Acquisition programs compete for funding in an environment where any gain achieved in funding for one program often occurs at the expense of another program. Over the long term, this dynamic can significantly unbalance the acquisition process. While initially this is a case of robbing Peter to pay Paul, the “robbery” can produce ripples across a larger set of acquisition programs, perhaps eventually leaving Paul, and others, poorer. While our perspective focuses on the consequences for just one program, clearly the underspend/overspend issue affects the broader acquisition community.

Underspent
This dynamic has its roots in how the government looks at spending. An acquisition program’s rate of spending is monitored almost as closely as the rate of development progress. In fact, during the early stages of a program, spending may be the primary yardstick of success: dollars out the door equals progress. Underspending, then, equates with program trouble (whether trouble truly exists or not), and trouble raises the specter of program cancellation, delays, or loss of funding.

Meanwhile, managers of other programs (the Pauls of our allegory) are quite aware of the potential gains they can realize from their colleagues’ underspending. They know just how to reach into Peter’s pockets, and how that can fix their own overspending problems.

For example, consider what one program leader said: “In FY06 we got our money in March, so there were six months left. But contracts were awarded for 12 months, so [in FY07] we’re still expending FY06 money on those. We’re on track for obligations, but not for expenditures.”

This program, on tap to develop an IT system, was aware of the risks of being underspent. Congress “gave us leeway last year, but this year we’ll have to start doing better,” the financial manager said. The deputy program manager observed that “If the leadership reviews our expenditures for FY06, we are in danger of losing funding for other task orders.”

Replanning
If a program falls behind on expenditures, it can be targeted as a “bill payer” (the Peter being “robbed”) for another program that’s either short of funding or is considered a priority that deserves additional funding. The bill payer program can lose the underspent portion of its funding. In our example, a team member said his program was eventually designated as a bill payer for $2 million. The result? At the end of the fiscal year the program’s finance people had to figure out what to do after losing $2 million. Recalculating the effects of a budget cut can consume weeks—or months—of effort. Worse yet, replanning can happen multiple times, posing a large, ongoing burden to the program.

Performance
The losing program must reset expectations about what it (the bill payer) can deliver, and when. It is not always clear if a funding cut is temporary, if requirements are being removed, or if—in the worst of all possible worlds—the cut is permanent and there is no reduction in system scope.

A common result is that the bill payer program winds up performing poorly compared to its original expectations, while the recipient demonstrates better-than-expected progress. The longer-term consequences are predictable. The bill payer doesn’t receive its requested funding for the following year, while the beneficiary is fully funded—and may still find a way to use additional unexpected funding reallocations late in the fiscal year.

(Continued on page 2)
The Bigger Picture

Acquisition programs compete for funding in what often appears to be a zero-sum game. As the diagram indicates, a greater Allocation to A Instead of B provides more Funding to Program A, which then can exceed progress expectations by spending the additional money, and achieve greater Perceived Success of Program A, which then makes it an even more likely candidate to receive an additional funding “plus-up” (increment) the next time spending rates are examined.

Robbing Peter to Pay Paul incorporates a bit of self-fulfilling prophecy. The initial suspicion that the more aggressive programs might be better managed, and thus might have a greater likelihood of success, is validated if the program is able to deliver better-than-expected results.

In this situation a program manager with a high-priority program could manipulate this process to his or her advantage by overspending with the expectation that funding will be taken from underspent programs to make up the projected shortfall.

Of course, this is a very dangerous game of “chicken” to play with the sponsor: the program must knowingly overspend without having any guarantee that the acquisition funding process will come through and deliver the expected additional funds. If it doesn’t, the program must either shut down some planned activities, or go in search of more funding.

Deliberate overspending occurs as a consequence of how the acquisition system is set up and operates. While unexpected and undesired, overspending can be a by-product of the government’s acquisition processes and rules:

1. Money is reallocated mid-year from underspent programs to overspent programs, and
2. Program management officers are expected (or given incentives) to act primarily in the best interests of their program, and only secondarily in the best interests of the Department of Defense (DoD) or the government. The dilemma here is that PMs are simultaneously expected to act in the best interests of the PEO, their service, the U.S. armed forces and the U.S. government, but they may only be given incentives to act in the interests of their program, which in turn will help to advance their career.

Breaking The Pattern

Most programs try to deal with this dynamic by playing the game as best they can—trying to keep their spending on plan, and assiduously attempting to avoid the unenviable position of being underspent by whatever means necessary.

To break the dynamic, the primary leverage point is the Perceived Success of Program A/B. The program that is designated as the bill payer needs to boost its perceived success, despite having less funding with which to do so, in order to avoid continuing its gradual decline.

Another way for program managers to prevent the Robbing Peter to Pay Paul dynamic (aside from keeping spending on plan) is to anticipate the use of the expenditure yardstick to judge program success. The assumption in government and defense acquisition that a program that is spending according to plan is a well-managed program—one that will be successful—is not always valid. Being aware that this assumption is implicit is an important step toward managing its effects and assuring that the organization measures program progress (and potential for success) accurately.