

under management control at time of realization. Savings can be reflected as specific reductions in the approved program or budget, after they have been achieved. Examples include costs for manpower authorizations and or funded work-year reductions, reduced or eliminated operating costs (utilities, travel, and repair), and reduced or eliminated parts and contracts.

(2) *Cost-Avoidance*. Benefits from actions that obviate the requirements for an increase in future levels of manpower or costs that would be necessary, if present management practices were continued. The effect of cost-avoidance savings is the achievement of a higher level of readiness or increased value (quantity, quality or timeliness) of output at level staffing cost or the absorption of a growing work load at the same level of staffing or cost.

(i) *Post-Investment Assessment (PIA)*. A PIA is conducted by DoD Components to establish accountability and provide information to improve future investment strategies.

(j) *Productivity*. The efficiency with which resources are used to provide a government service or product at specified levels of quality and timeliness.

(k) *Productivity Enhancement (or Productivity Improvement)*. A decrease in the unit cost of products and services delivered with equal or better levels of quality and timeliness.

(l) *Productivity Enhancing Capital Investment (PECI)*. Equipment or facility funding that shall improve Government service, products, quality, or timeliness. Peci projects are funded using PIF, PEIF, and CSI programs. These programs are defined as follows:

(1) *Productivity Investment Fund (PIF)*. PIF projects cost over \$100,000 and must amortize within 4 years from the date they become operational. In FY 1994 the threshold changes to \$150,000.

(2) *Productivity Enhancing Incentive Fund (PEIF)*. PEIF projects cost under \$100,000 and are expected to amortize within 2 years of the date they become operational. In FY 1994 the limit changes to \$150,000.

(3) *Component-Sponsored Investment (CSI)*. CSI projects are fast pay-back or high interest investments that may have different DoD Component selec-

tion criteria than those specified for PIF or PEIF projects.

(m) *Quality*. The extent to which a product or service meets customer requirements and customer expectations.

#### § 162.4 Policy.

It is DoD Policy that:

(a) The Peci program shall be an integral part of DoD Component investment planning and of the Defense Planning, Programming, and Budgeting System (PPBS) DoD Instruction 7045.7.<sup>4</sup> Peci planning shall include the productivity investment fund (PIF), the productivity enhancing incentive fund (PEIF), and component-sponsored investments (CSIs). The Peci program is a major DoD strategy to achieve productivity goals under E.O. 12637.<sup>5</sup>

(b) Peci projects shall be selected to improve quality and productivity, or to reduce unit cost of outputs in defense operations. Peci projects shall be evaluated and approved for funding based on recognized principles of economic analysis. Each Peci project shall be subject to all restrictions established by public law, DoD policy, and other regulatory constraints.

(c) DoD personnel at all levels shall be encouraged to seek out and identify opportunities for quality and productivity improvement. Those efforts shall be supported by using the Peci as a means of financing the improvements. The Peci Program shall provide incentives for participation, supported by the financial management system and policies.

(d) Individuals or groups who successfully identify Peci opportunities that result in significant savings or improvements in quality or productivity or who aggressively promote Peci incentives within their organizations should be recognized through the DoD Incentive Awards Program, DoD Instruction 5120.16,<sup>6</sup> the Secretary of Defense Productivity Excellence Awards Program, performance appraisal, or other appropriate means. All these savings derived through Peci will remain with the originating DoD Component.

<sup>4</sup>See footnote 1 to § 162.1(a).

<sup>5</sup>See footnote 1 to § 162.1(a).

<sup>6</sup>See footnote 1 to § 162.1(a).

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As an incentive a portion of these savings, when possible, should remain at the submitting activity.

(e) Funds provided through FY 1993 from the centrally managed OSD PIF may not be reprogrammed for non-PIF purposes without prior approval of the Assistant Secretary of Defense (Force Management and Personnel) (ASD(FM&P)). The Heads of DoD Components shall monitor obligation rates to ensure PIF projects are executed quickly. If project funding cannot be obligated within the specified fiscal year(s) for the type of funding, the Head of the DoD Component must reprogram PIF funds to alternate approved PIF projects. The PIF projects shall be monitored to ensure timely implementation and to validate savings through the amortization period. The PECIs are subject to audit as established by DoD Instruction 7600.2<sup>7</sup> (reference (g)) policy.

### § 162.5 Responsibilities.

(a) The Assistant Secretary of Defense (Force Management and Personnel (ASD (FM&P))) shall:

(1) Develop policies and guidance for the overall DoD Peci program.

(2) Maintain oversight of the Peci program to ensure implementation of this instruction. Through FY 1993 that oversight includes total process control and coordination of PIF actions to identify, select and approve, reprogram, and disapprove projects. Starting FY 1994 and ASD (FM&P) shall retain central oversight of the Peci program which is decentralized to the Components.

(3) Evaluate program results and training requirements and provide additional guidance, as necessary.

(4) Develop, maintain, and publish a DoD 5010.36-H consistent with DoD 5025.1-M<sup>8</sup>

(5) Coordinate Peci efforts with the Heads of the DoD Components on matters that affect their particular areas of responsibility.

(6) Use the Defense Productivity Program Office (DPPO) to:

(i) Provide technical guidance and support for Peci efforts.

(ii) Monitor and evaluate DoD Component Peci efforts.

(iii) Ensure compliance with DoD Directive 7750.5<sup>9</sup>

(b) The Inspector General of the Department of Defense (IG, DoD) shall provide policy and guidance for the audit of the Peci and incorporate the requirement for audit into audit planning and program documents.

(c) The Heads of the DoD Components shall:

(1) Develop and sustain a formal Peci program that:

(i) Emphasizes and encourages the improvement of day-to-day operations through Peci funding.

(ii) Provides motivation and opportunities for personnel, at all levels, to participate in the identification, documentation, and implementation of Peci proposals.

(iii) Includes PIF, PEIF, and CSI efforts, as appropriate.

(iv) Reviews and approves submitted projects, broadens project applicability when reasonable, applies off-the-shelf technology, and integrates capital investment planning into the PPBS.

(2) Designate an official to be the central point of contact (POC) who shall oversee and monitor the Peci program.

(3) Establish procedures ensuring that the policies contained in §162.4, above, are adhered to.

### § 162.6 Procedures.

The following procedures shall be followed by the DoD Components in the identification, documentation, selection, and financing of Peci projects:

(a) Document each Peci project to ensure that it is:

(1) A desirable action in accordance with the DoD Component's long-range planning and programing objectives, quality objectives, and customer and/or user satisfaction.

(2) Needed to perform and improve valid operations, functions, or services (as established by assigned missions and taskings) that cannot be performed as effectively or economically by other means, such as the use of existing facilities, methods, processes, or procedures.

<sup>7</sup> See footnote 1 to §162.1(a).

<sup>8</sup> See footnote 1 to §162.1(a).

<sup>9</sup> See footnote 1 to §162.1(a).