

# BUDGET FORECASTING and Procurement Dynamics

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Many Department of Defense (DoD) acquisition professionals believe or at least agree that a cost estimate or Independent Government Cost Estimate (IGCE) has no value or is unrelated to determining a budget forecast. Additionally, industry articles and publications show inconsistent thought on this topic. The AACE International's *Cost Engineering Journal* said that an IGCE, as a tool for budget forecasting, is speculative at best.

Does an IGCE or cost estimate have any value or relationship in budget forecasting? During my 30 years in the acquisition workforce, many of my mentors or supervisors taught me the importance of developing clear, crisp and correct cost estimates that facilitate knowing expected contract costs and eliminating cost overruns.

As a DoD contract manager and an interpreter of public contract law, I have a few more questions: Why does understanding elements of budget forecasting—i.e., cost estimates—assist in controlling cost? Furthermore, do procurement dynamics provide a structure for IGCE and budget forecasting?

## Budget Forecasting

In 2015, the *Australian Accounting Review* noted that budget forecasting is the essential part of any governmental fiscal strategy. Also, a leader's standing or success depends on budgetary policy and procurement dynamics enforcement. Public sector budget cuts have been a common occurrence in the last several years. DoD's Acquisition

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Workforce professionals and leaders unmistakably need to obtain more goods and services with lower budgets.

Unlike a “guesstimation,” an IGCE is considered unbiased per the governance of the Federal Acquisition Regulation, which is the essential part of budget forecasting, comparing costs and total cost estimates of a possible award. For DoD leaders and acquisition workforce professionals, it is imperative that the scope, cost and duration of any project be forecast as precisely as possible. A difficulty faced in comparing the contract cost between an IGCE and a contractors’ estimate is that the actual contract cost can deviate from what is expected. Estimated costs are uncertain under the best of conditions. Cost estimation standards set a baseline that all federal agencies should follow to mitigate the risk of change.

Cost estimates, contract costs and cost overruns are strongly related. This relationship is an empirical concept in obtaining a good budget forecast. Accurate forecasts of the scope, cost and duration are vital to the survival or success of any project or business. Like any other profession, cost estimators need constant training and keeping up to date with the advances in technology that assist the field.

## Procurement Dynamics

Procurement Dynamics is the process used to obtain services or supplies to support an organization’s mission, and includes the budgetary projection. Researchers note that Defense Acquisition Workforce members struggle with the procurement dynamics of budget forecasting. Typically, budget forecasting usually occurs through a structured estimation of possible future need and wants.

## Discussion

For nearly 70 years, DoD suffered inaccurate cost estimations on operating support in systems service contracts. The *International Journal of Forecasting* noted in 2015 that the United States’ deficit from 2008–2012 was more than \$1 trillion each fiscal year. Many agencies such as the Veterans Administration (VA) have struggled with capricious cost estimates. For example, the VA cost estimating methods are proven inaccurate to the tune of \$2.5 billion. Typically, contract cost overruns are associated with technical errors in design or estimating; decision-making incompetence, doubt based on the risk of foul play; dishonesty and disenchantment; and even corruption.

In 1997, *The Washington Post* noted the FBI had \$200 million in cost overruns in the 1990s, which brought into question the credibility of the FBI’s budget forecasting process. In 1980 through 1990, millions of overstated cost estimates on DoD contracts were discovered. DoD has experimented with many reporting and monitoring tools to improve cost estimates and eliminate cost overruns. DoD pays little attention to factoring in support costs, including those of service contracts.

In 2012, the Association of Budgeting and Financial Management’s *Public Budgeting & Finance* quarterly stated that budget-

ary forecasting dynamics are broken and that many leaders and acquisition workforce members do not understand them. Countless Defense Acquisition Workforce professionals struggle with the procurement dynamics involved in budget forecasting. Federal agencies such as the Government Accountability Office (GAO) and the Congressional Budget Office use budgetary models to confront growing operational shortfalls. GAO’s *Cost Guide* publication set the standard for estimating cost on contracts, primarily the relationship between cost and price data. The *Cost Guide* provides best practices for the use of agencies’ acquisition personnel to ensure that a cost estimate is precise and reliable.

In 2013, the Program Management Institute’s *Project Management Journal* stated that DoD contracts from 2000–2008 had more than \$200 million in cost overruns, a growth of more than 702 percent from the previous decade. GAO said that federal agencies do not provide the control and oversight needed to eliminate U.S. Government service cost overruns.

In 2014, the libertarian Cato Institute’s *Cato Journal* noted that projections of impending economic activity trigger any budget revenue. Furthermore, many federal agency forecasters struggle with incentives or other forces that introduce a conjectural bias. This bias can be common in a political environment, but can be eliminated by structured processes or procurement dynamics.

In 2015, *Public Budgeting & Finance* noted that DoD’s annual fuel costs for 2000 to 2011 were estimated at between \$1 billion and \$9 billion. This swing was attributed to cost variances in the fuel industry. Determining costs, especially over the long term, in such a volatile market is very challenging for acquisition workforce professionals.

Annual budgets are a mechanism or dynamic of public finance management, which goes back to the foundation of the United States. Accurate budgets and cost estimations are forecasting models used by the U.S. Government for services delivered to the American people as a social contract, and, therefore, the expenditures should be transparent. Given present economic conditions and federal appropriations shortfalls, more attention is needed on the government’s process for estimating its expenditures. Economists always consider revenue and receipts initially in the budget forecasting process, but DoD’s leaders and workforce professionals should always address the estimated cost of contracts and cost overruns.

And budget forecasting challenges include gathering the right information and understanding the complete process. Obtaining reliable and valid cost estimation through procurement dynamics is an important key to improving the reliability of organizational budget processes, especially in the public sector, so that a proper budget can be planned. A precise cost estimate guarantees that the actual costs are not missing or duplicated. A clear and concise cost estimate should be unbiased and neither too conservative nor

overstated. The cost estimate should show the basis of the most probable price. A carefully documented and detailed estimation includes data and their meanings, very meticulous computations, expected outcomes and justifications for selecting a certain technique or source. A credible estimate reviews all restrictions from the analysis, indecision, favoritisms, proximate facts or expectations.

In order to provide trustworthy cost estimates, GAO's *Cost Guide* clarifies the important cost elements in the cost estimation process, which includes considering any expected threat, insecurities, and comparing the body of work and provide an unbiased third party review to illustrate how outside estimates compare to the original. Using cost estimating in preparing proposals benefits both the agency and the contractor through the resultant improvement in the proposals' accuracy and reliability.

The ability to develop an accurate cost estimate is an important duty and responsibility and is essential in assisting the Office of Management and Budget's work. Without this capability, federal agencies risk cost overruns, missed targets and deficient execution, all of which occur too often and are important to program estimations. Organizations, institutions

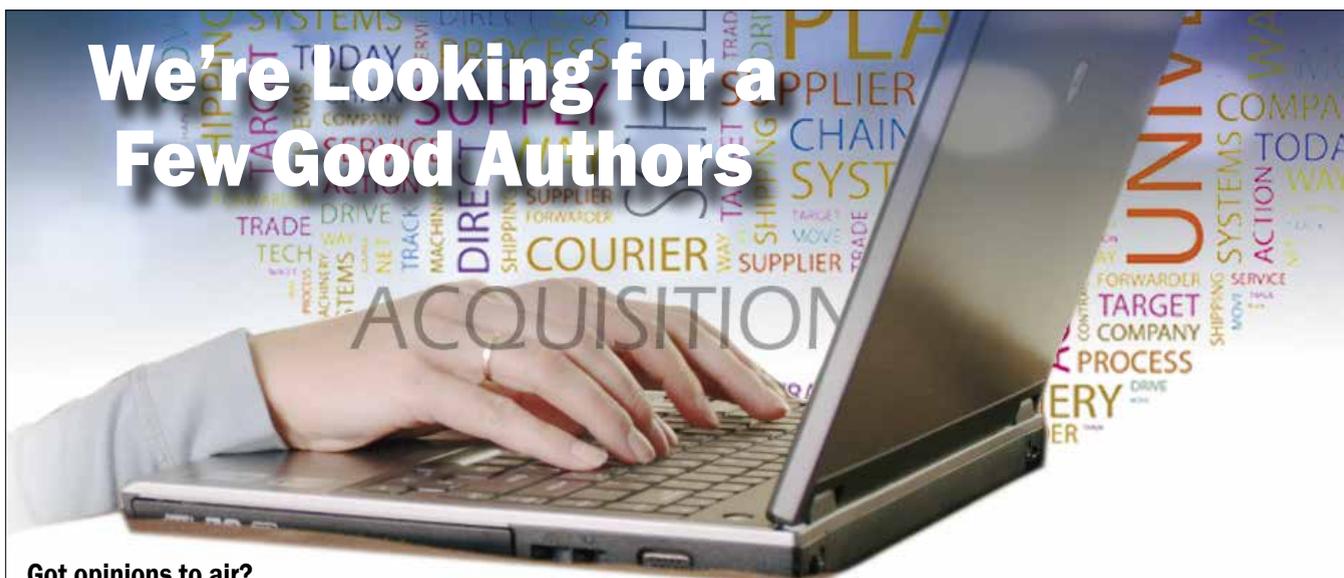
and businesses should analyze the cost of services to stay competitive. Federal agency leaders are struggling with cost controls, especially when the service or product comes from one source, or from leadership and policy decisions, such as wartime single-source contracts that drive up spending.

DoD's weapons projects have multiple stages of expansion and must establish an accurate estimation to assist budget forecasting and control. DoD has developed structured methodology and procurement dynamics in creating an IGCE or cost estimate. A cost and price analyst can use various cost estimating methods or tools, depending on the product or service needed.

### Conclusion

As stewards of taxpayer dollars, all acquisition professionals need to ensure that we use budget forecasting methodologies and tools, understand procurement dynamics, and employ Better Buying Power practices to facilitate clear budget forecasting. It is essential that we constantly evaluate the budgetary forecasting procurement dynamics and fiscal shortfall environments. Passing on a little knowledge provides us with purpose and direction. 

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