MILCON S&A Account Study

J. Joseph Tyler, PE
Chief, Programs Integration Division
Directorate of Military Programs
HQUSACE

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Purpose

- Update attendees on recent leadership directions concerning management of construction S&A with a focus on MILCON
- Provide a summary of current status
- Describe a way ahead
Chief’s Direction

- Evaluate and analyze the downward trend of the MILCON S&A Account.
- Evaluate the causes for the account deficit.
- Propose a corrective action plan to restore nominal balance to between $45 – $75M by end of FY 08 and still deliver a quality product to our military customers.
- GRD and AED are NOT included in this study or recommendations because they have stand alone S&A accounts.
**S&A Flat Rate Accounting Concepts**

- MILCON S&A Account uses the Civil Works Revolving Fund Structure
  - All projects in same category pay same rate
  - Breakeven accounting (gains offset losses i.e. big jobs pay for little ones).
- MILCON S&A Account fundamental to managing Military Construction Mission.
  - Funding associated with construction
  - Programming of S&A predictable using a flat rate
- Title 31 USC 1534
  - Allows Revolving Fund as accounting expedient to “wash” funds through S&A account provided certain legal conditions are met.
S&A Flat Rate Accounting Concepts (con’t)

- S&A applies to post award Construction Management.
- P&D covers pre-award and DDC covers post award design.
- S&A Flat rates are standard across USACE (CONUS & OCONUS rates)
- S&A Flat Rates are set for each Appropriation category (MILCON, O&M, DERP)
S&A Flat Rate Accounting Concepts (con’t)

- MILCON Flat Rate S&A is intended to recover the cost of service

- Political considerations have out weighed increasing Flat Rate.

- From 1963 to 1996 MILCON S&A rates ranged from a low of 5.0% to a high of 7.5%. Last increase was in 1989. Last decrease was in 1995.

- Current S&A Flat Rates:
  - MILCON: 5.7% CONUS;  6.5% OCONUS
  - O&M: 6.5% CONUS;  8.0% OCONUS
  - DERP: 7.0% CONUS;  7.5% OCONUS
Example of where we spent our S&A?

<table>
<thead>
<tr>
<th>MILCON</th>
<th>CONST</th>
<th>CONTR</th>
<th>ENGRG</th>
<th>FIELD</th>
<th>OTHER</th>
<th>PPMD</th>
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<td>Honolulu</td>
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<td>0.4%</td>
<td>72.7%</td>
<td>0.0%</td>
<td>5.7%</td>
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<tr>
<td>Kansas City</td>
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<td>4.5%</td>
<td>70.8%</td>
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<td>1.1%</td>
<td>5.1%</td>
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<td>0.3%</td>
<td>75.4%</td>
<td>0.5%</td>
<td>5.7%</td>
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<tr>
<td>Seattle</td>
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<td>0.0%</td>
<td>4.6%</td>
<td>47.4%</td>
<td>0.2%</td>
<td>11.2%</td>
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<tr>
<td>MILCON Total</td>
<td>20.1%</td>
<td>0.2%</td>
<td>3.1%</td>
<td>68.7%</td>
<td>0.4%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

- PM organization charges increased as management placed emphasis on PMBP implementation & as study progressed.
- Distribution of costs dependent on organizational structure.

*Data Source: S&A Pilot Study Report DEC 03 (Data from FY01 & 02)
**USACE Policy**

- Draft ER 415-1-16
  - Required working balance: “...working balance of 3 to 4 months operating expense...”. (Current HQ working policy is 3-5 months)
  - “The working balance is to cover loss of income during CRA or short-term moratorium, program, regional and seasonal variation, and to assure funds available to cover post construction, closeout and to demobilize on-site construction staff.”
### MILCON S&A Account

**FY05 Nominal Balance Requirement ($mil)**

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<th>Probability</th>
<th>Event Description</th>
<th>(Probability X cost)</th>
<th>Months</th>
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<td>100%</td>
<td>Close out fiscally complete projects</td>
<td>$22.1</td>
<td></td>
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<tr>
<td>100%</td>
<td>Expenses obligated but not expensed</td>
<td>$17.6</td>
<td></td>
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<tr>
<td></td>
<td><strong>Minimum Nominal Balance - must fund at all times</strong></td>
<td>$39.7</td>
<td>2.9</td>
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<tr>
<td>100%</td>
<td>Avg Annual fluctuation -$27M max</td>
<td>$8.9</td>
<td></td>
</tr>
<tr>
<td>5%</td>
<td>120 day continuance of pay after RIF action - $55M</td>
<td>$2.7</td>
<td></td>
</tr>
<tr>
<td>5%</td>
<td>Loss of Military function in a district - $15M</td>
<td>$0.7</td>
<td></td>
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<tr>
<td>100%</td>
<td>Avg Accounting adjustment - $7.7M max</td>
<td>$1.1</td>
<td></td>
</tr>
<tr>
<td>5%</td>
<td>Construction Moratorium/Pause in Awards -$27M</td>
<td>$1.3</td>
<td></td>
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<tr>
<td></td>
<td><strong>subtotal</strong></td>
<td><strong>$14.7</strong></td>
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<tr>
<td></td>
<td><strong>Total Nominal Balance Requirement</strong></td>
<td><strong>$54.4</strong></td>
<td><strong>4.0</strong></td>
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<tr>
<td></td>
<td><strong>Maximum Nominal Balance Requirement</strong></td>
<td><strong>$69.1</strong></td>
<td><strong>5.1</strong></td>
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</table>
MILCON S&A Account Status

Where We Are:

- As of 31 Mar 05 the MILCON S&A Account has $13.9M in reserve.
- Based on the “Working Balance” estimate the required minimum reserve is $40M (Rounded to 3 months, FY05)
- The current deficit is approx. $26M
- To restore the “Working Balance”, S&A income must increase 0.5% or expenses must be decreased 0.5%.
MACOM
MILCON S&A Account

HQUSACE S&A Account Manager est.

Low Nominal Bal
Actual MILCON Bal
High Nominal Bal
HQ Projected MILCON Bal

March balance $13.9 Mil

4 Aug 05

$0
$20
$40
$60
$80

$0
$20
$40
$60
$80

Sep 98
Sep 99
Sep 00
Sep 01
Sep 02
Sep 03
Sep 04
Sep 05
Sep 06
Sep 07
Sep 08
Challenges Across the Program

- Effective Rates have increased.
- Corps salary and benefits have increased at a greater rate than the Construction Cost Index.
- Apparent undercharging of O&M S&A and overcharging of MILCON S&A
Expected Increases
S&A expenses

• +5.9% CONUS (Current expense rate)
  – +.25 Rent (FY06)
  – +.05 Regional G&A (FY06)
  – +.10 Regional CDO (FY07)
  – +.05 Effective Rate (ea. FY due to salary increases)
  – +.?? Afghanistan, Iraq, GWOT - Temp Assignments
  – +.?? At Cost Deals (lost income when less than 5.7%)

• +6.35% Estimated S&A Expense

* Numbers were not derived from data but are estimates based on extensive experience of PDT members.
Expected Decreases

S&A expenses

• 6.35%  CONUS (Estimated Expense Rate)
  – -.25  Proper Charging of P&D, DDC and S&A
  – -.25  Proper Charging Practices on O&M vs. MILCON
  – -.01  Disciplined Approach for Other than Flat Rate Deals
  – -.10  Eliminate Subsidizing At Cost Deals
  – -.15  Optimize and Streamline Services Charged to S&A
  – -.15  Overhead Reduction (Assume 10% OH reduction)

• 5.44  Estimated S&A Expense Rate
  (5.7% income rate)

* Numbers were not derived from data but are estimates based on extensive experience of PDT members.
Unknown impacts to S&A expenses

- MILCON Transformation
- BRAC PROGRAM
  - Major MILCON program increases will offer chance to execute more placement per FTE
    - Air Force/Army/DoD
- At Cost and Reduced Flat Rate Deals – HQUSACE Policy
- NSPS (Pay Banding Impact)
Possible Corrective Actions

- Do Nothing
- Increase Rates
- Decrease Expenses

✓ Selected by the Director or Military Programs and approved by the Chief
**MANAGED APPROACH**

- Maintain MILCON S&A rate at 5.7% CONUS and 6.5% OCONUS with 0.3% “payback” to replenish the S&A fund (effective rate 5.4% CONUS & 6.2% OCONUS)
- Stop deficit spending, replenish S&A Working Balance
- Limited income will force changes in current business process to address inefficiencies
- New costs will have greater negative impact on service
- Current service levels will decrease unless changes to current business processes are developed
- May impact field staff - “Boots on the Ground”
- Collective punishment for successful Districts
Managed Approach Summary

- **FY 05 Implementation:**
  - Hold regional S&A expenses to 5.7% CONUS and 6.5% OCONUS for FY05
  - GRD and AED are **NOT** included in this study or recommendations
  - MP develop scenarios for impact of MILCON Transformation and BRAC Program on QA process.
  - MP finalize ER 415-1-16
  - Establish/continue District, RBC and HQ processes and business practices to manage S&A
  - Develop MACOM communications to explain implementation to field and customers
Managed Approach Summary

- FY 06 Implementation:
  - Implement 0.3% “paypack” of S&A income (expense 5.4% CONUS; 6.2% OCONUS) to restore central S&A Account by end of FY08
  - GRD and AED are **NOT** included in this study or recommendations
  - HQUSACE & RBCs review S&A Account management plans at start of FY06 and mid-year to determine effectiveness and results of proposal.
STATUS

MSC Recovery Plans

- 7 MSCs have submitted MILCON S&A Recovery Plans to HQUSACE (LRD, NAD, NWD, POD, SAD, SPD & SWD)
- Recovery Plans show a $1.925M draw on the National S&A Account
- 4 of 7 Recovery Plans submitted show a draw
- 2 of 7 Recovery plans submitted show break even
- 1 of 7 Recovery Plans submitted shows a contribution
- TAC has not submitted a MILCON Recovery Plan
# FY 05 MILCON S&A PROJECTIONS

<table>
<thead>
<tr>
<th>Division</th>
<th>FY05 Placement (000s of $)</th>
<th>Expenses</th>
<th>Income</th>
<th>CCG Target FY05 Rate</th>
<th>Projected FY05 Rate</th>
<th>CONUS/OCONUS</th>
<th>Signed by CDR</th>
<th>FY05 Gain/Loss</th>
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<tr>
<td>LRD</td>
<td>123,000</td>
<td>7,011</td>
<td>7,011</td>
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<td>C</td>
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<tr>
<td>NAD</td>
<td>483,812</td>
<td>29,367</td>
<td>28,607</td>
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<td>(760)</td>
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<td>NWD</td>
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<td>19,536</td>
<td>18,992</td>
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<td>5.9%</td>
<td>C</td>
<td>NO</td>
<td>(544)</td>
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<tr>
<td>POD</td>
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<td>31,593</td>
<td>31,400</td>
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<td>6.5%</td>
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<td>(193)</td>
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<td>SAD</td>
<td>481,000</td>
<td>27,417</td>
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<tr>
<td>SPD</td>
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<td>11,151</td>
<td>9,785</td>
<td>5.7%</td>
<td>6.5%</td>
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<tr>
<td>SWD</td>
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<td>938</td>
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<td>TAC</td>
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<td>No Data</td>
<td>No Data</td>
<td>No Data</td>
<td>No Data</td>
<td>O/C</td>
<td>No Response</td>
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**NOTE:** Does not reflect recent change counting all Modularity S&A as MILCON
## FY06 Projections

**MSC Recovery Plans**

### FY 06 MILCON S&A PROJECTIONS

<table>
<thead>
<tr>
<th>Division</th>
<th>FY06 Placement (000s of $)</th>
<th>Expenses</th>
<th>Income</th>
<th>Target FY06 Rate*</th>
<th>FY06 Rate*</th>
<th>CONUS/ OCONUS</th>
<th>Signed by CDR</th>
<th>FY06 Gain/Loss</th>
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<td>9,990</td>
<td>10,545</td>
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<td>555</td>
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<tr>
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<td>28,853</td>
<td>30,561</td>
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<tr>
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<td>49,416</td>
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<tr>
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</table>

**NOTE:** Does not reflect recent change counting all Modularity S&A as MILCON

15,997
**Status of Actions and Way Ahead**

- Study has been approved by Chief of Engineers
- MSC S&A Recovery Plans have been received
- MSCs and HQs must complete the remaining actions approved by the Chief
- Information Paper to be provided to Chief prior to the SLC
Questions/Comments
BACKGROUND SLIDES
Increase Rate Option

- Increase MILCON S&A rate ½% to 6.2% CONUS and 7.0% OCONUS
- Corrects current imbalance in expenses vs. income
- Maintain current level of service with no change to existing business practices
- Maintains current level of “Boots on the ground”
- New costs can be absorbed with limited impact on staff
- Adjusts for increased Construction Costs
- Not acceptable to customers
## USACE MILCON S&A Rates

**Implemented** | **CONUS** | **OCONUS**<sup>*</sup>  
--- | --- | ---  
1 Jan 63 | 7.5% | Same  
1 Mar 65 | 7.0% | Same  
1 Jul 65 | 6.7% | Same  
1 Oct 65 | 6.5% | Same  
1 Nov 66 | 6.0% | Same  
1 Jul 67 | 5.8% | Same  
1 Jan 71 | 5.6% | Same  
1 Jul 71 | 5.4% | Same  
1 Jul 72 | 5.0% | Same  
1 Oct 78 | 5.2% | Same  
1 Oct 79 | 5.0% | 6.5%  
1 Oct 83 | 5.5% | Same  
1 Oct 89 | 6.0% | 6.5%  
1 Oct 95 | 5.7% | 6.5%  

<sup>*</sup>Includes AK, HI, & PR (Rate increase)
<table>
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<tr>
<th>Org</th>
<th>FY99</th>
<th>FY00</th>
<th>FY01</th>
<th>FY02</th>
<th>FY03</th>
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<th>99-01</th>
<th>02-04</th>
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<td>(545)</td>
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<td>55</td>
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<td>208</td>
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<td>(1839)</td>
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<td>(386)</td>
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<td>468</td>
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<td>(1462)</td>
<td>(184)</td>
<td>(780)</td>
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<td>75</td>
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<td>(134)</td>
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<td>101</td>
<td>(95)</td>
<td>(195)</td>
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<tr>
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<td>(4605)</td>
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<td>(11903)</td>
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### MILCON Gains & Losses

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<th>FY01</th>
<th>FY02</th>
<th>FY03</th>
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**MILCON**

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*LMI study had discrepancy in categories of actual results vs 9 recommended ABC CM phases. ABC Study was part of the SAPS Study.*
Nature of Issue

- S&A Account Management is a **Corps** problem not a Construction Division problem.
- PMBP process has resulted in changes that impact the S&A account.
- CD, EN, PM, CT and RM all utilize the S&A account and have a vested interest in correcting the situation.
- The long-term solution to the S&A Account will require a TEAM effort with Districts, RBCs and HQUSACE all participating in a constructive way.
Previous Studies

- Construction Capability Study - SEP 02
  - Recommends increasing MILCON S&A rate from 5.7% to 6.0% and no change in OCONUS rate.

- S&A Pilot Study Report (SAPS) - DEC 03
  - Recommends increasing MILCON S&A rate from 5.7% to 6.0% and no change in OCONUS rate.
Military Programs - 2Q FY05

MP-10 Project Fiscal Closeout *
Data Source: P2/PPDS

Fiscally Close All Projects within 12 Months (CONUS) or 15 Months (OCONUS) of BOD Actual
Ratings: Green: 90%  Amber: 80% - <90%  Red: <80%

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*Only projects/contracts linked between P2 and RMS are represented here. Many more projects remain fiscally open but have not been entered in P2 to obtain visibility.
Effective Rate Trends (Burden Added to Labor)

District Effective Rate

FY89: 139%
FY90: 142%
FY98: 144%
FY99: 148%
FY00: 148%
FY01: 149%
FY02: 149%
FY03: 150%
FY04: 153%
MSCs MILCON vs O&M Actual S&A Rates – 31 Mar 05

Data as of 31 Mar 05

Orig Sched
MSCs MILCON S&A Rates
31 Mar 05

Data as of 31 Mar 05

Mar Schedule  Mar Actual  FY04 Actual
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MILCON Placement & Expense Trend ($M)

- Act/Proj Placement
- Orig Estimate
- Expense
- Income

4 Aug 05
MSC Response to 22 April VTC

- SPD, NWD, LRD, and NAD concurred in the recommendations
- POD had questions but indicated afterwards that they were proceeding to implement the recommendations
- SWD and SAD had questions and desired more discussions
Corrective Action Plan
Option A

- NO ACTION (NO CHANGE)
  - Will not address current imbalance in expenses vs. income
  - Will not replenish S&A Account reserve
  - Will not improve current business practices
  - Threatens ability to retain and move staff and resources to meet variations in regional and national workloads
PDT History

- MP initiated action to develop MILCON S&A PDT 7 MAR 05
- PDT started planning with teleconferences 10/14/17 MAR 05
- PDT met for two day workshop at HQUSACE on 23 and 24 MAR 05
- Briefing to Steering Committee – 15 APR 05
- Briefing to DMP and DDMP – 20 APR 05
- Briefing to MSC CDRs – 22 APR 05
- Briefing to CG 2 May 05
WAY FORWARD

- **OPTION A - NO ACTION**
  - Does not address problem

- **OPTION B - INCREASE RATE by 1/2%**
  - Solution is Corps focused but does not take mission of customers into account

- **OPTION C - MANAGED APPROACH**
  - Corps will manage issue within current funding by improving internal practices & processes
  - Increase income vs. expenses by 1/2% by limiting expenses.
Project Delivery Team

US Army Corps
of Engineers

Jolene Birkett  Harry Jones
- CENWO-CD-CM  - CEMP-IR
Philip Blount  George Lea
- CERM-P  - CENAB-CO
Dick Carlson  Louis Muzzarini
- CENAE-CO  - CEPOH-EC-C
Darrell Deleppo  Walt Norko
- CENAD-BRD  - CECW-EC
Tami Garret  James Spratt
- CESAS-RM  - CEMP-IR
• HQUSACE provided $8.9M of the S&A Working Balance to the MSCs to offset costs of PMBP for FY 03 and 04.

• From FY99-01: 14 Districts added and 10 took a draw from the account for a total of $+9.4M. All MSCs contributed to the account.

• From FY02-04: 5 Districts added and 19 drew on the account for a total of $–19.0M. No MSCs contributed to the account.

• MILCON execution and construction placement lagging behind Corps projections.

• Major S&A challenges on very difficult projects in POA.
Managed Approach
Recommendations

• Immediate District CDR Actions:
  – District Commander responsible for S&A Account
  – Limit S&A expenses to target set by RBC
  – Ensure MILCON/O&M projects are properly charged
  – Fiscally Close Out contracts in a timely manner (12 months CONUS and 15 months OCONUS)
  – Review of G&A, CDO and S&A to determine if expenses are properly distributed – with RBC
  – Review charging to S&A account by PM/CD/ENG/CT and review % of S&A spent by all District elements
Managed Approach
Recommendations

• Immediate District CDR Actions (cont):
  – Use P&D funding for pre-award activities per CEMP-M/ CERM-P memo dated 26 Mar 03, Sub: Clarification of USACE Policy on P&D, DDC, and S&A...
  – PM must seek DDC from customers when needed. Current practice in use of DDC funds is not consistent with above guidance
  – Review OH charging practices for Supervisors in PPMD, EN and CD to determine if practices are same across the board
  – Initiate review of S&A services to identify where service can be optimized without threatening mission
  – Manage S&A account to minimize impacts on field and still deliver quality product to customers
Managed Approach
Recommendations

• Immediate Division CDR Actions:
  - Division Commander responsible for S&A Account Management within the RBC
  - Limit expenses to 5.7% CONUS and 6.5% OCONUS for FY05
  - Develop and implement a recovery plan to limit S&A expenses to 5.4% CONUS/6.2% OCONUS for FY06.
  - Implement S&A Program Manager (PgM) “Gatekeeper” responsible and accountable for the S&A Account and all charges within the RBC
Managed Approach
Recommendations

• Division CDR Actions (cont):
  – Regional Recovery Plan to include:
    • Comprehensive review of G&A, CDO and S&A to determine if expenses are properly distributed
    • Review S&A account charges by PM/CD/EN/CT/RM
    • Initiate review of S&A services to identify where service can be optimized and streamlined without impacting service at the Regional level
Managed Approach
Recommendations

• **Immediate DMP Actions:**
  – Establish MACOM Recovery Plan PDT to evaluate impact on Construction Management services and the proposed S&A expense target of 5.4% CONUS & 6.2% OCONUS.
  – Develop scenario for impact of BRAC Program on the S&A Account and staffing level requirements
  – Update S&A Green Book for customers and the field
    • Can services will be optimized/Streamlined
  – Coordinate Green Book with MILCON Transformation for Design/Build S&A and establish services
  – Review and finalize the update of ER 415-1-16 Fiscal Management of Construction.
Managed Approach Recommendations

• Immediate DMP Actions:
  – Develop MACOM communications to explain implementation to field and customers
  – Initiate S&A AAR for top 5 S&A draw Districts
    – POA, NWS, LRL, POF & NWK
  • Reasons for draw systematic or unforeseen
    – Initiate AAR S&A Best Practices
  • Districts that contribute to S&A
    – NWO, SPL & POH
    – Complete AAR within 90 days of initiation
END BACKGROUND SLIDES