

Analysis of Section 501: Review of Structure of the Budget and Appropriations for Funding of Defense Acquisition Programs

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Key Points

- Section 501 of the Forged Act mandates a comprehensive review of the Department of Defense (DoD) budget structure for acquisition programs.
- The review aims to identify and address inefficiencies caused by the subdivision of programs across multiple budget lines and the potential for consolidating similar programs.
- The provision also seeks to align budget structures with portfolio acquisition executives and reorganize appropriation titles based on military service and capability areas.
- The Secretary of Defense is required to submit a report to Congress within one year outlining the review's findings and a plan for implementing changes.

History of the Recommendation

The recommendation for a review of the DoD budget structure for defense acquisition programs reflects a long-standing concern about the efficiency and effectiveness of the Pentagon's resource allocation processes. The current Planning, Programming, Budgeting, and Execution (PPBE) system, established in the early 1960s, has been the subject of numerous reform efforts over the years.¹ The original intent of PPBS was to shift the budget focus from inputs to outputs, aiming for better alignment of resources with strategic objectives.¹ However, over time, the system has become increasingly complex and bureaucratic.¹

Historical context reveals that the initial budget classifications in the DoD were often based on organizational structures, such as the transportation service or the signal service.³ The introduction of PPBS aimed to create program groups to minimize duplication and apply analytical techniques to control costs.¹ Despite these improvements, the system has faced criticism for its lengthy processes, making it difficult to rapidly integrate new technologies.¹

More recent reform efforts, such as the establishment of the Commission on Planning, Programming, Budgeting, and Execution (PPBE) Reform in the Fiscal Year 2022 National Defense Authorization Act, underscore the continued need for a more agile and responsive budget process.² This bipartisan commission, whose final report was

released in March 2024, recommended replacing the PPBE with a new Defense Resourcing System (DRS) and altering the budget structure to align with strategy, capabilities, or missions.² The recommendation in Section 501 to reorganize appropriation titles based on military service and major capability areas directly echoes a key proposal from this commission.⁴

The complexity of the current budget structure is highlighted by the sheer volume of documentation involved, with the Army's budget justification for fiscal year 2021 spanning over 11,000 pages.³ The existence of numerous program elements, many with relatively small budgets, further contributes to management challenges and hinders the scaling of new technologies.³ The "valley of death," where promising technologies struggle to transition from development to procurement due to budgetary hurdles, is a well-recognized problem that budget reform seeks to address.³

Desired Effect of the Recommendation

The primary desired effect of Section 501 is to streamline the DoD's budget and appropriations process for defense acquisition programs, leading to improved efficiency, flexibility, and alignment with strategic priorities. The specific objectives outlined in the provision point to several key areas of anticipated positive impact.

Desired Effect 1

Identifying and addressing cases where the subdivision of a program or system into multiple budget line items or program elements has complicated management. This fragmentation can lead to increased administrative overhead, difficulties in tracking program performance, and a lack of holistic oversight. By consolidating these fragmented budget lines, program managers should gain greater control and be able to manage resources more effectively.⁴

Desired Effect 2

Identifying opportunities to combine budget line items or program elements for multiple programs or systems that provide a common set of capabilities, missions, or functions. This consolidation aims to reduce redundancy, improve resource allocation across related programs, and potentially achieve economies of scale. For instance, combining funding for similar types of missiles or vehicles across different services could lead to more efficient procurement and sustainment strategies.⁵

Desired Effect 3

Developing steps to address the identified cases, including a cross-walk of the existing budget structure to the new structure. This requirement ensures a clear roadmap for transitioning to a more efficient budget framework. The cross-walk will be crucial for maintaining continuity and transparency during the implementation process, allowing stakeholders to understand how current programs and funding lines will be mapped to the revised structure.

Desired Effect 4

Aligning budget line items or program elements, to the maximum extent possible, with portfolio acquisition executives or similar portfolio managers. This alignment is intended to enhance accountability and empower portfolio managers with greater budgetary authority over the programs within their purview. By placing budgetary responsibility with those overseeing related programs, decision-making can become more integrated and responsive to overall portfolio goals.³

Desired Effect 5

Removing appropriation titles for research, development, test and evaluation (RDT&E); procurement; and operation and maintenance (O&M), and reorganizing based on military service and major capability and activity areas, as recommended by the final report of the Commission on Planning, Programming, Budgeting, and Execution Reform. This fundamental shift in appropriation structure aims to provide increased transparency and allow for a more holistic view of program costs across their entire lifecycle.⁴ Instead of categorizing funds by appropriation type, the focus would shift to how resources support specific military services and their core capabilities, potentially facilitating better long-term planning and resource allocation.³

Potential Negative Impacts of the Recommendations

While the intended effects of Section 501 are positive, the significant restructuring of the DoD budget and appropriation process could also lead to several unintended negative outcomes that need to be carefully considered and mitigated.

Potential Negative Impact 1

Disruption to existing program management and execution. A major overhaul of the budget structure could create confusion and uncertainty among program managers and financial personnel who are accustomed to the current system. The need to learn new budget codes, reporting requirements, and approval processes could temporarily slow down program execution and potentially lead to delays in critical acquisitions.¹

Potential Negative Impact 2

Increased complexity during the transition period. Developing and implementing a new budget structure, including the required cross-walk, will be a complex undertaking. It could initially increase the workload for budget analysts and IT personnel as they work to map existing data to the new framework and develop the necessary systems to support it. This complexity could also lead to errors and inconsistencies in financial reporting during the transition.⁷

Potential Negative Impact 3

Resistance from stakeholders who benefit from the current system. Established processes and relationships built around the existing budget structure might face resistance from individuals or organizations who perceive the changes as a threat to their autonomy or influence. For example, program offices that have historically controlled specific budget lines might be reluctant to see them consolidated under a portfolio manager.¹

Potential Negative Impact 4

Potential for delays in acquisition timelines. If the review and subsequent implementation of changes are not managed effectively, it could lead to delays in the appropriation and allocation of funds for ongoing and new acquisition programs. Uncertainty about the new budget structure could also make it difficult for contractors to plan and execute their work, further contributing to potential delays.⁸

Potential Negative Impact 5

Loss of detailed programmatic insight by Congress. The proposed removal of appropriation titles for RDT&E, procurement, and O&M, while aiming for greater flexibility, could potentially reduce the level of detailed insight that Congress currently has into how the DoD is allocating funds for these specific activities. This could lead to concerns about oversight and accountability.³

Mitigations the Organization Will Take to Diminish the Negative Impacts

To mitigate the potential negative impacts of implementing the recommendations from the review mandated by Section 501, the DoD should adopt a phased and well-communicated approach.

Mitigation of Negative Impact 1

A gradual and phased implementation of the new budget structure, allowing program managers sufficient time to adapt and learn the new processes. Providing comprehensive training and support resources will be crucial to minimizing disruption. Clear guidance and readily available assistance will help program teams navigate the changes effectively.

Mitigation of Negative Impact 2

Investing in robust IT systems and data analytics capabilities to support the transition to the new budget structure. Ensuring data accuracy and consistency during the cross-walk process will be critical. Dedicated teams should be established to manage the transition and address any technical challenges that arise.

Mitigation of Negative Impact 3

Engaging with all relevant stakeholders early and often throughout the review and implementation process. Soliciting feedback and addressing concerns can help to build buy-in and minimize resistance. Clearly articulating the benefits of the new structure and how it will ultimately improve efficiency and effectiveness is essential.

Mitigation of Negative Impact 4

Developing a detailed implementation plan with clear timelines and milestones for each phase of the transition. Maintaining open communication with Congress and industry partners about the progress of the review and any anticipated changes to funding processes can help to mitigate potential delays. Establishing contingency plans to address unforeseen challenges will also be important.

Mitigation of Negative Impact 5

Working closely with Congress to ensure that the new budget structure provides sufficient transparency and oversight. This could involve developing new reporting mechanisms and providing regular briefings to congressional defense committees to address any concerns about the level of detail available under the revised structure.³ Exploring alternative ways to provide programmatic insight while still achieving greater budgetary flexibility will be key.

DoD Personnel Most Affected

The review and potential changes resulting from Section 501 will most directly affect several categories of Department of Defense personnel:

- **Acquisition Financial Managers:** These individuals are responsible for the financial management of defense acquisition programs. They will need to

understand the new budget structure, learn new accounting codes and procedures, and adapt their reporting practices accordingly. The alignment of budget lines with portfolio managers may also shift their reporting relationships and responsibilities.

- **Program Managers:** Program managers oversee the execution of defense acquisition programs. They will be impacted by any changes to the budget line items and program elements under their control. They will need to understand how the new structure affects their ability to manage program resources and track performance. The potential consolidation of budget lines could provide them with greater flexibility but also increased responsibility.
- **Budget Analysts:** Budget analysts at various levels within the DoD will be heavily involved in the review process and the subsequent implementation of any changes. They will be responsible for analyzing the current budget structure, developing proposals for consolidation and reorganization, and creating the cross-walk between the old and new systems. Their expertise will be critical for ensuring a smooth transition.
- **Portfolio Acquisition Executives (PAEs) and Similar Portfolio Managers:** Section 501 explicitly aims to align budget structures with PAEs. These individuals will likely see an increase in their budgetary authority and responsibility. They will need to have a comprehensive understanding of the funding available for the programs within their portfolio and be able to make strategic decisions about resource allocation across those programs.³

Stakeholders Opposed and Rationale for Opposition

Several stakeholders, both within and outside the Department of Defense, might oppose the implementation of recommendations from the review mandated by Section 501 for various reasons:

- **Individual Program Offices:** Program managers and staff within specific program offices might oppose consolidation of their budget lines if they fear a loss of autonomy or control over their resources. They may believe that their program has unique requirements that necessitate dedicated funding lines and might be concerned that their priorities could be overshadowed within a larger, consolidated budget.¹
- **Military Services:** While the reorganization based on military service is intended to be a positive outcome, individual services might resist changes that they perceive as diminishing their budgetary control or prioritizing certain capabilities over others. They might have established processes and preferences for how their programs are funded and could be hesitant to adopt a new structure that

alters these dynamics.

- **Defense Contractors:** Companies that have long-standing relationships with specific program offices and are accustomed to the current budget structure might oppose changes that could disrupt these relationships or alter the way they receive funding. They might also be concerned about increased competition or changes in procurement processes resulting from the reorganization.⁹
- **Congressional Appropriations Subcommittees:** Members and staff of congressional appropriations subcommittees that oversee specific appropriation titles (e.g., RDT&E, procurement) might oppose the removal of these titles if they believe it will reduce their ability to conduct detailed oversight of DoD spending in these areas. They might prefer the current structure, which provides a clearer breakdown of how funds are being used for different types of acquisition activities.³
- **Bureaucratic Elements within DoD:** Elements within the DoD bureaucracy that have a vested interest in maintaining the status quo might resist changes that could streamline processes or reduce their influence. Resistance could stem from a general aversion to change, concerns about job security, or a belief that the current system, despite its flaws, is adequate.¹

Additional Resources

Successfully implementing the review and any subsequent changes to the DoD budget and appropriation structure as mandated by Section 501 will likely require the allocation of additional resources:

- **Funding:** Dedicated funding will be needed to support the comprehensive review process, including personnel costs, data analysis tools, and potentially external consultants with expertise in budget reform and organizational change.¹⁰ Resources will also be required to develop and implement new IT systems and reporting mechanisms to support the revised budget structure.⁷
- **Personnel:** The DoD will need to dedicate personnel with expertise in budget analysis, financial management, acquisition policy, and IT systems to conduct the review and manage the transition. This may involve establishing dedicated teams or task forces with representatives from across the relevant DoD components.¹¹
- **Training:** Comprehensive training programs will be necessary to educate acquisition financial managers, program managers, budget analysts, and other affected personnel on the new budget structure, policies, and procedures. This training will be crucial for ensuring a smooth and effective transition.⁴
- **Data Analytics Tools:** Advanced data analytics tools and capabilities will be required to analyze the complex data associated with the current budget

structure and to develop and implement the cross-walk to a new structure. These tools will help identify inefficiencies and opportunities for consolidation.⁵

Measures of Success

The success and effectiveness of the recommendations implemented as a result of the review mandated by Section 501 can be measured through several key indicators:

- **Improved Program Management Efficiency:** Track metrics such as the time required for budget execution, the number of reprogramming requests, and feedback from program managers on their ability to manage resources effectively under the new structure.⁴ A reduction in administrative overhead and improved flexibility in resource allocation would indicate success.
- **Increased Budget Transparency and Alignment:** Assess the clarity and accessibility of budget information under the new structure. Measure the extent to which budget line items and program elements are aligned with portfolio acquisition executives and strategic priorities.⁵ Improved alignment should lead to better resource allocation in support of national defense objectives.
- **Enhanced Acquisition Outcomes:** Monitor key acquisition metrics such as program cost, schedule adherence, and delivered capabilities. While these outcomes are influenced by many factors, a more efficient budget process should contribute to improved acquisition performance over the long term.⁸
- **Reduced Redundancy and Improved Resource Utilization:** Evaluate the extent to which the consolidation of budget lines and program elements has eliminated redundancy and led to more efficient use of resources across related programs. Cost savings achieved through consolidation could be a key measure of success.¹³
- **Stakeholder Satisfaction:** Gather feedback from program managers, financial personnel, portfolio managers, and congressional stakeholders on their experience with the new budget structure. High levels of satisfaction and a perception of improved efficiency and effectiveness would indicate success.

Alternative Approaches

While a comprehensive review and restructuring of the DoD budget as outlined in Section 501 has the potential for significant benefits, there are also alternative approaches that could achieve similar outcomes, potentially with less disruption:

- **Targeted Budget Structure Adjustments:** Instead of a complete overhaul, the DoD could focus on making targeted adjustments to specific areas of the budget structure that are known to be particularly inefficient or problematic. This

approach could address the most pressing issues more quickly and with less widespread disruption.¹

- **Enhanced Reprogramming Authority:** Increasing the authority of program managers and portfolio executives to reprogram funds within certain limits could provide greater flexibility without fundamentally altering the budget structure. This would allow for more agile responses to changing priorities and unforeseen circumstances.⁴
- **Pilot Programs for Budgetary Reform:** The DoD could implement pilot programs in specific areas to test different budget structures and processes before implementing them across the entire department. This would allow for learning and refinement before a large-scale rollout.¹⁵
- **Improved Data Transparency and Analytics:** Enhancing the transparency of budget data and providing better analytical tools could empower stakeholders to identify and address inefficiencies within the existing structure without requiring a major reorganization. This could involve improved reporting dashboards and better access to financial information.³
- **Biennial Budgeting:** While previous attempts have faced challenges, revisiting the concept of biennial budgeting could provide more stability and predictability in defense funding, potentially reducing some of the pressures that lead to fragmented budgeting practices.¹

Section Specific Question 1:

While Section 501 mandates a study, the specific aspects of budget structure being reviewed include:

- **Appropriation Categories:** The review will examine the current appropriation titles for RDT&E, procurement, and O&M, with the aim of removing these and reorganizing based on military service and major capability areas.³ This suggests a potential shift away from funding categories based on the type of activity to categories based on the organizational unit or strategic objective.
- **Reprogramming Rules:** While not explicitly mentioned in Section 501, any significant restructuring of the budget could have implications for reprogramming rules, which govern the ability of the DoD to shift funds between different budget lines after appropriations have been enacted. Changes to these rules might be considered in conjunction with the structural review to ensure appropriate flexibility under the new framework.⁴
- **Color of Money:** The review's focus on appropriation titles directly relates to the "color of money," which refers to the different types of appropriations (e.g., RDT&E funds can only be used for research and development). The

recommendation to remove these titles and reorganize suggests a potential blurring or combination of these funding categories at a higher level, with more granular control possibly residing within the newly defined service and capability-based budget lines.⁴

- **Budget Line Items and Program Elements:** The core of the review involves identifying cases where programs are fragmented across multiple budget line items or program elements and where these could be combined for greater efficiency and better alignment with portfolio managers.³

Potential future changes that acquisition financial managers and Program Managers should be aware of include:

- **New Budget Codes and Structures:** They will likely need to learn and utilize a new system of budget codes and organizational structures based on military service and major capabilities. This will require training and updates to financial management systems.
- **Shift in Reporting Relationships:** The alignment of budget lines with portfolio acquisition executives could lead to changes in reporting structures and lines of authority for both financial managers and program managers.
- **Modified Reprogramming Procedures:** Changes to reprogramming rules could affect their ability to move funds within their programs or portfolios, potentially requiring new approval processes or thresholds.
- **Lifecycle Cost Management:** The reorganization based on capability areas might necessitate a greater focus on lifecycle cost management, requiring program managers and financial managers to consider the long-term funding implications across different appropriation types.

Section Specific Question 2:

The format of the final result should be as follows:

Heading (Name of Section)

Key Points

History of the recommendation

Desired Effect of the recommendation

- Desired Effect 1
- Desired Effect 2
- Desired Effect 3

- Desired Effect 4
- Desired Effect 5

Potential Negative impacts of the recommendations

- Potential Negative impact 1
- Potential Negative impact 2
- Potential Negative impact 3
- Potential Negative impact 4
- Potential Negative impact 5

Mitigations the organization will take to diminish the negative impacts

- Mitigation of Negative Impact 1
- Mitigation of Negative Impact 2
- Mitigation of Negative Impact 3
- Mitigation of Negative Impact 4
- Mitigation of Negative Impact 5

DoD Personnel Most Affected

Stakeholders opposed and rationale for Opposition

Additional Resources

Measures of Success

Alternative approaches

Section Specific Question 1:

Section Specific Question 2: (This section has been addressed by adhering to the specified format)

Summary

Section 501 of the Forged Act mandates a comprehensive review of the DoD's budget structure for defense acquisition programs, aiming to enhance efficiency, flexibility, and strategic alignment. This recommendation builds upon decades of efforts to reform the Pentagon's complex PPBE system, with recent impetus from the bipartisan Commission on PPBE Reform. The desired effects include streamlining program management, consolidating similar programs, improving alignment with portfolio executives, and reorganizing appropriation titles by service and capability. However,

potential negative impacts such as disruption, complexity, resistance, delays, and reduced congressional insight need to be carefully mitigated through a phased implementation, stakeholder engagement, and robust training and IT support. The review and subsequent changes will significantly affect acquisition financial managers, program managers, budget analysts, and portfolio executives. Opposition may arise from individual program offices, military services, defense contractors, and congressional subcommittees concerned about loss of control or oversight. Successful implementation will require additional funding, personnel, training, and data analytics capabilities, and its effectiveness can be measured by improvements in program management efficiency, budget transparency, acquisition outcomes, resource utilization, and stakeholder satisfaction. While a comprehensive overhaul is proposed, alternative approaches such as targeted adjustments, enhanced reprogramming authority, pilot programs, improved data analytics, and biennial budgeting could also be considered. The review will specifically examine appropriation categories, reprogramming rules, color of money, budget line items, and program elements, potentially leading to significant changes in how acquisition programs are budgeted and managed.

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