

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 selection 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 PEICI program shall be an integral part of DoD Component investment planning and of the Defense Planning, Programming, and Budgeting System (PPBS) DoD Instruction 7045.7.⁴ PEICI planning shall include the productivity investment fund (PIF), the productivity enhancing incentive fund (PEIF), and component-sponsored investments (CSIs). The PEICI program is a major DoD strategy to achieve productivity goals under E.O. 12637.⁵

(b) PEICI projects shall be selected to improve quality and productivity, or to reduce unit cost of outputs in defense operations. PEICI projects shall be evaluated and approved for funding based on recognized principles of economic analysis. Each PEICI 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 PEICI as a means of financing the improvements. The PEICI Program shall provide incentives for participation, supported by the financial management system and policies.

(d) Individuals or groups who successfully identify PEICI opportunities that result in significant savings or im-

provements in quality or productivity or who aggressively promote PEICI incentives within their organizations should be recognized through the DoD Incentive Awards Program, DoD Instruction 5120.16,⁶ the Secretary of Defense Productivity Excellence Awards Program, performance appraisal, or other appropriate means. All these savings derived through PEICI will remain with the originating DoD Component. 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 PEICIs are subject to audit as established by DoD Instruction 7600.2⁷ (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 PEICI program.

(2) Maintain oversight of the PEICI 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 PEICI program which is decentralized to the Components.

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

⁴ See footnote 1 to § 162.1(a).

⁵ See footnote 1 to § 162.1(a).

⁶ See footnote 1 to § 162.1(a).

⁷ See footnote 1 to § 162.1(a).

(4) Develop, maintain, and publish a DoD 5010.36-H consistent with DoD 5025.1-M⁸

(5) Coordinate PECE 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 PECE efforts.

(ii) Monitor and evaluate DoD Component PECE efforts.

(iii) Ensure compliance with DoD Directive 7750.5⁹

(b) The Inspector General of the Department of Defense (IG, DoD) shall provide policy and guidance for the audit of the PECE 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 PECE program that:

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

(ii) Provides motivation and opportunities for personnel, at all levels, to participate in the identification, documentation, and implementation of PECE 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 PECE 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 PECE projects:

(a) Document each PECE 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.

(3) Justified on the basis of a valid economic analysis done in accordance with DoD Instruction 7041.3.

(4) Validated as to reasonableness, completeness, and correct appropriation.

(5) Classified properly as having savings or cost avoidance benefits

(b) Include resources for PECE in programming documents and budget submissions. The level of funding shall be established under quality and productivity plans and goals established by the Component.

(c) Use guidelines for project documentation, pre-investment analysis, financing, and post-investment accountability of PECE projects, when DoD 5010.36-H is published.

(d) Classify PECE projects for financing and aggregated reporting as follows:

(1) *PIF projects*. PIF projects are competitively selected from candidate proposals and financed through traditional budget appropriation processes from funds set aside for this purpose. PIF projects must cost over \$100,000 and must amortize within 4 years from the date that they become operational. Both equipment and facilities investments that conform to public law, or DoD policies governing their qualification, may be included. Projects may include a function at several activities or locations and be Service-wide or Agency-wide. In FY 1994 the threshold will change to \$150,000.

(2) *PEIF projects*. PEIF projects are financed from the DoD Component accounts established in annual appropriations and are expected to amortize within 2 years of the date they become operational. Funding for PEIF projects shall be included in the DoD Component annual appropriations as a single

⁸See footnote 1 to §162.1(a).

⁹See footnote 1 to §162.1(a).