



**SECRETARY OF THE ARMY
WASHINGTON**

15 APR 2016

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Army Directive 2016-16 (Changing Management Behavior: Every Dollar Counts)

- 1. The Army has a budget the size of a Fortune 500 Top 10 company. Although the Army is not a business and does not aspire to be one, we exist for one purpose: to fight and win the Nation's wars. We must be innovative and good stewards of taxpayer dollars.**
- 2. To serve as good stewards of taxpayer dollars and ensure the highest level of readiness, we must adapt management practices to make sure every dollar we spend counts toward fielding a trained and ready force. The purpose of this directive is twofold: adapt financial management practices and improve outcomes.**
- 3. As an Army, we often focus on budget execution independent of outcomes and without an accurate understanding of the true costs of our processes. This approach leads to bad business practices, a reluctance to establish measures of effectiveness and efficiency, "use or lose" fund execution, and harvesting savings from commands who find new and innovative ways to operate. Skeptics contend headquarters policies drive these practices but leaders control these behaviors and can change our culture.**
- 4. Effective 1 July 2016, Army commanders and leaders at every level, including Principal Officials of Headquarters, Department of the Army, will:**
 - a. establish and track annual performance measures at two-star/Tier 2 Senior Executive Services headquarters and above. These measures will support the organization's mission and be singularly focused on achieving the highest level of readiness with the greatest efficiency. Additional information on this subject is in Army Regulation 5-1 (Management of Army Business Operations).**
 - b. avoid using budget execution data and obligation rates as the primary measure of fiscal success. Instead, tie resource expenditures to outcomes. Today, the Army measures readiness without identifying the required resources to produce it. Moving forward, leaders will establish performance measures that tie inputs to outcomes. Most importantly, leaders should identify the specific levels of readiness they expect to achieve given the resources provided.**
 - c. identify and manage total costs of critical processes, especially when funding is divided among multiple commands and sources. For example, develop activity-based costing mechanisms (that is, military, civilian, and contract labor; operations and**

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maintenance costs; one-time acquisition costs; facility costs) required to complete a training event, program of instruction, or vehicle maintenance service. By doing so, we can identify hidden cost drivers and make budgeting processes more efficient. The Army provides multiple tools to assist leaders: Army Directive 2016-05 (Building Training Readiness), the U.S. Army Cost Management Strategic Implementation Plan 2015-2025, the General Fund Enterprise Business System, and the Global Combat Support System-Army.

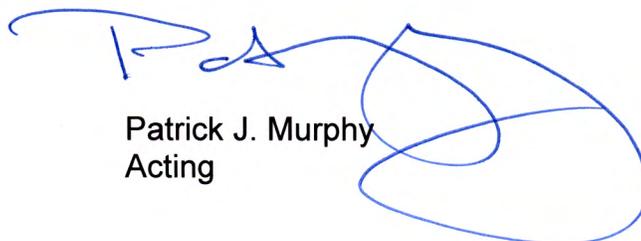
d. eliminate “use or lose” funding practices. While the Office of the Secretary of Defense and Congress will hold us accountable for execution metrics that we will have to meet, commanders and staffs will not automatically decrement commands or programs in future allotments when they do not spend all funds without further investigation to evaluate the reason for the under-execution and determine if it was a onetime event or funding adjustments are needed.

e. reward leaders and organizations who demonstrate exemplary stewardship and innovative ideas. Develop channels to solicit new ideas and mechanisms to rapidly implement best practices. Ensure that organizations are rewarded for finding better ways of operating by allowing them to keep and redirect savings to validated command priorities. Do not interpret this directive to imply that under-execution is always good. The goal is to achieve the highest level of readiness given the resources provided.

5. The Under Secretary of the Army has oversight for implementation of this directive.

6. The Inspector General and The Army Auditor General will examine these areas in their inspection and audit plans for fiscal year 2017 and beyond.

7. The Assistant Secretary of the Army (Financial Management and Comptroller) and the Director of Business Transformation are the proponents for this directive. They will publish implementation guidance to include the process for identifying, reporting, and reviewing performance measures and ensure that the provisions of this directive are incorporated into appropriate regulations. This directive is rescinded upon publication of the regulations.



Patrick J. Murphy
Acting

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