at George Mason University (GMU). Ms. Yang graduated from GMU with a Master's in Public Administration. She also holds a bachelor's degree in Financial Management from the Renmin University of China.

James Higgins, *Research Analyst*: Mr. Higgins currently supports the Academy's Strategic Initiatives including research for its Grand Challenges in Public Administration campaign and producing the Management Matters podcast. Mr. Higgins has previously worked on studies for the Bureau of Transportation Statistics, the United States Trade and Development Agency, and the project, Increasing the Agility of the Federal Government. James graduated with a B.A. in International Studies with a focus on Asia from Dickinson College, and a M.A. in Global Policy with a focus on Security and Foreign Policy from the University of Maine School of Policy and International Affairs.

Lizzie Alwan, *Senior Research Associate*: Ms. Lizzie Alwan joined the Academy in October 2022. She serves on the funded studies team and is currently involved in the Academy's engagement with the USDA Farm Production and Conservation Business Center. Ms. Alwan holds a Master of Public Policy and Administration and B.A. in Psychology from the University of Massachusetts, Amherst.

Sarah Jacobo, *Senior Research Associate*: Sarah has served on studies for different federal agencies, including work for the U.S. Department of Agriculture and the National Science Foundation. Sarah earned a Master of Public Policy and a BA in Government and Politics, and Public Policy from the University of Maryland, College Park. Before joining the Academy, Sarah was an intern with the Academy's Study Team and worked on the Cybersecurity Workforce Study for the Cybersecurity and Infrastructure Security Agency.

Appendix B: List of Interviewees

Department of Defense

- **Lisa Kelly,** Logistics Management Specialist, Office of the Assistant Secretary of Defense (Logistics)
- **Jay Greeley,** Senior Budget Analyst, Office of the Assistant Secretary of Defense (Sustainment)
- **Michael McAndrew,** Deputy Assistant Secretary of Defense for Construction, Office of the Assistant Secretary of Defense (Sustainment)
- **Chris Heinbach,** Team lead, Office of the Under Secretary of Defense (Comptroller)
- **Mike Fulton,** Director for Financial Management Operations and Analysis, Enterprise Financial Transformation (EFT), Office of the Under Secretary of Defense (Comptroller)
- **Leigh Method,** Deputy Assistant Secretary of Defense for Logistics, Office of the Under Secretary of Defense (Acquisition and Sustainment)

Defense Logistics Agency

- **Shawn Lennon,** Acting Finance Director (J8)/Director of Financial Improvement Audit Remediation (FIAR), Defense Logistics Agency
- **Jennifer Matney,** Budget Officer, Defense Logistics Agency

Other Armed Services

- **Sara Northcutt,** Supervisory Logistics Management Specialist, Army Materiel Command, Army
- **Rennie Rechel,** Chief, Budget Operations Revolving Funds, Air Force Working Capital Fund, Air Force
- **Alex Santini,** Demand Planning Functional Lead, Army Materiel Command, Army
- **Bryan Sapp,** Budget Analyst, Army Working Capital Fund, Army
- **Samantha Smith,** Chief, Supply Requirements Division, Army Materiel Command, Army
- **Michael Wilson,** U.S. Army Civilian, Logistics and Supply Policy Staff Officer, Deputy Chief of Staff, G-4 Supply Directorate, Army

Department of Navy

Office of Budget (FMB)

- **Ryan Beard,** Financial Management Analyst, FMB-4 Civilian Resources & Business Affairs
- **Kenny Degu,** Financial Management Analyst, FMB-4 Civilian Resources & Business Affairs
- **Stephanie Dylinski,** Financial Management Analyst, FMB-4 Civilian Resources & Business Affairs
- **Natalia Li,** Division Director, FMB-4 Civilian Resources & Business Affairs
- **Angela Pounds,** Accountant, FMB-4 Civilian Resources & Business Affairs

- **CDR Franklin Semilla,** Financial Management Analyst, FMB-4 Civilian Resources & Business Affairs
- **Mary Kay Tompa,** Associate Director

Deputy Assistant Secretary of the Navy for Research Development, Test, and Evaluation

- **Chris Marchefsky,** Director, Naval Research and Development Establishment
- **Peter Shchupak,** Deputy Director (Policy), Naval Research and Development Establishment

United States Navy

Office of the Chief of Naval Operations (OPNAV)

- **CDR Rich Agullana,** Lead Action Office, Aviation Readiness (N832)
- **Steve Andrews,** Deputy Branch Head, Maritime Readiness (N831)
- **John Eckardt,** Director, Fleet Readiness (N83)
- **CAPT Eric Edge,** Branch Head, Aviation Readiness (N832)
- **Robert Ho**, Fleet Readiness Division
- **CAPT Tara Hodge,** Director, Naval Aviation Readiness and Logistics (N980L)
- **Neil Hogg,** Assistant Deputy Chief of Naval Operations, Integration of Capabilities and Resources (N8)
- **John Hootman,** Deputy Director, Integrated Warfare Division (N9IB)
- **Pete Kelly,** Civilian Programmer, N80B
- **LCDR Bo Lawson,** Deputy Branch Head, Expeditionary Readiness (N834)
- **Bernadette Masangcay**, Program Analyst
- **Michael McAneny,** Navy, Joint, and Urgent Requirements Branch Head (N9IJ)
- **CDR Jason McClintic,** Branch Head, Maritime Readiness (N831)
- **CAPT Daniel Murphy,** Warfare Systems (N9)
- **CAPT Joseph Murphy,** Deputy Director, Fleet Readiness (N83B)
- **Liz Nelson,** Branch Head, Fleet Readiness Integration (N83I)
- **Stu Paul,** Deputy Branch Head, Aviation Readiness (N832)
- **Randy Rewald**, Program Analyst, Fleet Readiness Integration (N83I)
- **LCDR Bret Roberts,** Aviation Spares Resource Sponsor, Logistics and Readiness (N980L)
- **CAPT Ed Robledo,** Branch Head, Fleet Training/Readiness Reporting (N833)
- **Gregg Russell,** Analyst, Naval Aviation Readiness and Logistics (N980L)
- **Blane Sharon,** Civilian Programmer, N80B
- **Divyang "John" Shukla,** Deputy, Logistics and Readiness (N980L)
- **Max Snell,** Technical Director, N8
- **David Steffee,** Deputy Director, Programming Division (N80B)
- **Moses Thorpe**, Fleet Readiness Division
- **Eugene "Geno" Young,** Aviation Analyst, N832

Commander, Navy Installations Command (CNIC)

- **Tim Bridges,** Executive Director
- **Mike Vegas,** Deputy Comptroller

Naval Air Systems Command (NAVAIR)

- **Donna Barton,** Financial Management Analyst
- **CAPT Jason Denney,** Principal Military Deputy for Sustainment
- **Rodney Gladden,** Operations & Management, Navy Budget Officer
- **Bradford Honeycutt,** 1A5A/1A9A Requirements Manager
- **Kimberly Rice,** 1A5A Team Lead
- **John Spinnenweber,** Working Capital Fund and Civilian Manpower Division Director

Commander, Fleet Readiness Centers (COMFRC)

- **Jimmy Beavers,** Comptroller
- **Rich Bomhold,** Technical Director
- **Kelli Gass,** Director, COMFRC Central Coordination Office (CCO)
- **Roy Harris,** Executive Director
- **Jeff Peed,** Planning and Operations, COMFRC Central Coordination Office (CCO)

Fleet Readiness Centers (FRC)

- **CAPT Chris Couch,** Commanding Officer, FRC Southwest
- **Tammy Amos,** Comptroller, FRC East
- **Stephen Barrow,** Director, Centralized Coordination & Business Operations, FRC East
- **Steve Burch,** Comptroller, FRC Southeast
- **Matthew Crisp,** Business Development Division Head, FRC East
- **Mark Meno,** Executive Director, FRC East
- **Wade Wendell,** Director of Logistics, FRC Southwest

F/A-18 and EA-18G Program Office

- **Tess Butner,** Lead Budget Financial Manager
- **Jackie Carpenter,** Deputy Program Manager
- **Tamara Cobaugh,** Lead Budget Financial Manager
- **David Howe,** Deputy Program Manager
- **Elizabeth Jenkins,** Deputy Budget Financial Manager
- **Catherine Oliver,** Business Financial Manager
- **Katherine Powell,** Deputy Program Manager

Naval Facilities Engineering Systems Command (NAVFAC)

- **John Crooks,** Deputy Comptroller
- **CAPT Jorge Cuadros,** Chief of Staff
- **Jennifer LaTorre,** Executive Director

Naval Supply Systems Command (NAVSUP)

- **Rafael Calzada**, Deputy Comptroller for Maritime, Naval Supply Weapon Systems Support
- **David Carroll,** Comptroller, NAVSUP WSS
- **Zach Cheese,** NWCF Cash and Pricing Branch Head (SUP-13), NAVSUP
- **Tom Connelly,** Financial Management Analyst, NAVSUP
- **Emily D'Amico,** Supply Systems Analyst, NAVSUP
- **Veronica DuBose,** NWCF - Budget and Execution (SUP-13), NAVSUP
- **LCDR Robert Fritsch,** Material Budget Officer (SUP-13), NAVSUP
- **Samantha George-Orr**, Maritime Material Budget, Naval Supply Weapon Systems Support
- **CAPT Kelly House, Jr.,** Director, Naval System Supply, NAVSUP
- **Tim McCarthy,** Deputy Aviation Budget Officer, NAVSUP WSS
- **Robin Porterfield,** Assistant Commander for Financial Management and Comptroller, NAVSUP
- **Bob Shepard**, Deputy Comptroller for Aviation, Naval Supply Weapon Systems Support
- **Jonathan Stafford,** SUP 04, NAVSUP
- **Scott Stahl,** Director of Material Cash Management Office, NAVSUP
- **Kent Vredenburgh,** Logistics Service Branch (SUP 0451), NAVSUP
- **Kurt Wendelken,** Vice Commander, NAVSUP

Naval Shipyards

- **Ron Arnold,** Comptroller, Puget Sound Naval Shipyard
- **James Culver,** Comptroller, Portsmouth Naval Shipyard
- **Doug Nishida,** Deputy Business and Strategic Officer, Pearl Harbor Naval Shipyard
- **Edlyn Takahashi,** Budget Officer, Pearl Harbor Naval Shipyard

Fleet Forces Command

- **Tim Crawford,** Budget Officer, Fleet Forces Command
- **Steven Mucklow,** Director, Fleet Capabilities and Force Development (N8/N9), Fleet Forces Command
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Appendix C: DOD PPBE Process Overview

DOD's PPBE process is used to allocate resources among military departments, defense agencies, and other components. Programs and budgets are formulated annually; the budget covers one year and programs encompass an additional four years.[103]

The **planning phase** involves reviewing strategic guidance, including the President's National Security Strategy, the Secretary's National Defense Strategy, and the CJCS's National Military Strategy. The output for this phase is the Defense Planning Guidance (DPG), which details force development priorities (i.e., guidance on investments and divestments for the components and is intended to inform components' POMs.[104]

During the **programming phase**, capabilities are translated into specific programs and forces. This is when DOD components develop the POM, which is a funding plan that describes proposed resource requirements over the next five years and also proposes changes in the future years defense program (FYDP), which is DOD's five-year spending plan. The FYDP is compiled every year during the programming phase and updated during the budgeting phase to reflect DOD's final funding decisions.[105]

The purpose of the **budgeting phase** is to produce a budget (and accompanying documentation) that comports with the Secretary's and President's priorities. The budget is developed concurrently, and in coordination with, the program review led by CAPE. The DOD budget is built using the component budget estimate submissions.[106]

DOD components obligate and expend funds during the **execution phase**. This phase also involves performance reviews by multiple entities to ensure funds are being expended in accordance with statute and the Secretary's and President's priorities and that programs are achieving the desired results.[107]

DOD PPBE Process Roles and Responsibilities	
Planning	
Lead Roles	**Supporting Roles**
• ***Under Secretary of Defense for Policy:*** Leads the DOD-wide planning phase; prepares planning guidance	• ***CAPE:*** provides independent analysis and advice to the Secretary and Deputy Secretary

[103] CRS, *DOD Planning, Programming, Budgeting, and Execution (PPBE): Overview and Selected Issues for Congress*, (Washington, DC: CRS, 2022), 1, https://crsreports.congress.gov/product/pdf/R/R47178.
[104] CRS, *DOD PPBE*, 6, 8.
[105] CRS, *DOD PPBE*, 12.
[106] Commission on Planning, Programming, Budgeting, and Execution Reform (Commission on PPBE Reform), *Defense Resourcing for the Future*, (Arlington, VA: Commission on PPBE Reform, March 2024), 17, https://ppbereform.senate.gov/wp-content/uploads/2024/03/Commission-on-PPBE-Reform_Full-Report_6-March-2024_FINAL.pdf.
[107] Commission on PPBE Reform, *Defense Resourcing*, 19.

	• ***OSD:*** Provides fiscal guidance detailing project funding for DOD components
Programming	
Lead Roles	***Supporting Roles***
• ***CAPE:*** Prepares and publishes programming guidance and the FYDP; conducts program review; provides independent analysis and advice to the Secretary and Deputy Secretary; reviews DOD Components' POMs, forecasts resource requirements, and updates the FYDP • ***DOD Components:*** Develop proposed programs in accordance with planning, programming, and fiscal guidance (POM)	• ***USD(AT&L):*** Assists in developing programming objectives and guidance • ***CJCS:*** Analyzes programs and develops risk assessments • ***DMAG:*** Adjudicates disagreements during program reviews, if convened by the Deputy Secretary • ***OSD:*** Works with DOD Components to make changes to programs through program budget decisions (PBD)
Budgeting	
Lead Roles	***Supporting Roles***
• ***Under Secretary of Defense (Comptroller)/Chief Financial Officer:*** Conducts and coordinates the budget review; prepares the DOD budget for submission to the Office of Management and Budget • ***CAPE:*** Provides independent analysis and advice to the Secretary and Deputy Secretary; provides cost estimates for all QDR initiatives • ***Heads of DOD Components:*** Develop and execute budgets and provide day-to-day management of resources under their control • ***DOD Components:*** Develop budget estimate submission for the first year of the POM	• ***USD(AT&L):*** Assists in developing resource planning goals and guidance • ***USD(P):*** Coordinates with the CAPE director on cost estimates and resource allocation • ***Under Secretary of Defense (Comptroller)/Chief Financial Officer and Office of Management and Budget:*** Review submissions for accurate pricing, appropriate scheduling, and consistency with Deputy Secretary objectives
Execution	
Lead Roles	***Supporting Roles***
• ***DOD Components:*** Execute budgets and programs; conduct annual execution reviews, including compliance with guidance, obligation and expenditure of funds, and program results	• ***Under Secretary of Defense (Comptroller)/Chief Financial Officer:*** Conducts program execution and performance reviews • ***OSD:*** Assesses DOD Component findings and makes recommendations

Table 3. *DOD PPBE Overview.*[108]

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[108]Department of Defense Directive 7045.14: *The Planning, Programming, Budgeting, and Execution (PPBE) Process*, January 25, 2013; Incorporating Change 1, August 29, 2017; CRS, *DOD Planning, Programming, Budgeting, and Execution (PPBE): Overview and Selected Issues for Congress*, 2022.

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