

Wasteful Year-End Spending

Reduce waste in the DOD

by Capt Mark Higgins

At the end of every federal fiscal year, military units scramble to spend leftover money on unnecessary purchases. The reason for this urgency is that the U.S. Treasury Department reclaims all unused funds at the end of each fiscal year. If a unit does not use all of their allocated monies, the defense budgeting office will decrease the next year's budget allocation. The reoccurring necessity to spend the entire budgeted amount creates a cyclical environment of year-end wasteful spending. According to Robert Stein, the Department of Defense (DOD) "is going to be in peril because we're spending dollars like it doesn't matter." Stein is a former chairman of an independent review board which provided recommendations for eliminating wasteful spending within the Pentagon.¹ The American people trust the DOD to exercise good stewardship over allocated resources. The year-end spending rush is a betrayal of that trust. Recently, the 36th CMC, Gen Joseph F. Dunford, Jr., called for increased good stewardship over allocated resources.² Marine Corps leadership can increase stewardship by retaining annual unused funds for Service-level discretion and providing monetary rewards for fiscal efficiency.

Our current budgeting system originated in 1789 with the passage of the first General Appropriations Act (I Stat 95) and was further clarified in 1870 with the approval of the "bona-fide-need statute" (31 U.S.C 1502a). Congress mandated that Federal funding be reclaimed by the treasury if not utilized within the given year.³ This risk of "losing money" as each fiscal year comes to an end causes many U.S. government

>Capt Higgins is the Protocol/Visits Officer, Officer Candidates School, Quantico. The author wrote this article during the Commandancy of Gen Joseph F. Dunford, Jr. The issue is still relevant.

entities to hurriedly spend any remaining funds not needed to complete their training and operational commitments. The DOD is no exception.

In their thesis investigating year-end wasteful spending, Jeffrey Liebman and Neale Mahoney state, "There is a clear spike in spending at the end of the year with 16.5% of all spending occurring in the last month of the year and 8.7% occurring in the last week."⁴ The incremental budget system requires that subsequent budgets be based upon an entity's previous levels of spending.⁵ Therefore, once a subdivision within the DOD establishes a pattern of falling below allotted spending levels, the defense budgeting agency reduces the subdivision's budget baseline amount. In his thesis, entitled "An Analysis of Year-End Spending and the Feasibility of a Carryover Incentive for Federal Agencies," Michael F. McPherson states, "If an organization fails to use its entire baseline amount, it is logical to assume that the entirety is not needed and can be reduced."⁶

This two-part combination of repatriating funds to the federal treasury and threatening a permanently reduced budget gives birth to the cycle of wasteful spending. Within this budgeting environment, it is a mark of success when a command spends all of its allocated funds—regardless of whether the expenditures result in operational success. During a recent budgeting briefing

presented by HQMC, a senior officer stated that if aviation commands do not spend their entire budget before the year ends, higher echelons within Marine Corps aviation will spend what remains in order to prevent money from being repatriated to the Navy. The briefer declared, "Make sure to spend all of the money, no matter what, or else the Navy will take it back."⁷ This example illustrates how the fear of losing funds during future budgeting periods feeds the DOD's culture of cyclical waste.

In order to create a more waste-averse culture, the DOD must petition Congress to restructure budgeting, allowing the DOD to retain unused funding. The petition should include a two-part solution: first, creating Service-level savings accounts which would store remaining funds from the preceding budget and second, to provide monetary incentives for meeting training and operational requirements without spending the entirety of an agency's budget.

Service-level savings accounts would function as holding tanks for unused annual funds. If a unit's operational requirements do not necessitate complete budget expenditure, the remaining funds would be saved for unforeseen future operational needs. These funds would be available (with Congressional oversight) to facilitate funding operational or training expenses that exceed the given year's projected or budgeted amounts. Services would then use these accounts to purchase items through the UNP (urgent needs process). The UNP is a procurement method currently used within the Marine Corps when time does not allow for the utilization of the

standard acquisitions process, known as the Expeditionary Force Development System.⁸

During the wars in Iraq and Afghanistan, unique operational requirements necessitated “off-the-shelf” equipment purchases. As a result, these unanticipated expenses caused the DOD to exceed its annual budget. Not all purchases can be anticipated and procured through the Expeditionary Force Development System. The ability to rapidly purchase additional items is essential to maintaining operations within a fluid battlespace. Allowing Services to retain unused funds from preceding budgetary periods and to quickly purchase UNP-approved items would enhance fiscal efficiency. Service-level savings accounts would be a responsible way to retain unused funds for unforeseen needs. However, the ingrained culture of individual wasteful spending also needs to be addressed.

In order to reverse the wasteful spending culture, it is vital to offer specific incentives to individuals who make cost-saving decisions that positively impact overall unit spending. These individual incentives would be in the form of monetary bonuses, awarded annually within a unit that is able to meet all of its operational and training commitments while simultaneously finishing the year under budget. Once a unit meets the appropriate metrics for operational success, the commander of the unit would allocate bonus funding to individuals within the unit who had the biggest impact on cost reduction. Similar to the current awards system, commanders would select individuals of any rank who reduce operational and training costs while still accomplishing unit objectives. Subordinate commanders would nominate individual Marines; these selections would be overseen by the next commander within the chain of command. For example, the selections made by a squadron commander would have to be approved by their MAG commander.

Bonus distributions are calculated utilizing a five-step process. These steps are:

1. Calculate the bonus fund.
2. Determine bonus eligibility.
3. Determine bonus factors based on

command level and percentage saved.

4. Calculate individual unit bonus funds.⁹

5. Determine bonus recipients within the command.

In order to determine how much bonus money would be available, Congress would need to stipulate a particular percentage of annual budget savings to allocate for bonus accounts. The following example assumes that

... military units scramble to spend leftover money on unnecessary purchases.

five percent of remaining funds are allocated for bonuses. If \$2.5 million dollars remain of the 1st MarDiv’s annual budget, then the available bonus fund would be \$125,000. (Note: This \$125,000 bonus fund will be used for the purpose of further explanation). The remaining \$2.375 million would be deposited into the Marine Corps’ Service-level fund for later use.

Any commander (1) who is responsible for an annual budget and (2) whose command is able to keep operating expenses at least five percent below the budgeted amount would have bonus distributing authority. The bonus disbursement system would be tiered, with greater rewards allocated to higher levels of command. Also, bonus rewards would be directly linked to what percentage of their annual budget a unit is able to save. Table 1 contains an example of these bonus calculation factors.

Defense accounting specialists would calculate the bonus fund, select eligible commands, formulate the percentage saved from each individual budget, and calculate the individual command bonus funds. Figure 1 shows the bonus calculation equation.

As an example of how the bonus system would function, imagine that 1st Bn, 1st Marines, were able to meet all of its operational objectives for the year, spending only 89 percent of its fiscal year budget. Table 1 shows that defense accounting specialists would use a command level factor of 1 and a percentage saved factor of 2. Assuming that there were 29 commands within the 1st MarDiv with budgetary control who averaged annual budget savings between

Percentage of Budget Saved	Percentage Saved Factor	Command Level	Command Level Factor
5% - 9%	1	Division	3
10% - 19%	2	Regimental	2
>20%	3	Battalion	1

Table 1. Potential savings by command level.

$$\text{Individual Bonus} = \frac{(\text{Command Level Factor} + \text{Percentage Saved Factor}) \times \text{Bonus Fund Total}}{\text{Sum total of eligible commanders} + \text{Sum total of Percentage Saved Factors}}$$

Figure 1. Bonus calculation equation.¹⁰

$$\text{Individual Bonus} = \frac{(1+2) \times \$125,000}{29 + 32} = \$6,147.54$$

Figure 2. Individual command calculation.

5 percent and 15 percent, Figure 2 demonstrates how to calculate an individual command bonus.

This \$6,147.54 would be available at the end of the calendar year for distribution at the battalion commander's discretion. The resulting personal monetary incentives are large enough to incentivize resourceful spending while modest enough to prevent sacrificing productivity to "chase the bonus." They will serve to boost good stewardship.

There are critics who argue that bonus systems do not provide the appropriate stimulus to increase productivity or efficiency. Writing for *Harvard Business Review*, Alfie Kohn claims that rewards actually "undermine the very processes that they are intended to enhance."¹¹ He contends that a rewards-based system is necessarily punitive in nature and that the assigning of rewards serves to damage relationships within an organization. Kohn surmises that rewards and punishments are the opposite side of the same coin; "Do this and you will get that ... Do this or here's what will happen to you."¹² In essence, his argument against rewards is that they create tension within the climate of an organization by inciting feelings of jealousy in those who did not receive an award. He argues that this detracts from the efficiency and cohesion of an organization.

However, the organizational tension argument does not hold true for military commands. One of the hallmarks of military service is the ability to give awards for excellence in the performance of a Marine's duties. This structure not only includes awards issued for superior performance but also incorporates a quasi-monetary reward through the meritorious promotion system. Whether a Marine is given a personal decoration or is promoted meritoriously, units celebrate the accomplishments of the individual.

Another study reported in *Business News Daily* discredits the notion that rewards are counterproductive to organizational cohesion, arguing that,

Genesis Associates, a U.K.-based recruiting firm for engineering, sales and creative sectors, found that 85 percent of workers surveyed felt more motivated to do their best when an incentive was offered.¹³

The DOD can improve a commander's ability to reward members of their command by providing the ability to augment the current rewards system with monetary rewards.

... the ingrained culture of individual wasteful spending ... needs to be addressed.

By eliminating the need to participate in wasteful year-end spending, the DOD can empower commanders to operate their units more efficiently and to facilitate the establishment of a new waste-averse culture. Service components would no longer be compelled to exercise wasteful spending practices in order to protect subsequent budgets. The DOD would increase its efficiency by establishing Service-level savings accounts and reward good stewardship with individual monetary incentives. By pursuing changes to the national budgeting system in regard to defense spending, the DOD will be a better custodian of the resources that have been entrusted to it for the defense of the Nation.

Notes

1. Craig Whitlock and Bob Woodard, "Pentagon Buries Evidence of \$125 Billion in Bureaucratic Waste," *The Washington Post*, (Online: December 2016), available at <https://www.washingtonpost.com>.
2. Gen Joseph F. Dunford, Jr., *36th Commandant's Planning Guidance*, (Washington, DC: HQMC, 2015).
3. Michael F. McPherson, "An Analysis of Year-End Spending and the Feasibility of a Carryover Incentive for Federal Agencies," (thesis, Naval Postgraduate School, 2007), available at <https://www.dtic.mil>.
4. Jeffrey B. Liebman and Neale Mahoney, "Do Expiring Budgets Lead to Wasteful Year-End Spending? Evidence from Federal Procurement," (thesis, Harvard School of Business, 2010), available at <https://hks.harvard.edu>.
5. "An Analysis of Year-End Spending."
6. Ibid.
7. Personal opinion based on the author's experience.
8. Headquarters Marine Corps, *MCO 3900.17, The Marine Corps Urgent Needs Process (UNP) and the Urgent Universal Need Statement (URGENT UNS)*, (Washington, DC: 17 October 2008).
9. The basic structure for bonus calculation was adapted from the "Performance-Related Bonus Scheme," *Archer North and Associates*, (Online: 2010), available at <https://www.performance-appraisal.com>.
10. Ibid.
11. Alfie Kohn, "Why Incentive Plans Cannot Work," *Harvard Business Review*, (Online: September–October 1993), available at <https://hbr.org>.
12. Ibid.
13. Nicole Fallon Taylor, "Want to Boost Employee Productivity? Offer an Incentive," *Business News Daily*, (Online: October 2015), available at <https://www.businessnewsdaily.com>.

