Practical Financial Management:

A Handbook of Practical Financial Management Topics for the DoD Financial Manager

NAVAL POSTGRADUATE SCHOOL

Monterey, California

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A Handbook of Practical Financial Management Topics for the DoD Financial Manager

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Introduction to the text

This 5th edition to ***Practical Financial Management: A Handbook of Practical Financial Management Topics for the DoD Financial Manager*** continues in the tradition of its predecessors. Recognizing the strategic importance of the Navy's financial managers, this text attempts to support the mid-level financial manager with aspirations for increasingly significant leadership positions.

The first portion of the text is strategic in nature. Chapter 1 starts with the Constitutional basis for federal financial management and takes a cursory look at the financial history of the republic paying attention to the historical context and motivation for the significant pieces of financial management legislation. Attention then turns in Chapter 2 to the source of funds for DoD: Congress. Included are the Congressional budget process, important budget legislation, and the flow of funds from the appropriation to the end user. This is followed in Chapter 3 by the status of DoD today in relation to the entire federal budget. The intent is to give the financial manager a sense of context, historically, legally, and politically.

The second part of the text, Chapters 4 through 6, looks at the bottom-up process for resource allocation: an overview of the PPBE process and participants, as well as content on budget formulation and review. The intent is to give the financial manager an appreciation for how they can influence the process to advance the needs of their organization, program, or activity.

The next portion of the text is more tactical in nature. Chapters 7 -9 look at the characteristics of the funds available to an organization, program or activity: appropriated, reimbursable and revolving funds. The facts provided are intended to give the financial manager an appreciation for how funds move within DoD and how they may and may not be used so that they might better manage the mix of funding to achieve their goals.

The remaining chapters address stewardship, accounting, and management of funds. Chapter 10 covers DoD accounting terminology, classifications, the role of the Defense Finance and Accounting Service, Chapters 11 through 14 cover cost elements and management issues important to a financial manager. Those topics include budget execution, civilian personnel and the labor portion of the budget, appropriated funds support to MWR activities and an overview of contracting. Certainly part of being influential in budgeting is demonstrating acumen in budget execution; the intent of this portion of the text is to give the financial manager an appreciation for how funds are accounted for and what defines effective budget execution. Wrapping up the text are Chapters 15 and 16 dealing with Management Controls (including auditing and property accounting) and Ethics. The intent of this part of the text is to ensure the financial manager appreciates the accountability aspects of their responsibilities.

Acknowledgements

This text is a synthesis of the work over many years of many members of the Financial Management (Budgeting & Public Policy) faculty of the Naval Postgraduate School, both past and present. The current faculty is:

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Chapter 1: The Financial Management Functions of Government

Overview

This chapter introduces the financial management functions of government, the shifts in power orientation between the branches of government, and discusses the flow of funds through our system of government.

The Constitutional and Legal Basis

Nearly all of the financial management powers articulated in the Constitution of the United States rest with the legislative branch. But the responsibility for properly managing those funds rests on the shoulders of the Executive Branch. Article 1 of the Constitution outlines the powers of the legislative branch. Sections relevant to financial management include:

> ***Section 2:*** *Representatives and direct Taxes shall be apportioned among the several States which may be included within this Union,*
> ***Section. 7:*** *All Bills for raising Revenue shall originate in the House of Representatives;*
> ***Section. 8:*** *The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States;*
> *To borrow Money on the credit of the United States;*
> *To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures;*
> *To provide for the Punishment of counterfeiting the Securities and current Coin of the United States;*
> *To raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years;*
> *To provide and maintain a Navy;*
> ***Section 9:*** *No Capitation, or other direct, Tax shall be laid, unless in Proportion to the Census or Enumeration herein before directed to be taken. (amended by Article XVI, below)*
> *No Tax or Duty shall be laid on Articles exported from any State.*
> *No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.*

Further, the Sixteenth Amendment (ratified in 1913) states:
The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

The Constitution articulates, then, the following financial management functions of government:

- Raising revenues through taxation, duties, imposts, and excises.
- Payment of debts
- Borrowing money on the credit of the United States
- Coining money
- Appropriating monies
- Accounting for receipts and expenditures of public funds

In addition to the Constitution, there is a significant body of federal law that defines financial management functions of government. These functions have been created in order to facilitate the orderly functioning of the Constitutional powers. Such functions include:

- Program analysis and evaluation
- Investment, or capital, planning
- Budgeting – both operational and capital
- Property and inventory accounting
- Auditing
- Stewardship of various trusts and accounts

While some of these functions are analogous to the corporate model with treasury, audit, controller, and budget functions, there are certainly some significant differences.

This text will concentrate on those functions most relevant to a financial manager[1] within the Department of Defense. That subset of financial management functions includes all of the above except the raising of revenues, borrowing or coining money, and management of trusts and accounts.

A Brief Financial History of the United States

"The disadvantage of men not knowing the past is that they do not know the present. History is a hill or high point of vantage, from which alone men see the town in which they live or the age in which they are living."

-- G.K. Chesterton, *All I Survey* (1933)

In the Beginning (1790-1920)...

…there was no budget. None of the excerpts from the Constitution above mandated the submission of a budget to Congress by the Executive Branch. Instead, agencies individually lobbied Congress for funds. Congress appropriated by line item according to the agency request. For example, in 1799, Congress appropriated *"For the payment of rent for the several houses employed*

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[1] Financial managers are defined, for this purpose, as naval officers carrying the 311x subspecialty code (financial management) and civil servants in the 5__ job series (budget analysts, accountants, auditors) or 343/346 series with significant financial responsibilities

in the Treasury Department (except the Treasurer's office), two thousand seven hundred and thirty dollars and sixty-six cents…for expenses of firewood, stationery, printing, rent, and all other contingencies in the treasurer's office, six hundred dollars." This worked fine so long as government was small and focused on essential functions. Congress dominated (Ways & Means Committee and Appropriation Committees were established), budget surpluses were common or the budget was at least balanced, and revenue primarily came from tariffs and duties. During periods of governmental stress (e.g., wartime), fiscal pressures drove some responses. For example, the Anti-Deficiency Act originates from legislation enacted in 1870. But for the most part, the financial affairs of the country were uncomplicated.

Until the beginning of the 20th century...

...when things began to unravel: deficits began appearing, war debts accumulated, the Anti-Deficiency Act was amended to add the process of apportionment, and an income tax was established. In short, Congress needed Presidential leadership over the process. The Budget and Accounting Act of 1921 was passed which established the Bureau of the Budget (what is now known as the Office of Management and Budget) in the executive branch and the General Accounting Office in the legislative branch. This act required the submission of a consolidated federal budget each February. The legislature wanted the President to get control on spending and to present to the Congress a national view of spending priorities. All was well through the roaring 20s, taxes were reduced, the national debt was reduced, and the economy was flourishing with new technological innovations. Then…

Great Depression, New Deal, World War II, and...

…there are deficits again! The Roosevelt administration ushered in a new paradigm of government responsibility. In response to the Great Depression, the federal government instituted jobs programs, the social security system, and other benevolent programs. Social spending began taking a larger piece of the pie while revenues were still primarily coming from excise taxes, duties, and corporate taxes. This was in significant contrast to the prevailing view of the 19th century that such spending was not the purview of the federal government, but rather the responsibility of the states or the civil sector. World War II put massive stresses on the treasury and structural deficits became the norm from the 1950s on. A booming economy in the 1950s spurred by further advances in technology, led us to concentrate less on international and economic issues and more on the social problems. The Great Society programs of the 1960s signaled a further shift in the federal government's role. Simultaneously, the United States was "fighting" the Cold War. Where Congress had major budget control from 1790-1920, the President had major control since 1920 and under that control the government grew. For much of this period, the appropriations committees of the House and Senate viewed their role as one of checking the spending sought byt the Executive branch and the authorizing committees. Then…

Increased Executive – Legislative tension

…relations between the executive and legislative branches reached a boiling point by the early 1970s. President Nixon was charged with impounding appropriated funds. The 1973 oil embargo sent capital markets into a nose-dive touching off the worst bear market since the Great Depression exacerbated by high inflation and interest rates. And the public expressed general distrust of government over our role in Vietnam and the Watergate scandal. One legislative response was the Congressional Budget & Impoundment Control Act of 1974…in short, Congress wanted control back. They established the Congressional Budget Committees, the Congressional Budget Office and shifted the fiscal year to allow more time for deliberation of spending bills. The Presidents Budget was no longer considered draft legislation to be checked and approved by Congress, but more a suggestion or "opening bid" in a negotiation between the branches of government. Congress now had its own staff and process to build and legislate the budget. Despite this shift in power back to Congress, fiscal troubles continued through the 1980s as the country faced record budget deficits during the waning years of the Cold War.

Plethora of new legislation:

To combat the rising deficits, several things were attempted. The Graham-Rudman-Hollings Acts I and II set deficit targets, but they were never achieved. The 1990 Budget Enforcement Act provided the pay-as-you-go feature for mandatory spending and caps on discretionary spending. It seemed to have a dampening effect and was extended in 1997 to provide these safeguards through 2002. The booming economy of the late 1990s finally brought the budget out of deficits. Rising revenues from a robust economy were further enhanced by reductions in discretionary spending and increased taxes. The budget was balanced from 1998 through 2002 (the first surplus budgets since 1969). A declining economy and increased governmental spending have since eliminated the surpluses.

Also, during this 1900s, there was a renewed interest in the financial management aspects of government. Legislation was passed to improve government accountability and transparency. Such laws included the CFO Act (1990), Government Performance and Results Act (1993), Government Management Reform Act (1994), the Federal Financial Management Improvement Act (1996), as well as executive branch initiatives such as the National Performance Review and the President's Management Agenda. Among other things, these laws and directives require standardized accounting, performance plans, and the use of new technologies.

Chapter 2: From Congress to You

Overview

The Budget and Accounting Act of 1921 requires the President to submit a budget to Congress by the first Monday in February of each year. The creation of that budget will be discussed later in Chapter 6. This section will examine the actions of Congress that create spending authority for the government. The Congressional Budget Office supports the work of four key committees, the Budget, Appropriations, authorizing, and revenue committees.

Congressional Budget Office

Even before the President's Budget arrives in Congress, the Congressional Budget Office (CBO) will provide the members of Congress and the various committees with their budget and economic outlook covering five and ten year horizons. This publication serves as a common basis for analysis of budget issues in the coming months. Upon receipt of the President's Budget, the CBO provides the Congress an analysis of the President's proposals. This is normally completed within 6 weeks of receipt of the budget so that it arrives in time to be considered by the Budget, revenue, Appropriation and authorizing committees. The CBO is supported by the other legislative staff agencies, such as the Congressional Research Service and the General Accounting Office.

Congressional Budget Committees

The Budget Committees in both houses of Congress each year prepare a resolution which outlines the fiscal boundaries for the federal government for the next several years. These boundaries include revenue, budget authority, outlays, surplus or deficit amounts, and levels of public debt. The obligation and outlay authorities are allocated among the twenty budget functions (see Figure 1 - Budget Functions). These allocations limit the scope of the appropriations bills. Likewise the revenue and debt limitations affect the revenue committees. The budget committee endeavors to be completed with the resolution by April 15th each year to permit time for the spending and revenue committees to complete their work before the start of the new fiscal year on October 1st.

050 National Defense	550 Health
150 International Affairs	570 Medicare
250 Space and Science	600 Income Security
270 Energy	650 Social Security
300 Natural Resources	700 Veteran's Benefits
350 Agriculture	750 Justice
370 Commerce	800 General Government
400 Transportation	900 Net Interest
450 Community Development	920 Allowances
500 Education and Training	950 Undistributed Receipts

Figure 1 - Budget Functions

Congressional Authorization Committees

Before appropriations are legally available for obligation, the programs or agencies they fund must be authorized by law. Most of the commonly known Congressional Committees are authorizing committees, for example the House and Senate Armed Services Committees are the authorizing committees for national defense budgets. These committees not only authorize the programs, they fulfill the Constitutionally defined functions of the legislature in Article I, Section 8: *"To raise and support Armies; To provide and maintain a Navy; To make Rules for the Government and Regulation of the land and naval Forces; To provide for calling forth the Militia to execute the Laws of the Union, suppress Insurrections and repel Invasions; To provide for organizing, arming, and disciplining, the Militia, and for governing such Part of them as may be employed in the Service of the United States;"* Often members of the Department of Defense criticize the Congress of meddling or interfering in the operation of the Department…constitutionally, it's their responsibility. This is the committee, and the authorization bill the tool, that defines such policy as military pay raises, the size of the force, authorizes new procurement programs, and decides matters of policy (e.g., combat roles for women). In fact, Congress not only provides the funding, they permit the function to exist, they define upper and lower limits to its scope of operations, and define the time frame during which it will exist.

Congressional Appropriations Committees

Given the authorization of a program or agency, the appropriations committees will provide the actual budget authority with which they will operate. Shortly after the President submits his budget to Congress, the appropriations committees (as well as the authorization committees) will conduct hearings at which executive branch leadership will testify regarding the contents of the budget. They will justify and defend the budget request before supporters and critics alike. This testimony, taken in consideration with the CBO analysis, constituent interest, party interest, and national interest will drive the shape and size of the appropriations bill.

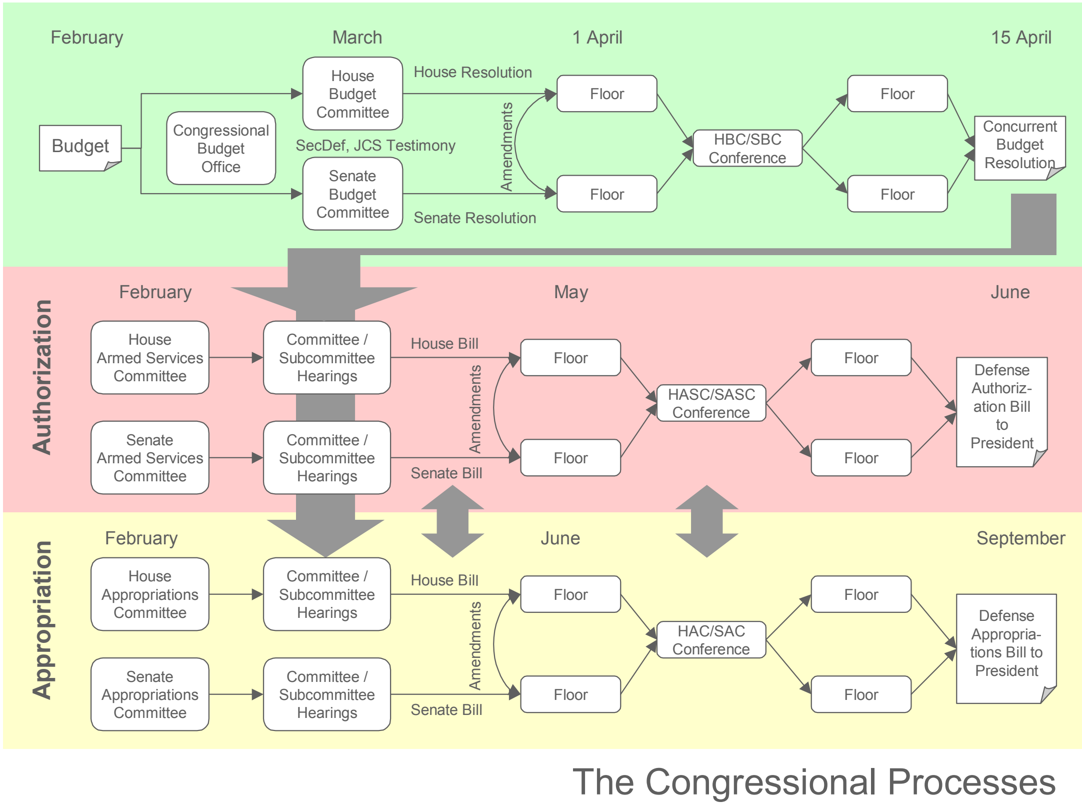

Figure 2 - The Congressional Processes

The Committee Processes & Products

Figure 2 - The Congressional Processes shows the committee processes. As noted above, the Budget Committees produce a Budget Resolution. A resolution is just that…it expresses the resolve of Congress to adhere to an approved plan. It is not law and thus does not require Presidential signature. The authorization and appropriating committees, however, produce bills, which do become law and require Presidential signature. The gray arrows in the figure represent influence. The Budget Resolution certainly influences the scope and nature of the deliberations of the authorizing and appropriation committees; further, the authorization and appropriation committees influence each other. Depending upon the political strength of each committee, appropriators may cause programs to be authorized that ordinarily might not have and vice-versa.

The Flow of Funds

Appropriations and authorization provide the authority for executive branch agencies to purchase goods and services and expend funds from the Treasury in the advancement of agency objectives. Congress, through the power of the purse, sets limits on the use of those funds. As will be shown in Chapter 7, Congress regulates what will be done, when it will be done, and to what level of effort. Funds are limited, restricted, earmarked, and otherwise designated. Not all managers in the executive branch are expected to know all these rules so a process has been established to ensure that funds are used efficiently, effectively and legally. We call it the Flow of Funds.

The Process

Once Congress has appropriated funds and the President signs the appropriation into law, the spending authority must be transferred to those in the agencies who will actually obligate the government to make payments from the treasury. This section will examine that process.

The first step in the process is the issuance of an *appropriation warrant* by the Treasury to the Office of Management and Budget. This process is analogous to opening a checking account at your bank or credit union. The Treasury opens the appropriation accounts so that payments of public funds can be traced back to their appropriated purpose and dollar limitations are defined in accordance with the language of the appropriations bill.

One of the functions assigned to the Office of Management and Budget shortly after it was created is to serve as a regulator of the rate of spending. The objective is to minimize the possibility of supplemental or deficiency (hence, the title, Anti-Deficiency Act) appropriations and to use funds as economically and efficiently as possible. OMB performs this function by apportioning funds to the various agencies. Simply put, *Apportionment* is a plan. It is a process whereby the spending authority is provided to the agency in a piecemeal fashion based upon the actual needs of the agency. OMB Circular A-11, part 4, governs apportionment. The agency will formally request apportionment at a rate suggested by the programs in the budget and historical spending patterns. Funds may be apportioned over time, by program, or by activity. Apportionments are subject to 31 US Code 1517 restrictions for overobligation just as the entire appropriation is subject to the Anti-Deficiency Act. In fact, most violations of the Anti-Deficiency Act result from spending in excess of the apportionment, not overspending the appropriation as a whole. Generally, annual appropriations are apportioned on a quarterly basis; multi-year appropriations are apportioned annually. OMB generally does not subdivide the appropriation by programs or organizational levels, relying on the agency heads to do that. Agencies may request reapportionment at any time to reflect fact-of-life changes from budgeted plans.

Upon receipt of the apportionment, the Undersecretary of Defense (Comptroller), will *allocate* the funds among the services to their respective Assistant Secretaries for Financial Management and Comptroller (e.g., ASN(FM&C) for the Navy). The service secretary further allocates the funds to the service Responsible Officer, the Chief of Naval Operations or Commandant of the Marine Corps, for DoN. DoD Directive 7200.1 governs the DoD process.

The Responsible Office then further allocates the funding to the Major Claimants in the form of an *Operating Budget* (for expense-type appropriations) or an *Allotment* (for investment type appropriations). Normally, Operating Budgets and Allotments are provided with the responsibility to comply with the Anti-Deficiency Act (31 US Code 1517). A primary objective of allocation is to ensure that the intent of Congress is met in the use of those funds.

These activities will further subdivide the funding down the chain of command to the end user level. There may be few or many subdivisions below the Major Claimant level. These further subdivisions are called *Operating Targets*, *Allowances* or *Expense Limitations*. These terms represent planning estimates and do not carry 1517 responsibility. For example, a ship will be granted an Operating Target of O&M,N funds, but the ship's commanding officer does not carry 1517 responsibility; the type commander or fleet commander retains that responsibility. Figure 3 - Example Flow of Funds shows an example flow of funding authority.

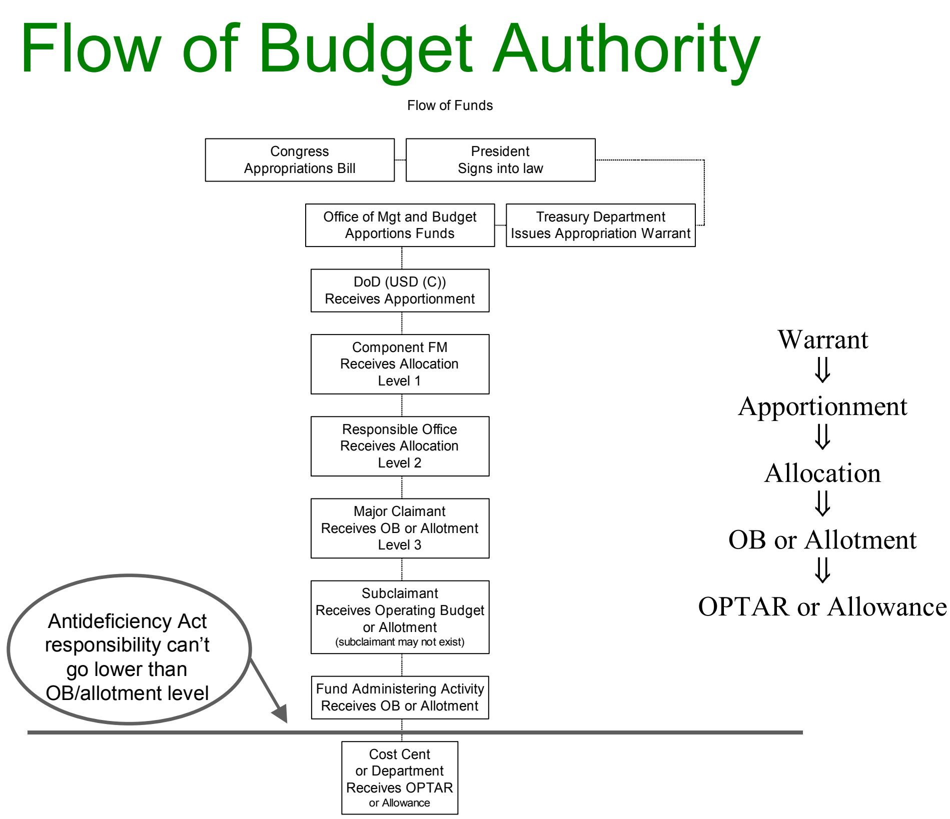

Figure 3 - Example Flow of Funds

Funding Architecture

Along with the flow of spending authority comes the flow of spending restrictions. All appropriations come "with strings attached" that reflect the intent and limitations imposed by the authorizing and appropriating legislation. As the funds flow down the chain of command, they are accompanied by explanatory text that ensures the intent of congress is met.

Architectural terms are used to describe some of these funding restrictions. A *floor* represents the minimum level of funding for a particular purpose. A *ceiling* represents a maximum level of funding. A *fence* represents funding protected from being used for another purpose. Historically, floors have been set on funding for items such as maintenance accounts for real property, ceilings are imposed on activities like renovations to flag and general officer quarters, and fences surround quality of life initiatives such as child development centers.

Chapter 3: A Look at the Federal Budget

Overview

This chapter briefly examines the entire federal budget to understand the size of the defense budget in proportion to other government activity. As was done in Chapter 1, a review of history sheds light on the present.

Last chapter noted that there are 20 budget functions in the federal government. But a list of 20 functions gives no indication of their relative size. Figure 4 - Budget Functions and Budget Functions Sorted by Size below displays those 20 functions and the amounts for each as presented in the Fiscal Year 2004 President's Budget. The table on the left displays the budget by function then sorts those functions in descending order of their size (as reflected in budget authority) in the table on the right.

Function	$B
050 National Defense	399.7
150 International Affairs	23.8
250 Space & Science	23.5
270 Energy	0.9
300 Natural Resources & Environment	30.4
350 Agriculture	21.1
370 Commerce	9.6
400 Transportation	63.8
450 Community Development	13.6
500 Education & Training	86.0
550 Health Care	247.3
570 Medicare	258.6
600 Income Security	322.9
650 Social Security	498.8
700 Veterans' Benefits	61.6
750 Justice	38.8
800 General Government	20.2
900 Net Interest	176.4
920 Allowances	-0.3
950 Undistributed Receipts	-53.7
Total	2243.0

Function	$B
650 Social Security	498.8
050 National Defense	399.7
600 Income Security	322.9
570 Medicare	258.6
550 Health Care	247.3
900 Net Interest	176.4
500 Education & Training	86.0
400 Transportation	63.8
700 Veterans' Benefits	61.6
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300 Natural Resources & Environment	30.4
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250 Space & Science	23.5
350 Agriculture	21.1
800 General Government	20.2
450 Community Development	13.6
370 Commerce	9.6
270 Energy	0.9
920 Allowances	-0.3
950 Undistributed Receipts	-53.7
Total	2243.0

Figure 4 - Budget Functions and Budget Functions Sorted by Size

One can clearly see that the bulk of the federal budget is in a handful of budget functions. Social Security, National Defense, Income Security and medical related items comprise over 75% of the annual budget request. Adding interest on the national debt brings the total to nearly 85%.

Discretionary and Mandatory Spending

It's important to note that there are two categories of spending in the annual budget to Congress. The first category is *discretionary* spending. Items of expense in this category include those functions of government that are financed through the 13 annual appropriations bills. That is, if Congress does not pass authorizing and appropriating legislation, those functions would not occur. Recall the government shut down in 1995 in the absence of appropriations bills or a continuing resolution authority. Items in the discretionary budget include national defense, education, transportation, justice, agriculture, and general government.

The second category of spending is *mandatory* spending, sometimes incompletely referred to as entitlement spending. This category includes all items of expense that do not require annual authorization or appropriation. The expenditure of funds on these items is provided in permanent law. There may be annual changes to that law, but absent those changes, expenditures would still occur if the appropriate triggering mechanism were activated. Items in this category include Social Security, veteran's benefits, interest on the national debt, Medicare and Medicaid, and unemployment benefits.

Figure 5 - FY2004 Federal Budget - Categories of Spending displays the 20 budget functions consolidated into broach categories of both discretionary and manadatory spending. Noteworthy is the fact that two-thirds of the federal budget is in the mandatory spending category. This is a significant change from just a few decades ago.

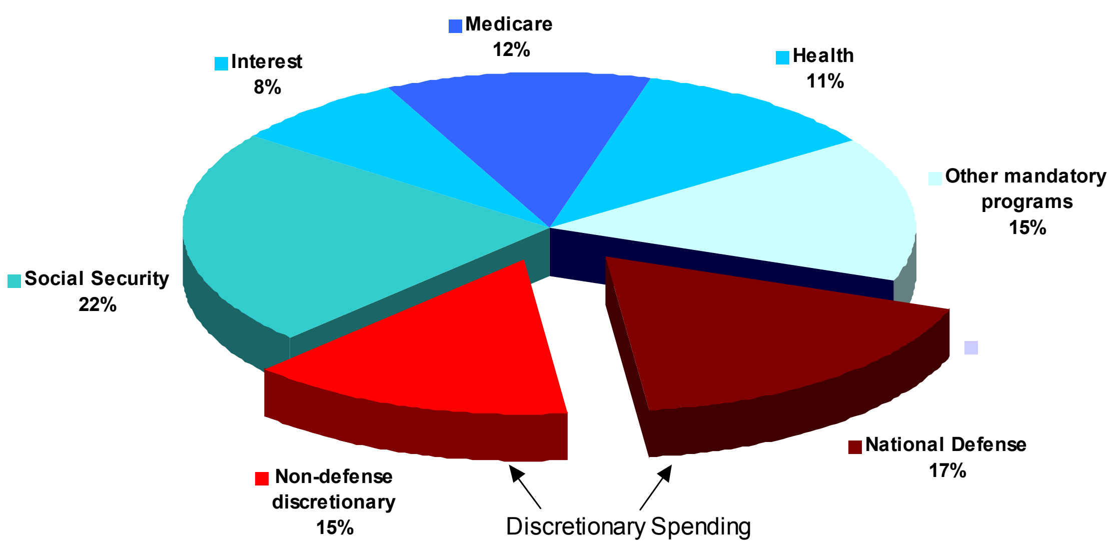

Figure 5 - FY2004 Federal Budget - Categories of Spending

Historical Perspective

Figure 6 - Mandatory vs. Discretionary Spending, 1960-2004 shows the change in these categories since 1960. Percentages reflect the percentage of total federal outlays as portrayed in the 2004 President's Budget. The year 1960 was chosen since it was the height of the Cold War and approximately the time when the DoD's resource allocation system, PPBS, was introduced. 1960 was also chosen since it is noteworthy that the relative proportions of defense spending and payments to individuals have reversed… other budget categories have remained relatively stable.

Figures are % of outlays	**1960**	**2004**
Payments to Individuals	21%	55%
Interest on the debt	8%	8%
Other Mandatory	5%	5%
Defense	52%	17%
Other Discretionary	14%	15%
Mandatory:Discretionary	34:66	68:32

Figure 6 - Mandatory vs. Discretionary Spending, 1960-2004

Another useful historical perspective is to examine that portion of the economy the country devotes to national defense. If one were to consider the spending on national defense as analogous to an insurance policy for the country, one could ask, "what percentage of the country's volume of activity (in dollar terms) should be spent to secure itself?" The oft-used metric is the percentage of Gross Domestic Product spent on national defense. Gross Domestic Product is the dollar value of the economic transactions of the country in a year. Figure 7 - Defense Spending as a Percentage of GDP shows how the percentage of GDP spent on defense has declined over the years. It appears to have reached a plateau at just over 3%.

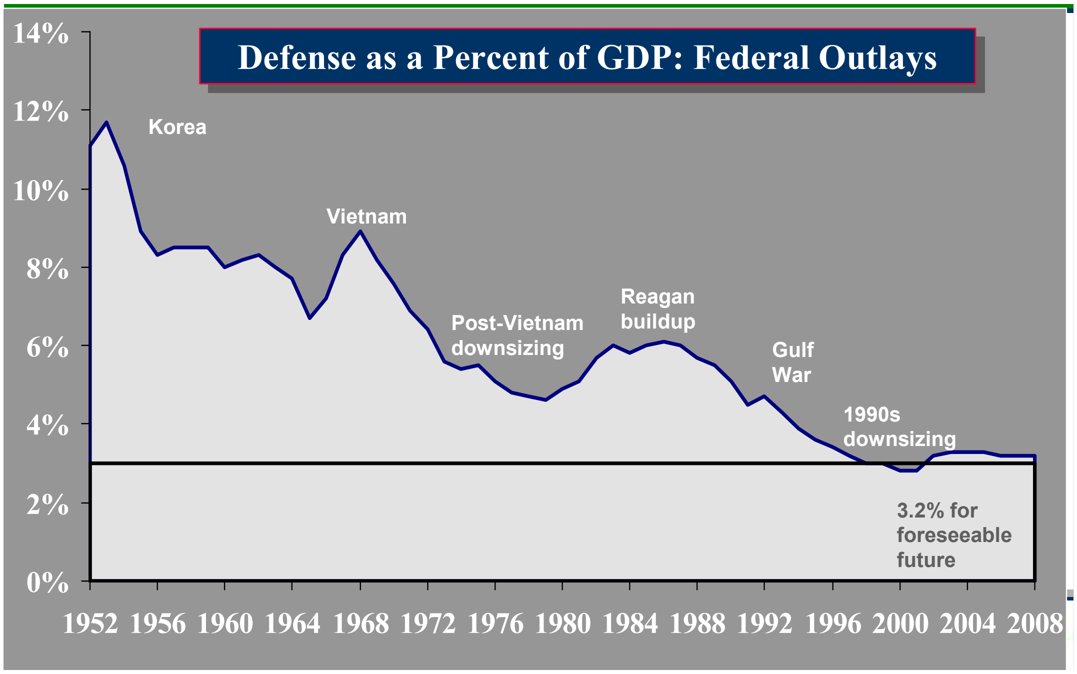

Figure 7 - Defense Spending as a Percentage of GDP

Chapter 4: The Planning, Programming, Budgeting and Execution System

Overview

This chapter reviews DoD's Planning, Programming Budgeting & Execution System (PPBE). The goal of PPBE is to provide the combatant commanders with the right mix of people, equipment, capabilities, and funding to enable them to meet their missions. PPBE is one part of an intricate series of processes that convert the National Security Strategy and foreign policy direction of the President into military strategy, war plans, programs, and eventually the DoD budget. The DoD budget is the final product of the PPBE, and is eventually incorporated into the President's Budget as budget function 051. The processes embedded in the PPBE system had been relatively stable during the 1980s and 1990s, but the Bush (43) administration is making some significant changes. Given the lead-time for publication of this text and the rate of change, not all of those changes are noted here. To illustrate the magnitude of the changes being considered, the Deputy Director of the Office of Program Analysis and Evaluation, Office of the Secretary of Defense, recently quipped, "PPBS is whatever Secretary Rumsfeld wants it to be."[2]

The change is so pervasive that from Program Objectives Memorandum for Fiscal Year 2002 (POM-02) conducted in calendar year 2000 through the Program Review for Fiscal Year 2007 (PR-07) which will occur in 2005, it is certain that no two years' processes will be the same. POM-04 ushered in the combined program and budget review. POM-06 is the first year under the new guidance contained in Management Initiative Decision (MID) 913. PR-05 was the transition year. This is problematic for an author attempting to describe a process in which incremental change is the norm. Thus, the following approach will be used. The first portion of this chapter will describe in appropriate detail for the intended audience the POM-04 process. After that is completed, the changes dictated by MID-913 will be addressed including a look at the PR-05 process as of the time of publication and a preview of what is known about POM-06.

One of the best descriptions of the PPBE process currently published is from the Naval War College[3]. That text provides a concise history of the PPBE process and does an admirable job of showing the linkage between the Joint Strategic Planning System, the Joint Operation Planning & Execution System, PPBE and the Defense Acquisition System. This text will not cover that linkage in detail and

[2] Remarks of VADM Stanley Szemborski, Naval Postgraduate School, 14 January 2003
[3] Sullivan, R.E., ed., Resource Allocation: The Formal Process, U.S. Naval War College, Newport, RI, available at **http://www.nwc.navy.mil/nsdm/nsdmedm1.htm**

students are referred to the NWC text. Regardless, this chapter still draws heavily from the NWC publication, including many of the figures displayed.

The Process

PPBE, as the name suggests, consists of three forward-looking phases: Planning, Programming and Budgeting and one backward-looking phase, Execution. What frustrates those new to the system (and often those who work within the system!) is that while in a perfect world these would be serial processes – that is, programming begins as planning ends and budgeting begins as programming ends – in reality, there is a significant amount of overlap. This overlap results from the complexity and sheer magnitude of the defense budget compounded by the need to meet certain deadlines. Also, while called the PPBE system, the planning "phase" is continuous while the programming and budgeting phases have distinct annual cycles.

Before discussing the various phases in detail, it is useful to look at those organizations that support the process. The Defense Resources Board (DRB) provides oversight for all three phases of PPBE. Chaired by the Deputy Secretary of Defense, other members include the Chairman of the Joint Chiefs of Staff (CJCS), the Director of Planning, Analysis and Evaluation (PA&E), several Undersecretaries of Defense (Comptroller, Acquisition & Technology, Policy, Personnel & Readiness), and the service secretaries. Of note is that this group is almost entirely comprised of the civilian leadership of DoD. The service chiefs, and combatant commanders contribute to the DRB by invitation. Supporting the DRB is the Program Review Group, chaired by the USD(PA&E). The PRG is responsible for the programming phase.

Planning

The planning phase begins with the National Security Strategy issued by the President based upon input by those officials with significant national security responsibility, including the Secretary of Defense, Secretary of State, National Security Advisor, Director of Central Intelligence, Director of Homeland Security, and others. The Secretary of Defense crafts a National Military Strategy Document based upon DoD's role in carrying out the objectives of the NSS. The NMSD is based upon input from the department's civilian leadership as well as the uniformed leaders on the Joint Chiefs of Staff, in the services and the combatant commands.

These planning documents feed the services individual PPBE processes, but also serve the joint planning processes. Specifically, the Joint Strategic Planning System relies on the NSS and NMSD to develop assessments, strategy and program recommendations from a joint perspective. Further, the Joint Operation and Execution System uses them to develop warfighting plans and those plans supporting Integrated Priority Lists that serve as input to the services individual PPBE process. Figure 8 - PPBE in Relation to Strategy Development, Ware

Plans, and the Acquisition Process, adapted from the Naval War College publication, shows the intersection of the PPBE system with the JSPS and JOPES systems.

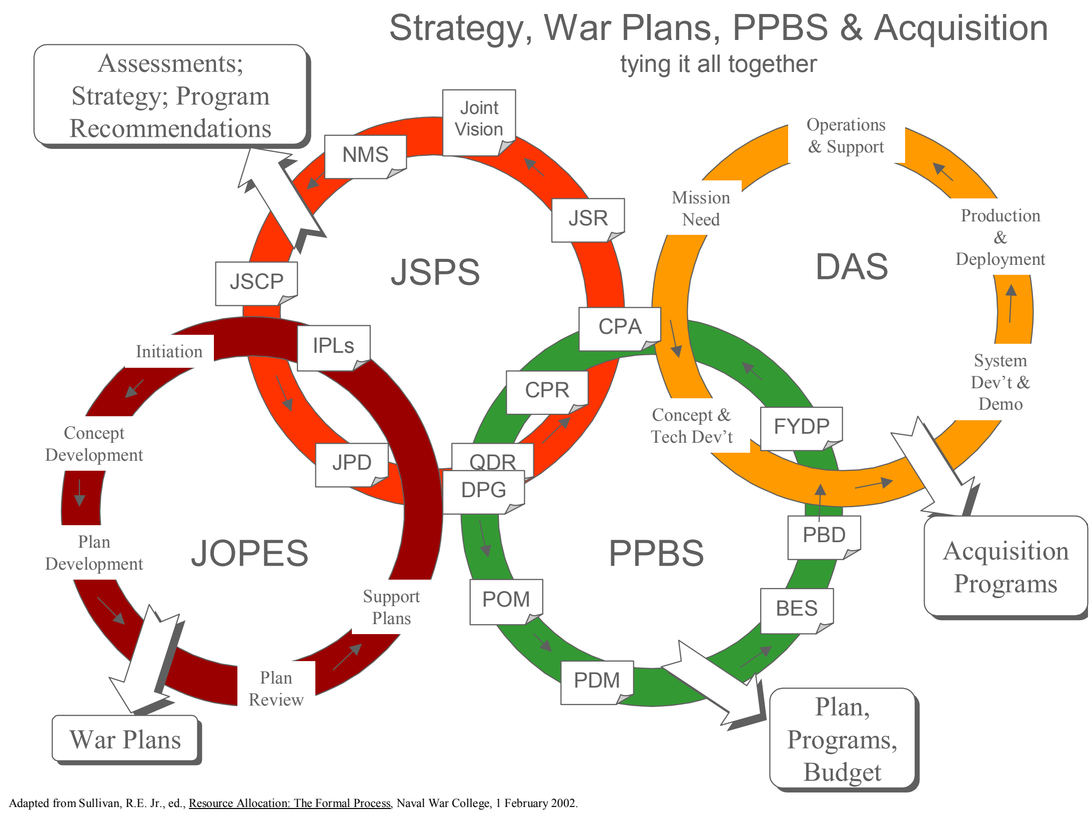

Figure 8 - PPBE in Relation to Strategy Development, Ware Plans, and the Acquisition Process

So the national leadership has provided strategic direction to the services and the joint commanders who have initiated their own planning and requirements generation processes. The outputs from those joint and service-specific plans take the form of Integrated Priority Lists (combatant commanders), CNO's Program Assessment Memorandum (CPAM), the Joint Planning Document (JPD), and the Chairman's Personal Recommendation (CPR). Other documents of a strategic nature are also produced. These include the Quadrennial Defense Review and service-specific strategic visions such as the Navy's recent SeaPower-21 document. This set of strategic planning outputs serve as inputs to the Secretary of Defense in his development of the Defense Planning Guidance.

Looking specifically at the Navy, the CNO's Program Assessment Memorandum is built using the Integrated Warfare Architecture (IWAR) framework for assessing the overall Navy program. The IWAR framework describes the Navy across four broad capability areas, in concert with strategic plans and five support areas. The development of the CPAM (and its objective as a planning tool) ensures a balanced and capable Navy within resource constraints. Beginning in PR-05 the IWAR framework and Baseline Assessments will be replaced with Naval Capability Plans (discussed below in Programming).

The Defense Planning Guidance signals the end of the Planning Phase of PPBE. It is worth repeating that planning is really a continuous process. An annual DPG is provided to the services, but the inputs to that DPG are not on a neat annual cycle like the budget. In fact, years may go by between published revisions of the NSS, NMSD, QDR and other strategic documents. This fact partially explains why – up to this point – there has not been a fiscal constraint on the planning process. With the dissemination of the DPG, the Office of Management and Budget will provide the Secretary of Defense topline numbers for constraining the remainder of the PPBE process. This topline number represents the Administration's intended budget figure for the national defense function in the succeeding year's budget. To see, graphically, this confluence of documents, refer to Figure 9 - PPBE Significant Documents. This graphic (again, adapted from the Naval War College publication) shows the complexity of the planning stage and all the actors involved. Note the relative simplicity of the programming and budgeting phases.

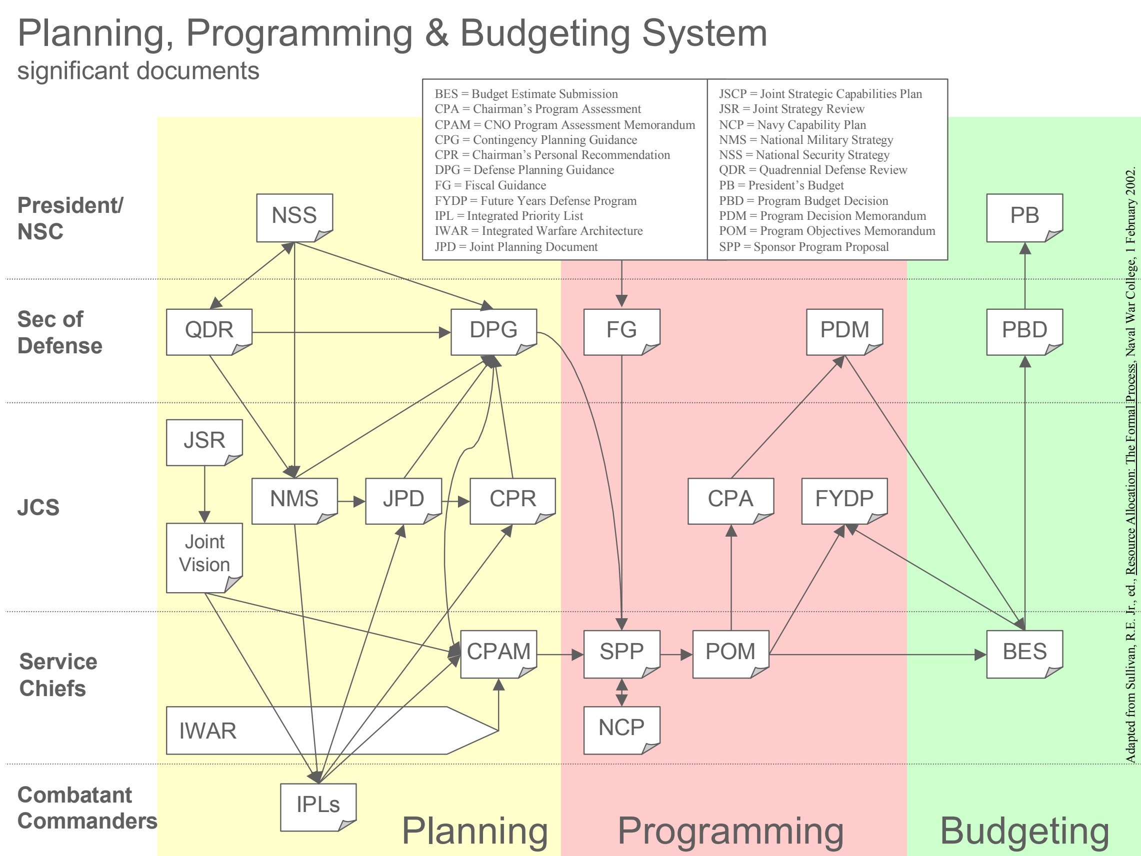

Figure 9 - PPBE Significant Documents

While the Defense Planning Guidance is normally issued in the spring each year, the second phase of PPBE, the programming phase, is already underway. Programming actually begins in the late months of the preceding calendar year and is based on expected outputs from the planning phase and expected topline figures as represented in the Program of Record (the OSD or PresBudg numbers for the budget just being completed.) If this sounds confusing, it is. It is important to note that at any given time, multiple fiscal years of budget are "in play." Figure 10 - PPBE Calendar for POM-04 shows the actors, process steps and overlap of the successive budget years. Selecting the summer months of the even year, for example, the second even year (the budget year, or funds to be spent two years hence) is being programmed and budgeted while the prior fiscal year is being enacted in Congress and the year prior to that is being executed, meanwhile the subsequent fiscal years are in the planning stage.

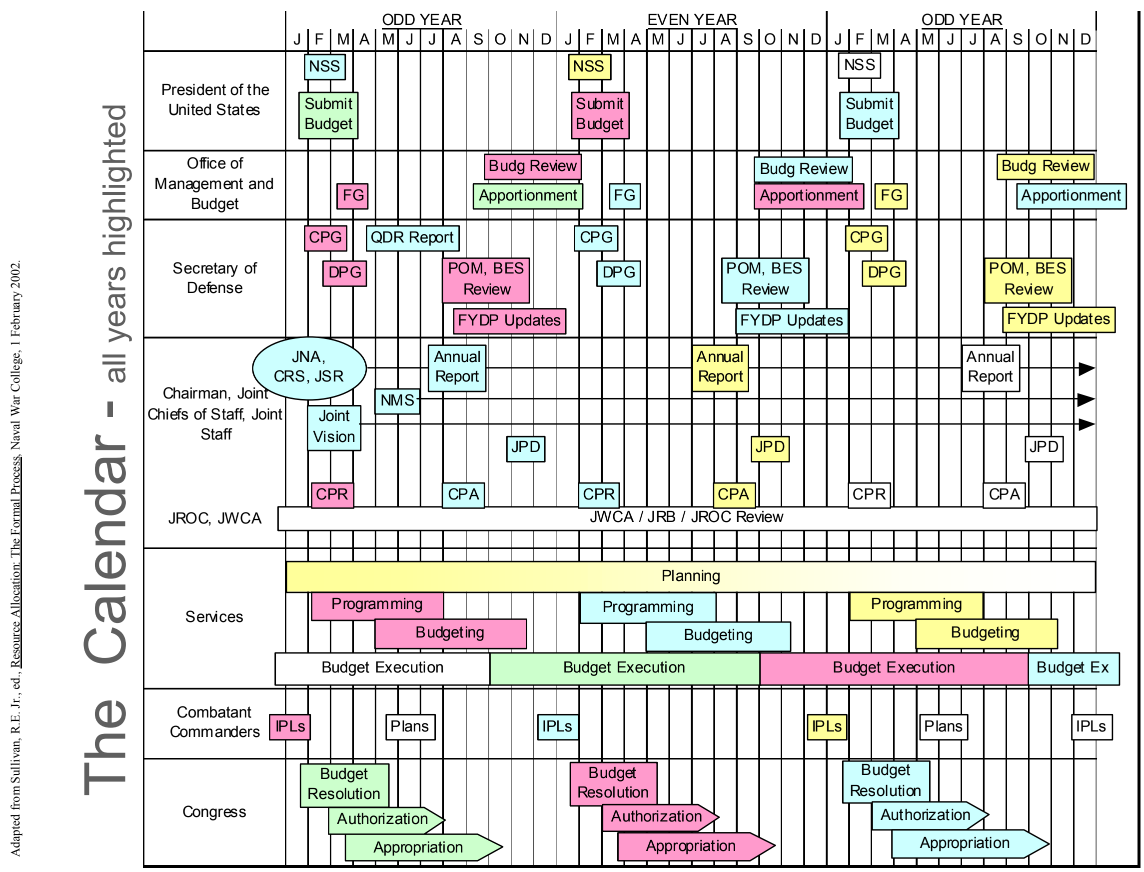

Figure 10 - PPBE Calendar for POM-04

Studying this chart, one should note that in the summer of calendar year 2003, (when the Fiscal Year 2003 budget is being executed), for example, the requirement being programmed and budgeted for submission up the chain of command to the President is not next year's budget (2004), but rather the year after next (2005). The 2004 budget is already in Congress being authorized and appropriated. It is important during the PPBE process to stay abreast of what is happening in actual execution of the current year budget – fact-of-life changes – and what is simultaneously happening in Congress with next year's budget. The budget being built in the current PPBE cycle must take into consideration those events. For the financial manager, it should be becoming clear that the quality of your budgets and the quality of your budget execution are tightly linked.

Programming

Returning to programming, the goal of the programming phase is to define those programs (hardware acquisition, technological development, force structure, logistics posture, manpower requirements, training needs, supporting infrastructure, C4I capability, operating tempo, etc) that will best meet the needs articulated in the planning phase within the fiscal constraints provided. No small feat. Of benefit to the programmers is that given the magnitude of the department of defense, much of the change from year-to-year is incremental. A ship or airframe can last 20, 30, 40 or more years; bases have existed for decades. So the review process focuses more on the marginal changes than a bottom-up review. Of course, new requirements, sudden developments in world events, emerging technology, and shifting political positions will expand or contract the breadth and depth of review. Readers can easily conceive of several examples of each in the past few years.

The programming phase is primarily the responsibility of N80[4] (Programming), who are assisted by N81 (Assessments) and N82 (Financial Management). These offices are primarily responsible for the process. They receive a tremendous amount of support from the sponsors who are most concerned with the content and various dimensions of programming.

During programming, sets of sponsors responsible for advocating certain positions or needs, meet to negotiate that best mix of programs. While close-air-support, nuclear deterrence, and networked healthcare systems all have value, it's not obvious nor universally held which is more important and what the relative value of each should be. So a system has been devised that stimulates the conversation, that demands rigorous analysis, that holds that analysis accountable, and – hopefully – results in the best set of programs, for the right cost, that meet national security needs as defined by the President and will withstand the scrutiny and approval of Congress. The next section will examine those sponsors and their advocacy requirements.

Navy **resource sponsors** are responsible for an identifiable group of resources constituting certain warfare and supporting warfare tasks, such as air, surface, or subsurface warfare. Unlike appropriation sponsors, resource sponsors have a functional or program orientation. The resource sponsor is responsible for

[4] The Navy Staff organizational structure, roles and responsibilities are discussed in Chapter 5.

interrelated programs or parts of programs in several mission areas. One of the resource sponsor's responsibilities during the programming process is to ensure an effective and balanced program within assigned fiscal controls. Accordingly, during internal budget reviews, the resource sponsor provides assistance when program changes are required to accommodate fact-of-life pricing and other funding increases in order to maintain a balanced program. Resource sponsors offices are also responsible for providing program guidance to budget submitting offices during the development of budget estimates and subsequent reviews of those estimates. They perform key functions in determining program adjustments needed to accommodate fact-of-life pricing increases. Sponsor representatives attend DON budget review sessions, review the FMB Mark-up, attend OSD budget hearings, review PBDs and participate in reclama reviews. They are also responsible for nominating issues to be considered at the Major Budget Issue meetings and for nominating program offsets as necessary during the course of the OSD/OMB review. These offices are responsible for preparing and reviewing witness statements, answering Congressional questions, briefing members of Committees or their staffs, reviewing Committee reports, and preparing/ submitting to appropriation sponsors proposed appeals in accordance with the schedule established by FMB. Navy resource sponsors are listed in Figure 11 - Appropriation and Resource Sponsors below.[5]

Navy resource sponsors are supported by a series of **program sponsors** for managed items. A program sponsor is responsible for determining program objectives, time phasing and support requirements, and for appraising progress, readiness and military worth for a given weapon system, function or task. The program sponsor is the primary Navy or Marine Corps spokesperson on matters related to the requirement for the particular weapons system or program. In addition to assisting justifying programs during the budget process, program sponsors assist resource sponsors in resolving funding problems.[6]

Capability Sponsors have replaced Assessment sponsors in the programming phase. Capability Sponsors are responsible for developing and maintaining CNO approved Naval Capability Plans (NCPs) within designated capability domains to identify and prioritize future warfighting, readiness and support requirements.[7] Naval Capability Plans identify and prioritize requirements within warfighting, readiness and support capability domains. NCPs are defined in terms of outcomes and are derived from rigorous analysis based on approved models, scenarios and assumptions. There are 18 NCP domains that have replaced (as of PR-05) the IWAR framework described above. N70 (Warfare Integration) compiles the NCPs forming the basis for Mission Capability Packages (MCPs)

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[5] Budget Guidance Manual, September 2002, Part I-17
[6] Ibid.
[7] CNO memo PR05-1 Ser801C/3U638000 of 5Feb03, Navy Program Development Procedures for Program Review (PR-05)

which are then aggregated by SeaPower-21[8] pillars. In short, Capability Sponsors articulate what the program achieves in terms of output metrics, compares that to requirements in the DPG and identifies any gaps to facilitate trade-off decisions. Capability Sponsors include N4 (readiness, logistics, infrastructure), N7 (warfighting), N1 (manpower), and N00T (training and education).

The **appropriation sponsor** is the senior executive in the DON responsible for supervisory control over a designated appropriation with broad decision-making authority on matters relating to the appropriation. This involves assisting in solving funding deficiencies during budget formulation, testifying before Congress, and recommending the reprogramming of funds within the appropriation during budget execution. These sponsors serve as the lead witnesses before Congress, prepare and review witness statements, respond to Congressional or staff questions, and brief members of the Committees or their staffs. They are responsible for reviewing Committee reports and for preparing consolidated appeals for their appropriations and submitting them to FMB in accordance with FMB guidance and schedules[9]. DON appropriation sponsors are listed in Figure 11 - Appropriation and Resource Sponsors below.

Appropriation	Appropriation Sponsor	Responsible Office
Military Personnel, Navy (MPN)	N1	CNO(N82)
Military Personnel, Marine Corp (MPMC)	DC/S(P&R)	CMC(P&R)
Reserve Personnel, Navy (RPN)	N095	CNO(N82)
Reserve Personnel, Marine Corps (RPMC)	DC/S(P&R)	CMC(P&R)
Operation and Maintenance Navy (O&MN)	N82	CNO(N82)
Operation and Maintenance, Marine Corps (O&MMC)	DC/S(P&R)	CMC(P&R)
Operation and Maintenance, Navy Reserve (O&MNR)	N095	CNO(N82)
Operation and Maintenance, Marine Corps Reserve (O&MMCR)	DC/S(P&R)	(P&R)
Environmental Restoration, Navy (ERN)	N4	CNO(N82)
Aircraft Procurement, Navy (APN)	N78	CNO(N82)
Weapons Procurement, Navy (WPN)	N76	CNO(N82)
Shipbuilding and Conversion, Navy (SCN)	N76	CNO(N82)
Other Procurement, Navy (OPN)	N82	CNO(N82)
Spares (All Appropriations)	N4	CNO(N82)
Procurement, Marine Corps (PMC)	COMMCSYSCOM	CMC(P&R)
Research, Development, Test & Evaluation, Navy (RDT&E,N)	N091	CNR(OCNR)
Military Construction, Navy (MCN)	N4	CNO(N82)
Military Construction, Naval Reserve (MCNR)	N095	CNO(N82)
Family Housing, Navy and Marine Corps (FH,N&MC)	N4	CNO(N82)
Base Realignment and Closure (BRAC)	N4	CNO(N82)
Navy Working Capital Fund (NWCF)	Not applicable	Not applicable
National Defense Sealift Fund (NDSF)	N82	N4
Procurement of Ammo, Navy and MC (PANMC)	N82/MCSYSCOM	CNO(N82)/CMC(P&R)

[8] Sea-Power-21 is the current vision of the U.S. Navy. Readers are referred to "Sea Power 21: Projecting Decisive Joint Capabilities," Naval Institute Proceedings, vol.12, no. 10, October 2002, pp. 32-41.
[9] Budget Guidance Manual, September 2002, Part I-16.

Resource Sponsor	Resource Area
Director, Navy Staff (N09B)	Admin/Physical Security
Director, Manpower and Personnel (N1)	Personnel Support
Director, Naval Intelligence (N2)	Intelligence
Director, Fleet Readiness and Logistics (N4)	Logistics (including Sealift)
Director, Space, Information Warfare, Command and Control (N6)	Director, Warfare Requirements and
Programs (N7)	Education and Training
Director, Naval Nuclear Propulsion Program (NOON)	Nuclear Propulsion
Director, Navy T&E and Technology Requirements (N091)	RDT&E
Surgeon General of the Navy (N093)	Medical Support
Director, Naval Reserve (N095)	Reserve Affairs
Oceanographer of the Navy (N096)	Oceanography and Meteorology
Director of Religious Ministries/Chief of Chaplains of the Navy (N097)	Religious Support
Director, CINC Liaison (N83)	CINC Programs
Director, Naval Missile Defense (N71)	Missile Defense
Director, Anti-Submarine Warfare (N74)	Anti-Submarine Warfare
Director, Expeditionary Warfare (N75)	Expeditionary Forces
Director, Surface Warfare (N76)	Surface Programs
Director, Submarine Warfare (N77)	Submarine Programs
Director, Air Warfare (N78)	Aviation Programs
Director, Training (N79)	Training
Director, Special Programs (N89)	Special Programs
Headquarters, Marine Corps (HQMC)	USMC Resources

Figure 11 - Appropriation and Resource Sponsors

One can see the inherent tension in this arrangement. A given resource sponsor is responsible for allocating funds across multiple programs all of which use multiple appropriations and must meet capability requirements all within a fiscal constraint. As one of these sponsors adjusts the mix of resources, programs, or funds to best achieve their needs, they drive changes in the plans of other sponsors, requiring them to re-balance. No one acts without affecting the plans of others. This tension and overlap is designed into the system to maximize the likelihood that the most efficient, effective, economical, and worthwhile mix of money, manpower, hardware and capabilities results in the end.

And what is that result? The Program Objectives Memorandum (POM) is the end product of the programming phase. The POM is a plan for allocating resources (hardware, personnel, dollars) across a six-year period. It essentially mirrors the Future Years Defense Program (described below). The POM is actually built only during even numbered years. The alternate, odd numbered, years it is reviewed and modified to reflect programmatic fact-of-life changes, Congressional actions, and world events. These odd-year reviews, called Program Reviews, only consider the last five years of the POM. See Figure 12 - The POM/PR Cycle.

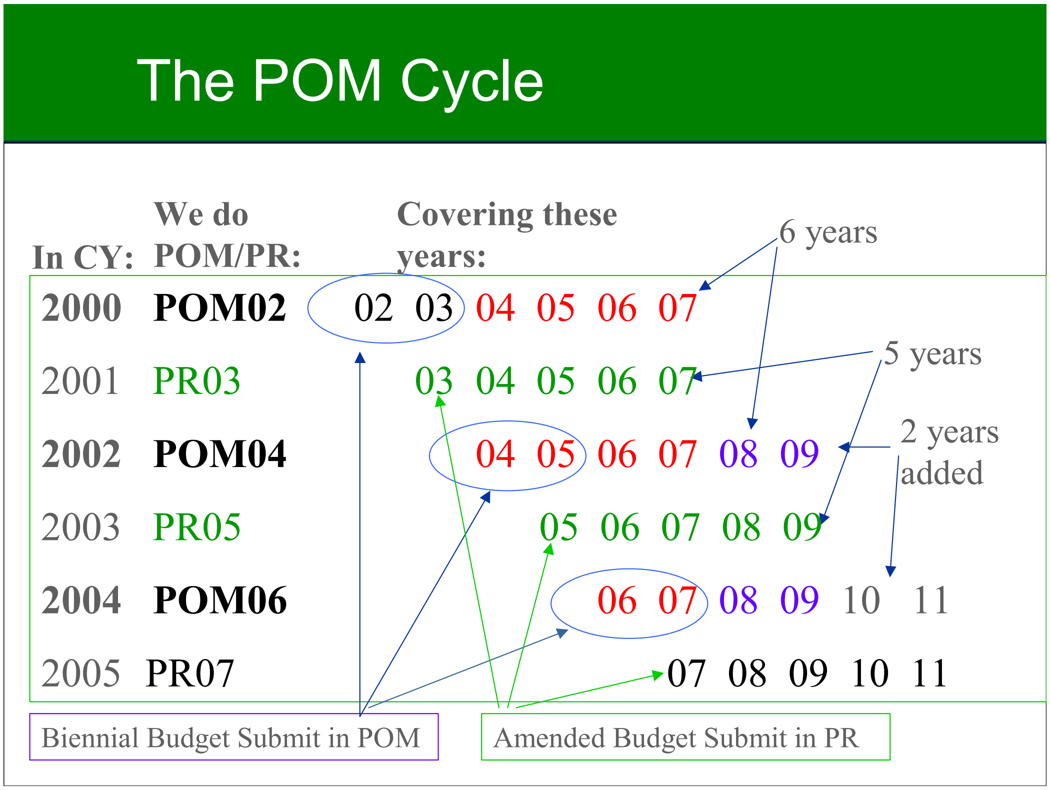

Figure 12 - The POM/PR Cycle

Budgeting

The POM signifies the end of the programming phase and serves as the primary input to the budgeting phase. The objective of budgeting is to display the approved POM in a manner that complies with OMB directives for federal budgeting, as amended by the DoD and DoN. The DoD Financial Management Regulations (Volume 2) contains extensive guidance on the procedures and formats for budgets for the various appropriations.

Budget formulation is covered in more detail in Chapter 6, but essentially, the budget takes the first two years of each POM and converts the gross numbers into more precise budget justification materials. This is done by Budget Submitting Offices (BSOs) who represent the major claimants of those activities who are most responsible for the day-to-day execution of the program. They know the program best and are the most qualified to submit the budget materials. Figure 13 - Budget Submitting Offices by Appropriation displays the BSOs by appropriation. It is interesting to note that most of these organizations were not directly involved in the earlier phases of PPBE. Much of what occurs in planning and programming is done at the headquarters level, but relies heavily on input from the major claimants and systems commands. The BSOs cannot sit on the sidelines during planning and programming and expect to have their activities and programs resourced adequately without their advocacy. BSOs, program managers, program executives, and major claimants must maintain contact with the program, resource, capability, and appropriation sponsors who have responsibility for their resources.

	MP	RP	O&M	APN	SCN	Ammo	WPN	PMC	OPN	MC	FH	R&D	WCF	NDSF
COMLANTFLT			X						X					
COMPACFLT			X						X					
COMUSNAVEUR			X						X					
CNET		X	X						X					
COMMETOCOM			X						X					
COMNAVRESFOR		X	X						X					
CHNAVPERS	X	X	X						X					
CHBUMED		X	X						X					
NCTC			X						X				X	
NAVSYSMGTACT			X						X			X		
NAVSECGRU			X						X					
NAVAIRSYSCOM			X	X		X	X		X			X	X	
NAVSEASYSCOM			X		X	X	X		X			X	X	
SPAWARSYSCOM			X				X		X			X	X	
NAVSUPSYCOM			X						X				X	
NAVFACENGCOM		X	X				X		X	X	X		X	
CNR												X	X	
AAUSN			X						X					
FLD SPT ACT		X	X						X					
HQMC	X	X	X			X		X			X	X	X	

Figure 13 - Budget Submitting Offices by Appropriation

The budget materials, once compiled, are referred to as the Budget Estimate Submission, or BES. Once the BSO has completed the BES, it is subject to three levels of review, once at the service level, once at the OSD/OMB level, and once by Congress. Each level of review has different requirements and objectives. This is discussed in more detail in Chapter 6, but is summarized here.

In the summer, the Navy headquarters (Secretariat, OPNAV, HQMC) conduct a review of the POM and BES that focuses on strategic objectives, near-term performance expectations and long-term priorities. At best, the service review is designed to answer the question: does this POM and corresponding budget comply with the guidance received from OSD/OMB and does it represent the optimum use of resources allocated to the Navy? At worst, the Navy review is designed to maximize the probability of passing the OSD/OMB review with minimally disruptive revisions.

The OSD/OMB review takes place in the fall and is the final review before the development of the President's Budget which will be sent to Congress the following February. The OSD/OMB review will ensure that their guidance (as articulated in the Defense Planning Guidance, OMB circulars, and other guidance) was met and that the services together present a coherent package for the Defense Department. They also balance the DoD requirement against other government agencies and are concerned with congressional acceptance. Recall from Chapter 1 that Congress has the power of the purse and while the budget may be DoD's first recommendation for resourcing national defense, it must still be politically viable and consistent with the current administrations goals.

Prior to POM-04, there were two reviews at the component level – both a program review and a budget review. Likewise, there were two reviews at the OSD level. Beginning with POM-04, these reviews were combined. It can be said that it takes a well-formulated budget to execute a program, but only a well designed and executed program can get a budget. Given that programs and budgets are inextricably linked, it only makes sense to combine the reviews and streamline the amount of senior management attention. Now, Budget Submitting Offices can expect to build a Navy budget for a POM that has not been fully reviewed, but they can expect one set of Navy decisions rather than two. Likewise, at the OSD level, instead of receiving Program Decision Memorandums followed by Program Budget Decisions, they will be issued nearly simultaneously after a single combined program and budget review. The POM-04 calendar depicting the combined reviews is displayed as Figure 14 - Budget Calendar for POM-04 Showing Concurrent Review.

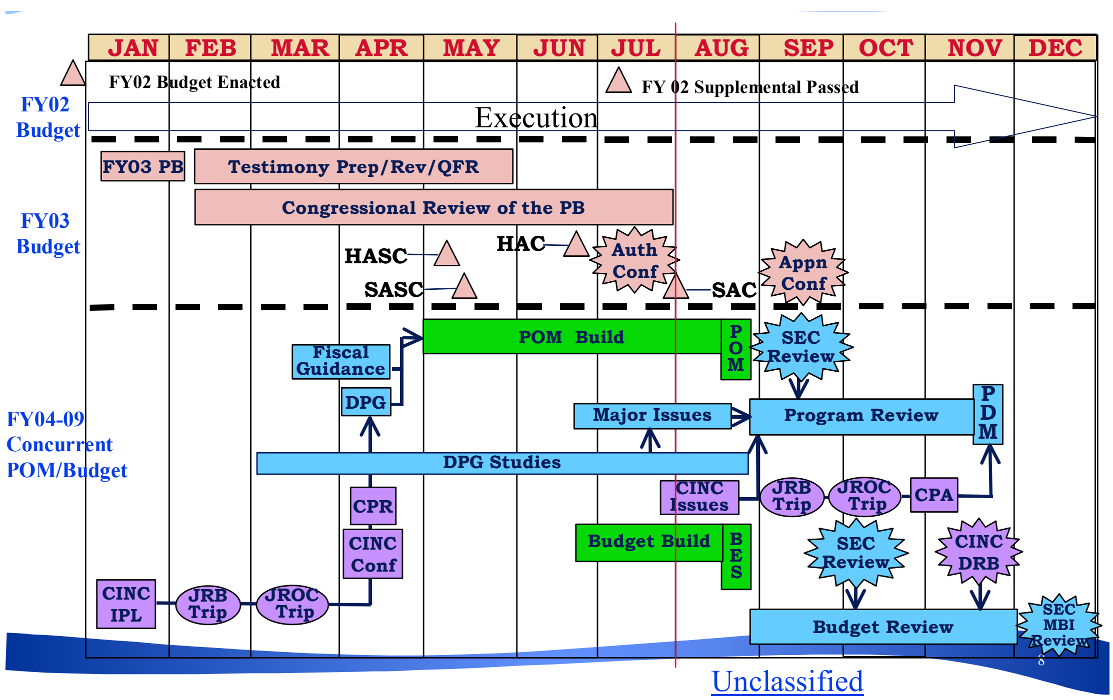

Figure 14 - Budget Calendar for POM-04 Showing Concurrent Review

Management Initiative Decision (MID) 913

In May 2003, the Deputy Secretary of Defense signed MID-913 prompting significant change in the PPBE process. Fundamental aspects of MID-913 include:

- A 2 year cycle that recognizes 4 year political cycle (see Figure 15 - New PPBE 2-Year Cycle in 4-Year Administration)
- Additional emphasis will be placed on program and budget execution; especially in the odd years

- An Odd year DPG would be issued only for Secretariat-directed changes and real-world adjustments, if at all
- program and budget data would be merged; the practice of merged reviews will continue
- Reviews will be based on outputs (capabilities bought) rather than inputs (what's the cost)
- Performance metrics (articulated in MID-910) will drive (re)allocation of resources in budgets
- The first "full-blown" 2 year cycle is POM-06; PR-05 would be a transition year

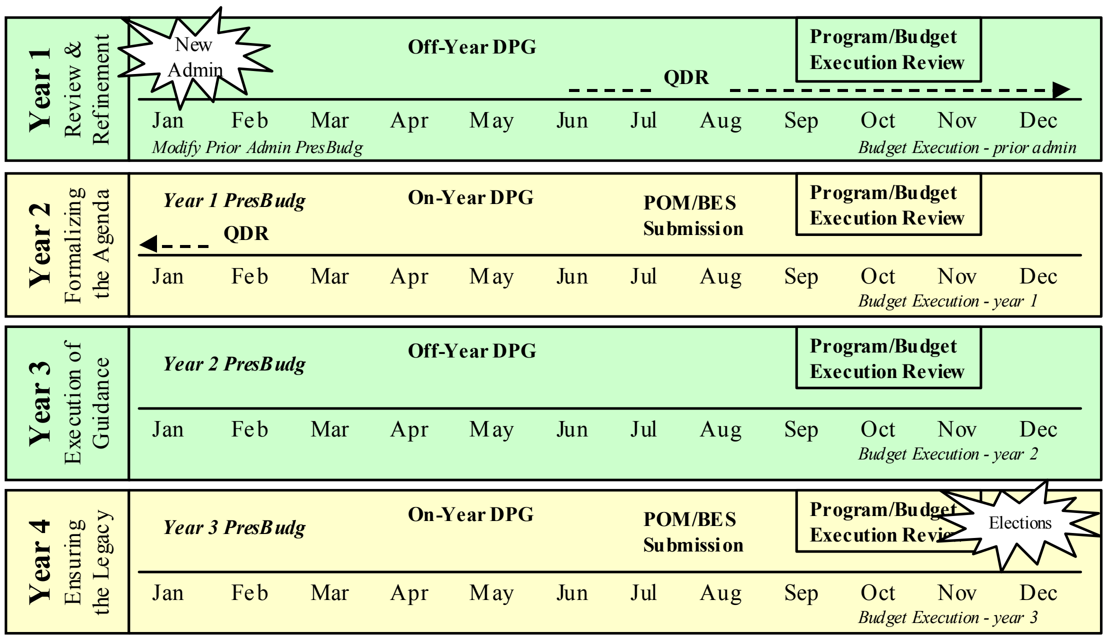

Figure 15 - New PPBE 2-Year Cycle in 4-Year Administration

Allocation Decision Segments

As part of this process transformation, three decision segments were established into which all program budgets would be placed. The first segment are *Future Mission Capabilities* and they represent about 40% of the FY04 budget. This segment considers capital investments and assesses the capability bought rather than the merits of the individual program or platform. For example, the strategic deterrence capability will be assessed and all platforms and those programs that provide strategic deterrence (ballistic missile submarines, Intercontinental ballistic missiles, bombers, etc.) will be assessed together.

The second segment includes *Performance Models* and they represent about 45% of the FY04 budget. Performance models are used for those program budgets that have predictable costs which can be modeled with an algorithm.

Examples include most expense categories, such as manpower, flying hours, base operating support, and ship operations. Ship operations, for example, are modeled by analyzing the behavior of cost drivers such as fuel, consumable and repairable parts, charter & hire, and travel across variations in force structure and employment. Each of these models must be validated (does it accurately predict?), verified (is it the right model?), and accredited (do the stakeholders concur with it?) before it is fully accepted for use.

The third segment are *Level of Effort* programs and they represent only about 15% of the FY04 budget, with the goal of eventually migrating these programs into one of the other two categories. The program budgets don't yet neatly fit into one of the other two categories. An example is basic research since it is not predictable and the capabilities are still undeveloped. Allocation decisions across these programs are based on analyses of how much mission is purchased when funded at the prior year level, +5% of that level, -5% of that level, and -10% of that level. In some cases, program managers can suggest another level that they believe purchases the most balanced and cost-effective program.

PR-05: The Transition Year

MID-913 was signed during the early stages of PR-05 with the intention of making that program review a transition year to the new process. The plan was to use the POM-04 Program of Record as the baseline and to change only those things that required a correction and, then, only if the correction was substantial. The plan was to issue only a limited scope DPG and to not create a POM nor a BES. SECDEF created a disincentive for change by permitting only Program Change Proposals (PCPs) and Budget Change Proposals (BCPs). The services were permitted to submit these, but so were the Combatant Commanders, the Undersecretaries of Defense, the Chairman of the Joint Chiefs of Staff, and the Defense Agencies. All were required to be submitted with identified offsets and PCPs were limited to those items valued at $250 million or more. It was understood that the offset would definitely be forfeited, but proposals would only be considered. PCPs were to be adjudicated by PDMs and BCPs would be adjudicated with PBDs.

The disincentive worked, very few PCPs were actually submitted. In fact, the Navy's entire submission was only six pages long. The transition year, with respect to the proposed process changes was successful. There was no DPG issued, no POM was built, and a BES was not submitted. Only changes to the POM-04 program were permitted. At the time of this writing, most PDMs and PBDs were not yet issued, so it is unclear whether the new process positively affected the content of the program of record.

POM-06: The First Year of the New Process

POM-06 is to be the first year of the new 2-year process. It will have a complete POM build and will cover the years FY06 through FY11. The POM will be built to comply with a Strategic Planning Guidance (issued in the winter) and a Joint Planning Guidance (issued in the spring) rather than one DPG (issued in the spring). While details are still unclear at the time of this writing, the basic calendar described above for POM-04 will remain. One significant difference within the Navy is that prior to the formation of Sponsor Program Proposals by traditional warfare areas, the Navy program will be examined through the SeaPower-21 lens. Sponsor Capability Plans will be built along the dimensions and goals of Sea Strike, Sea Shield, Sea Basing and ForceNet.

Sea-Power 21

Sea-Power 21 is the vision for the Navy articulated by the Chief of Naval Operations and forms the centerpiece of the Naval Transformation Roadmap signed by the Secretary of the Navy, Chief of Naval Operations and Commandant of the Marine Corps. There are three strategic elements of SeaPower 21, one enabling element, and three supporting elements. They are displayed graphically in Figure 16 - SeaPower 21.

Figure 16 - SeaPower 21

Sea Strike is the offensive element. It is a broadened naval concept for projecting dominant and decisive offensive power from the sea in support of joint objectives. Sea Strike incorporates and integrates multi-dimensional capabilities for power projection with new combinations of forces and platforms. Sea Shield is the defensive element. It exploits control of the seas and forward-deployed defensive capabilities to defeat area-denial strategies, enabling joint forces to project and sustain power. It extends a protective umbrella far forward which will assure access, reassure allies, and protect our homeland while dissuading and deterring potential adversaries. Sea Basing is the logistics and maneuver element. It will provide sustainable global projection of American power from the high seas at the operational level of war. It will enhance maneuver ashore by reducing the need to move in major command and control elements, heavy fire support systems, or logistical stockpiles. FORCEnet coordinates the efforts of the three seas. It is the architecture of warriors, weapons, sensors, networks, decision aids and supporting systems integrated into a highly adaptive, human-centric, comprehensive maritime system that operates from seabed to space, from sea to land. The supporting "seas" provide a forum for experimentation (Sea Trial), a process for human resource transformation (Sea Warrior) and a drive for business reformation (Sea Enterprise).[10]

The Future Years Defense Program (FYDP)

The Future Years Defense Program is the database repository of all approved programs. It summarizes resources (Total Obligational Authority (TOA), personnel, and forces) by fiscal year.

The FYDP was originally conceived as a two-dimensional matrix to "cross-walk" DoD resources from categories of resources to categories of programs. In its first dimension, the FYDP comprises eleven *major defense programs* (six combat force-oriented programs and five support programs). A *program* is an aggregation of *program elements* that reflects a force mission or a support mission of the Department of Defense and contains the resources needed to achieve an objective or plan. A program reflects fiscal year time phasing of mission objectives to be accomplished and the means proposed for their accomplishment. These programs, and the eleven major programs, are divided into thousands of individual *program elements* (PEs).

In its second dimension, the FYDP has three broad categories of resources: *TOA* (Congressional appropriations), *manpower* (military end strength and civilian full-time-equivalent workyears), and *forces* (either items of programmed equipment, or combat units). The FYDP database contains prior year (PY), current year (CY), the two budget years (BY1 and BY2) through BY2 + 4 years (BY2 +7 years

[10] England, Gordon, Vern Clark, and James L. Jones, Naval Transformation Roadmap, 2003.

for forces), and is usually updated three times per year.[11] *Resource Identification Codes* (RICs) identify the types of resources assigned to each program element. The three categories of RICs are for manpower (military personnel and civilian personnel), appropriation (or TOA), and forces (hardware or weapon systems, such as missiles, aircraft, etc.).

Major Force Programs

The FYDP comprises the following eleven major programs under two headings, combat forces and support programs. Definitions of the 11 programs follow.

6 Combat Force Related	5 Support Programs
1. Strategic Forces 2. General Purpose Forces 3. Intelligence and Communications 4. Airlift/Sealift 5. Guard and Reserve Forces 11. Special Operations Forces	6. Research and Development 7. Central Supply and Maintenance 8. Training, Medical, and Other General Personnel Activities 9. Administration and Associated Activities 10. Support of Other Nations

<u>Program 1 Strategic Forces</u>: Strategic forces are those organizations and associated weapon systems whose force missions encompass intercontinental or transoceanic inter-theater responsibilities.

<u>Program 2 General Purpose Forces</u>: General-purpose forces are those organizations and associated weapon systems whose force mission responsibilities are, at a given point in time, limited to one theater of operation.

<u>Program 3 C^{3}IS</u>: Comprises intelligence, security, communications and functions, such as mapping, charting, and geodesy activities, weather service, oceanography, special activities, nuclear weapons operations, space boosters, satellite control and aerial targets.

<u>Program 4 Mobility Forces</u>: Comprises airlift, sealift, traffic management, and water terminal activities, both direct-funded and through the Defense Working Capital Fund, including command, logistics, and support units organic to these organizations.

<u>Program 5 Guard and Reserve Forces</u>: The majority of Program 5 resources consists of Guard and Reserve training units in support of strategic offensive and defensive forces and general-purpose forces.

[11] <u>Future Years Defense Program (FYDP) Structure Handbook</u>, DoD 7045.7-H

Program 6 Research and Development: Comprises all research and development programs and activities that have not yet been approved for operational use.

Program 7 Central Supply and Maintenance: Comprises resources related to supply, maintenance, and service activities, both direct-funded and through the Defense Working Capital Fund, such as first and second destination transportation, overseas port units, industrial preparedness, commissaries, logistics and maintenance support, depot maintenance and supply management.

Program 8 Training, Medical and Other General Personnel Activities: Comprises resources related to training and education, personnel procurement services, health care, permanent change of station travel, transients, family housing, and other support activities associated with personnel.

Program 9 Administration and Associated Activities: Comprises resources for the administrative support of departmental and major administrative headquarters, field commands, and administration and associated activities not accounted for elsewhere.

Program 10 Support of Other Nations: Comprises resources in support of international activities, including support to the Military Assistance Program (MAP), foreign military sales, the North Atlantic Treaty Organization (NATO) infrastructure, and humanitarian assistance.

Program 11 Special Operations Forces: Comprises force-oriented special operations forces (Active, Guard and Reserve), including the command organizations and support units directly related to these forces.

Program Elements

A *program element* is a primary data element in the FYDP and generally represents aggregations of organizational entities and resources related thereto. Program elements represent descriptions of the various missions of the Department of Defense. They are the building blocks of the programming and budgeting system and may be aggregated and re-aggregated in a variety of ways:

a. To display total resources assigned to a specific program,
b. To display weapon systems and support systems within a program,
c. To select specified resources,
d. In logical groupings for analytical purposes, or
e. To identify selected functional groupings of resources.

The program element concept allows the operating manager to participate in the programming decision process since both the inputs and outputs shall be stated and measured in program element terms. Each program element *may or may not* consist of forces, manpower, and dollars, depending on the definition of the element.[12]

The program element code is ten alphanumeric positions long. The first two positions identify the major force program (01 – 11), and the last 3 positions (left justified) represent the component (i.e., N = Navy, A = Army, F = Air Force, M = Marine Corps, DN = Navy DWCF, D8W = Washington Headquarters Services, etc.) For example, <u>02</u>0122<u>N</u> would be a program element number under major force program 2 (02) and is a Navy (N) program. The numbers in between are assigned by the component and have special uses for certain major force programs. See the FYDP handbook for complete codes and details.

[12] <u>Future Years Defense Program (FYDP) Structure Handbook</u>, DoD 7045.7-H

Chapter 5: Department of the Navy Financial Organization

Overview

This chapter looks at the organizational structure of the Department of Defense that supports the PPBE and financial management processes. It is presumed that most students already have a basic understanding of the structure and functions of the Department of Defense. Specifically, it is expected that the reader understands the basic roles and functions of the offices of the Secretary of Defense, Combatant Commanders, Service Secretaries, Joint Chiefs of Staff, and Service Chiefs as well as the objectives of the Goldwater-Nichols DoD Reorganization Act of 1986. This chapter will focus primarily on the *financial management* roles of these and subordinate offices.

Secretary of Defense

The Secretary of Defense (SECDEF), being responsible for all of the armed forces, the defense agencies, and the Joint Chiefs of Staff has ultimate responsibility for all financial management matters within the Defense Department. He is assisted by the Undersecretary of Defense (Comptroller) who also serves as the DoD Chief Financial Officer. The CFO functions are delineated in Chapter 1 of the DoD Financial Management Regulations. In short, he is the chief financial management policy officer of DoD and chief financial management advisor to the Secretary of Defense. The CFO, DoD, is charged with the responsibility of developing and implementing DoD-wide financial management systems and overseeing financial management activities relating to the CFO programs and operations of the DoD. [13] The USD(C) organizational chart is displayed as Figure 17 - Office of the Undersecretary of Defense (Comptroller).

Combatant Commanders

The Combatant Commanders are the officers in charge of the unified commands such as the U.S. Special Operations Command, U.S. Pacific Command, U.S. Strategic Command, etc., and were once referred to as the Commanders in Chief (CINCs). Unified commands consist of joint forces from two or more services. *The Goldwater-Nichols DoD Reorganization Act of 1986* gave the combatant commanders more opportunities for direct input into the Planning, Programming, and Budgeting (PPBE) process. They submit issue papers (Integrated Priority Lists, or IPLs) during the programming phase along with the other major claimants. The information provided by combatant commanders and their component commanders (such as COMLANTFLT and COMPACFLT) are especially valuable because of their knowledge of the operating forces' needs.

[13] DoD Financial Management Regulations, Chapter 1, paragraphs 0101 and 0102.

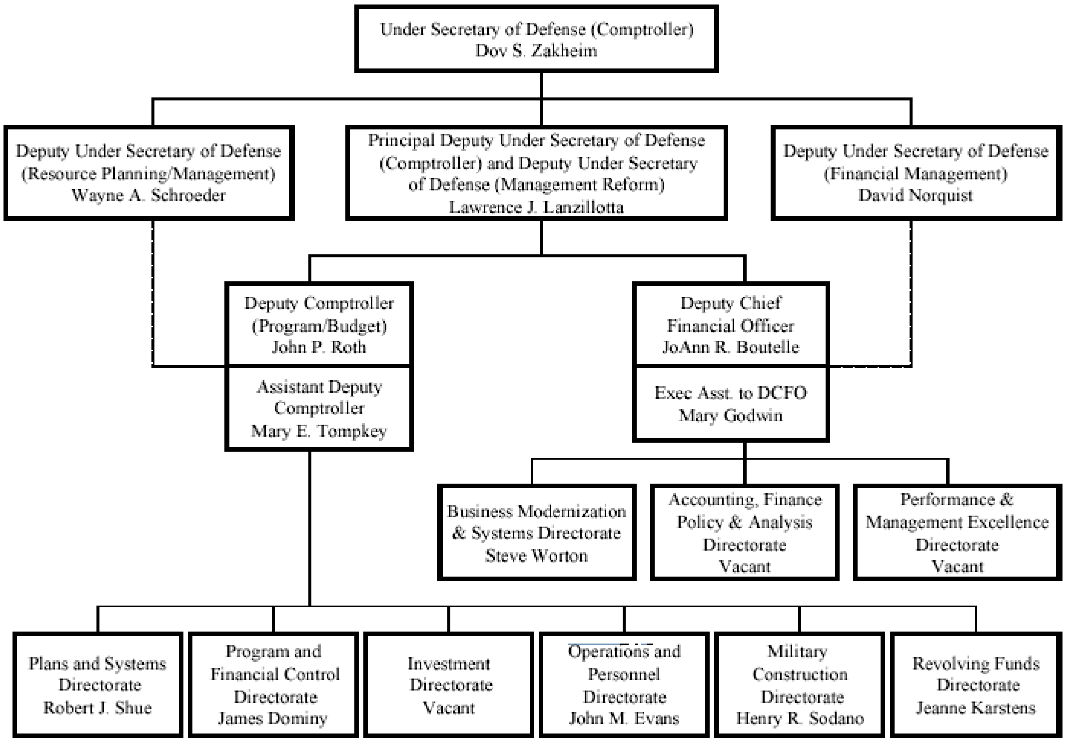

Figure 17 - Office of the Undersecretary of Defense (Comptroller)

The Combatant Commanders are also heavily engaged in the processes that intersect with PPBE such as JOPES, JSCS and the acquisition process described previously in Figure 8 - PPBE in Relation to Strategy Development, Ware Plans, and the Acquisition Process. They do not play as active a role in the PPBE system since their focus is on the requirements to support and conduct operations, not the resourcing of those requirements. The resourcing task belongs to the services.

Secretary of the Navy

The Secretary of the Navy (SECNAV) is responsible for the policies and control of the Department of the Navy, including its organization, administration, operation, and efficiency. The Under Secretary of the Navy, the Deputy Under Secretary of Navy, the Assistant Secretaries of the Navy, and the General Counsel are the Secretary's principal policy advisers and assistants. These civilians are political appointees who have been assigned department-wide responsibilities. They exercise authority that is delegated to them by the Secretary.

Assistant Secretary of the Navy (FM&C)

Each military service has an Assistant Secretary (Financial Management & Comptroller). This individual is responsible for financial management, including budgeting, accounting, disbursing, financing, internal review, and progress and statistical reporting. ASN (FM&C) is the Comptroller of the Navy.

Two primary divisions within ASN (FM&C) are **FMB** (Office of Budget) and **FMO** (Office of Financial Operations). The Director of Office of Budget (FMB) prepares and administers the DoN Budget (both Navy and Marine Corps dollars) for the Secretary of the Navy. FMB is "dual-hatted," working for the CNO as the Director of the Fiscal Management Division (N82), and is responsible for the Navy's "blue dollar" and "blue in support of green dollar" (Navy in support of Marine Corps) execution. The Programs and Resources (P&R) division of Headquarters Marine Corps handles the Marine Corps "green dollar" execution, reporting to the Commandant of the Marine Corps.

Chief of Naval Operations

The Chief of Naval Operations (CNO) is responsible for determining operating force requirements and for fulfilling these requirements. Within the Office of the Chief of Naval Operations, the chain of command runs from the Chief of Naval Operations to commands (both shore establishments and operating forces), and then to field activities. The Office of the Chief of Naval Operations organization is shown below in Figure 18 - Chief of Naval Operations Staff. Many of the DCNOs in the CNO's organization are Appropriations Sponsors and Resource Sponsors. The responsibilities of sponsors were discussed in Chapter 4.

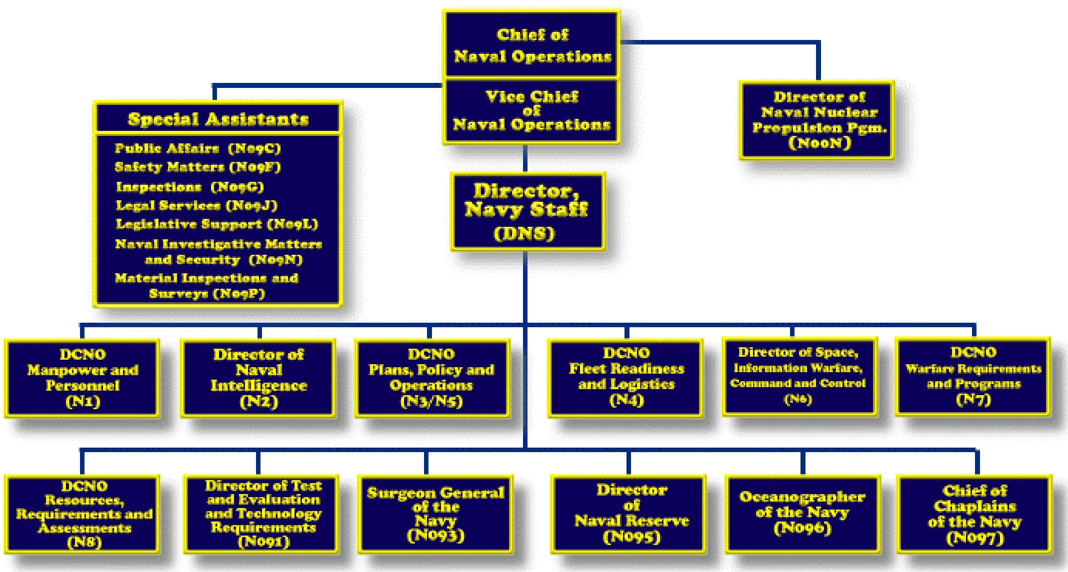

Figure 18 - Chief of Naval Operations Staff

Requirements are generated within the N6/7 organization and resource allocation decisions are decided under the N8 organization. Or, to put it differently, the N8 staff manages the *process* of PPBE, the N6/7 organization its *content*. Within the office of the Deputy Chief of Naval Operations for Warfare Requirements and Programs (N7/6) reside most of the resource sponsors who develop programs and submit sponsor program proposals to the Deputy Chief of Naval Operations for Resources, Requirements and Assessments (N8) organization for POM development. The N80, N81, and N82 staffs manage the PPBE process. These organizations are displayed below in Figure 19 - N6/7 Organization and Figure 20 - N8 Organization. (At the time of publication, there was considerable discussion regarding a reorganization of N6/7 along the SeaPower-21 elements. Readers are advised to check the latest information at the OPNAV website.)

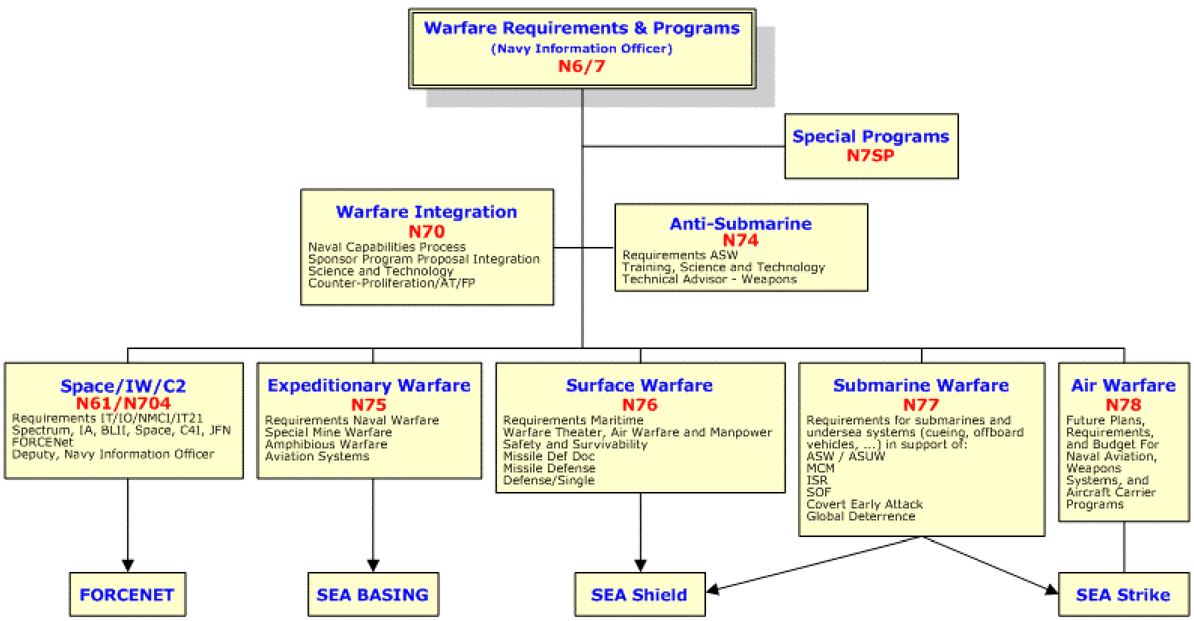

Figure 19 - N6/7 Organization

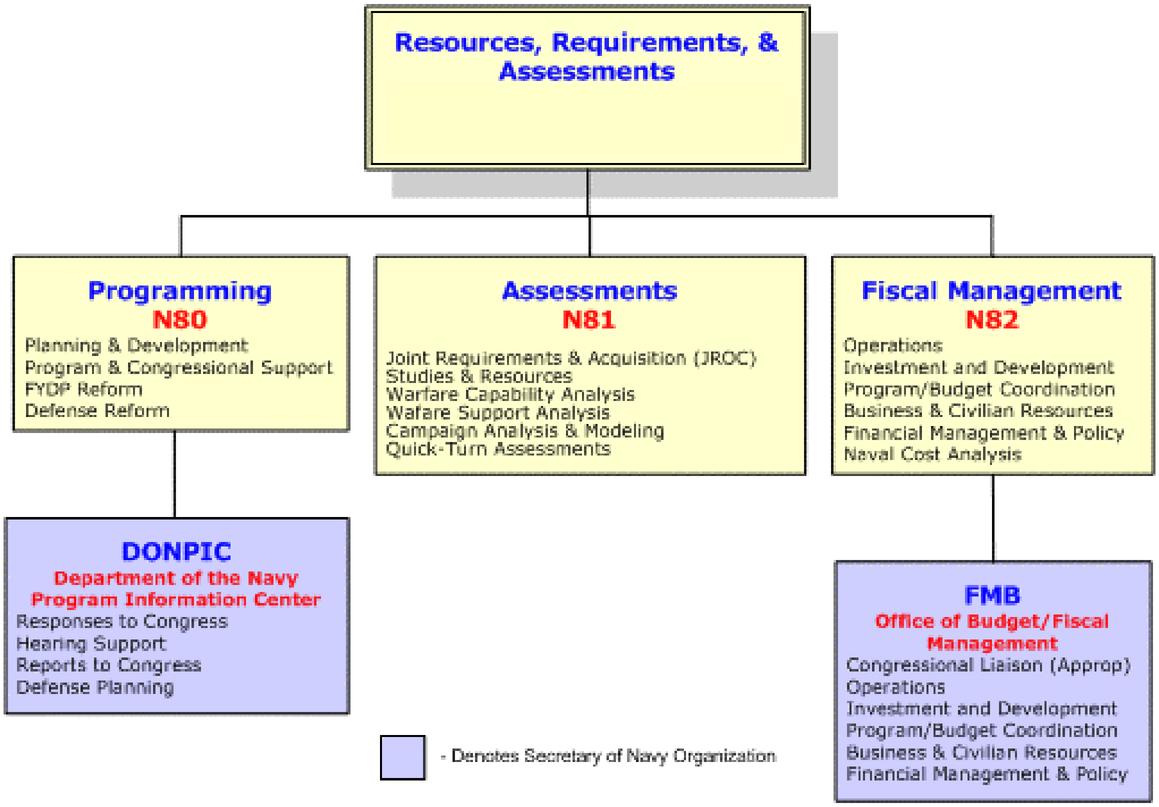

Figure 20 - N8 Organization

N80, Programming Division

N80 is responsible for the programming process for the CNO. With respect to budget formulation, it assists FMB in the translation of both the Navy POM and PDM from program terms to budget terms. N80 develops programs that are to be executed two to seven years in the future. N80 issues the Program Objectives Memorandum (POM) guidance, defends the Navy POM (Navy and Marine Corps), and appraises resource sponsor proposals for new or revised programs. N80 works closely with the Resource Sponsors. N80 is also dual-hatted as the Director of the Navy Program Information Center as part of the SECNAV staff.

N81, Assessment Division

N81 is responsible for the planning process for the CNO. This includes Integrated Warfare Architectures (IWARS), readiness assessments, sustainment, manpower, personnel and training, infrastructure and strategic planning studies. N81 performs assessments during the "program planning" phase of PPBE. They work closely with the assessment sponsors and the resource sponsors.

N82, Fiscal Management Division

N82 is responsible for the fiscal management of Navy appropriations. This includes integrating programming and budgeting actions by coordinating the review of budget estimates within OPNAV to ensure conformance with the POM, controlling and suballocating funds which have been allocated by FMB, ensuring reporting of program status and funds availability, and reviewing execution of allocated funds to ensure program objectives are satisfied. This office is also the appropriation sponsor for the O&MN and OPN appropriations. As discussed earlier, the individual who serves as N82 concurrently serves as FMB in the Secretariat staff.

Other organizations

Other organizations certainly play a critical role in DoD financial management. Among those are DFAS, with the accounting function; Naval Audit Service, with a management control and auditing function; the systems commands as major budget submitting organizations, and so on. Most of these organizations are addressed in other portions of this text.

SECNAV Instruction 7000.27

SECNAVINST 7000.27 was issued on 8 April 2002 "to ensure that the Department of the Navy (DON) has a financial management organization capable of proper and effective administration of funds complying with applicable laws, regulations, policies, procedures and sound financial practices by providing guidance for establishment, periodic review and approval of comptroller organizations in the DON." All comptrollers need to be familiar with this instruction. A few highlights: (1) Activity Heads will have qualified comptrollers who report *directly* to them. (2) The comptroller is the principle advisor to activity head for financial matters, but the activity head is accountable… this accountability cannot be delegated. (3) The activity head is responsible for establishing and maintaining effective internal control systems. (4) Some comptrollers (primarily SYSCOMs) have a second reporting chain directly to ASN (FM&C).

Chapter 6: Budget Formulation & Review

What is a Budget?

A budget is a plan of action, a statement of priorities, a tool for financial planning and control, and a detailed pricing and execution plan for the first two years of the POM. As noted in the first chapter, the requirement for developing a federal budget rests with the Executive Branch; the Legislative Branch authorizes programs to exist and appropriates the funds with which they will operate.

Development of an effective budget depends on all personnel in the activity. Whether a zero-based approach is taken or an historical approach within control numbers is used, all personnel must take an active role in budget development and execution. In addition to identifying all requirements that can be funded, it is important to identify those *valid* requirements that cannot be funded. As a plan, the budget must be flexible and be able to accommodate changes.

Budget Formulation Overview

This chapter focuses on budget formulation from the perspective of the Budget Submitting Office; however, all activities have budgetary requirements and provide input to the process. *Formulation involves translating the approved programs in the first two years of the POM into detailed budget exhibits by appropriation*. Budget formulation begins with the budget call and is guided by OMB, the DoD FMR, and service Budget Guidance Manual and Memoranda.

The budget process consists of four phases. The first is the submission of budget estimates to the Office of Budget (FMB) by budget submitting offices throughout the Department for review and final approval by the Secretary of the Navy. The second phase is the submission of budget estimates by the DON to the Office of the Secretary of Defense and the Office of Management and Budget for review and final approval by the Secretary of Defense and the President. The third phase is the submission of budget estimates by the President to the Congress for its review and approval. The final phase is the enactment of appropriations by the Congress and execution of these appropriations by the DON. A DON budget is developed for the first three phases, but the organizational responsibilities and control vary with each phase. Embodied in every phase, however, is the Department's basic policy that the offices that are responsible for executing budgets participate in developing budget estimates, subject to the guidance and decisions of higher authority.[14]

[14] Budget Guidance Manual, September 2002, Chapter 1, Part 1

Organizations in the Budgeting Process

Systems Commands (SYSCOMs) and Program Managers. SYSCOMs, such as the Naval Sea Systems Command, and Program Managers will budget for their operating and support costs (Operations and Maintenance) and submit them to N82, who is the *Responsible Office* for all Navy appropriations *except* for RDT&E. SYSCOMs and Program Managers will budget for investment items (procurement and construction appropriations) and will submit them to N82, as well. Research, Development, Testing and Evaluation (RDT&E) will be submitted to FMB via the Chief of Naval Research (CNR). Depending on the size and complexity of the Acquisition Category (ACAT) of the program, some Program Managers may submit budget estimates for multiple appropriations such as Operations and Maintenance, Other Procurement, Military Construction, and Research and Development.

Responsible Office. The CNO (via N82) is the Responsible Office for the military personnel, operations and maintenance, procurement and construction appropriations for the Navy. A Responsible Office is responsible for all programs funded by a particular appropriation; ensuring Congressional intent is met at the Budget Activity (and below) level.

N82 supervises the development of the Navy's budget for these appropriations, and receives input from the Budget Submitting Offices (BSOs) and Major Claimants. Some examples of BSOs and Major Claimants include: CINCLANTFLT, CINPACFLT, NAVAIR, NAVSEA, BUPERS, BUMED, CNET, NAVSUP, SPAWAR, NAVSECGRU, HQMC and NAVFAC.

The Commandant of the Marine Corps (CMC) is the Responsible Office for all Marine Corps appropriations (Military Personnel [active and reserve], Procurement, Operations and Maintenance [active and reserve]).

Administering Offices. Administering Offices are offices that are responsible for *assigned portions of an appropriation* and fall under the Responsible Office. They will compile and review budget estimates, as appropriate, before sending them to N82. For example, the principal administering office for the Military Personnel appropriation is BUPERS. Systems Commands and Program Managers are administering offices for appropriations such as Aircraft Procurement (NAVAIR), Shipbuilding and Conversion (NAVSEA), Weapons Procurement (NAVSEA) and Military Construction (NAVFAC).

Budget Considerations and Budget Terminology

Again, budgeting is the pricing and planning of the POM. Using a simplified analogy, if the POM is for "barbeque dinner for 6 people", the budget would contain items such as the cost of the food and consumables supplies, the pay for the cook, electricity allocated to the kitchen, charcoal for the grill, perhaps annual depreciation for the cost of the grill, etc. The budget justification materials contain two significant parts: the narrative description and the financial information.

Narrative. It is imperative that the analyst preparing the budget exhibits understands the nature of the program or activity that they are describing. The analyst must understand the military significance of the program and describes the program in terms relevant to senior leadership. The narrative should also be written in terms that comply with the budget call, POM guidance, Defense Planning Guidance and strategy documents. This is the final output of the PPBE process and should reflect all the preceding work.

Financial. It is equally imperative that the analyst understands the nature of the costs to deliver the program or activity. Costs take several forms. Fixed costs (or indirect costs) are those costs that do not vary with the amount of activity or volume or work. Some examples include administrative salaries, insurance and fire protection costs at an installation. Some may even argue that civilian labor is a fixed cost at most activities, as it remains relatively constant. Variable costs (or direct costs) vary directly and proportionately with the amount of activity. Variable costs are fixed per unit of output but will vary as the output or activity changes. Some examples include utilities involved in manufacturing or overhaul, transportation costs, packaging and fuel for material handling equipment. Controllable costs are those that can be significantly influenced by actions at the activity. *Most costs in the short-term are non-controllable, in the long them they are controllable.* For example, a large portion of the budget could be for civilian labor, a portion is for utilities, contracts, etc. Little of the budget is controllable and leaves little flexibility; therefore, the financial manager must look at some of the non-controllable costs for reductions.

You must be sure to budget for pay raises and increases to fringe benefits. You need to pay attention to inflation factors provided in the budget call. You need to factor in efficiencies associated with economies of scale and learning curve.

Full Funding. Full funding means that the entire cost to procure an item is budgeted and obligated at the time it is ordered. Full funding is required when Congress directs, if using a procurement appropriation, the effort is non-severable, or a distinct finished product will be produced. Full funding requires that each year's procurement and MILCON appropriation requests include the funds estimated to be required to cover the *total cost to be incurred in completing delivery of a given quantity of usable end items* such as aircraft, missiles, ships, vehicles, ammunition, or facilities. Deliveries must be completed within a one-year period after the first delivery on a particular contract is made (excluding MILCON). Two exceptions to full funding exist: *Advance Procurement and Multiyear Procurement*.

Full Funding example:

Procure 50 Production missiles*	FY01	FY02	FY03	FY04	Total
Incur Costs					
Prime Contractor	1.0	3.0	3.5	.5	
Guidance Section	.5	2.0	2.3	.6	
Govt. Testing	-	-	.5	.2	
Total Costs	1.5	5.0	6.3	1.3	14.1
FY of Funding	**14.1**				

*Vehicles to be delivered December 03 - November 04

Incremental Funding. Incremental funding means that an effort is financed in periodic (normally annual) portions. Incremental funding is required when the effort is severable, recurring support, or for most research and development.

Incremental Funding example:

Build and Test a prototype missile	FY01	FY02	FY03	FY04	Total
Incur Costs					
Design	2.0	3.0	.5	-	
Build	-	-	5.0	-	
Test	-	.5	.1	.2	
Total Costs	2.0	3.5	5.6	.2	11.3
FYs of Funding	2.0	3.5	5.6	.2	11.3

Reimbursables. Reimbursables are funds received by one activity (performing activity) in return for services or items. You must consider the amount of reimbursable expenses that you will incur as a customer, or perhaps the amount of reimbursable funds you may receive as a provider. Because reimbursable amounts are included as part of your Total Obligation Authority (TOA), you must consider this funding issue during your budget formulation process. Reimbursables are discussed in detail in chapter 8.

Advance Procurement. This is another exception to DoD's full funding policy. Advance procurement involves budgeting for long lead-time items in advance of the fiscal year in which the end-item is budgeted (*normally for the major procurement appropriations and in limited circumstances*). Advance procurement will be budgeted only one year in advance of the end-item funding year and should be for only a small percentage of the overall requirements. The funds are added to the budget authority for the prior fiscal year and deducted from the budget authority of the fiscal year for which it is identified. Economic Order Quantities (EOQ – items that exceed the current year requirements but are more economical to procure as EOQ items) should be included in advance procurement budget requests and should satisfy no more than five program years of requirements. AP is used order to reduce the overall procurement lead-time of the major end item. In the example below, a submarine is budgeted in FY02 for a cost of $5.0 billion with $400 million in advance procurement.

Advance Procurement Funding example:

Build a submarine in FY02	FY01	FY02
FY02 Adv Proc	0.4	
FY02 SCN		5.0
Less FY02 Adv Proc	-	(0.4)
Total Received	0.4	4.6

Multi-year Procurement. Multi-year procurement (MYP) is a contractual commitment for support of outyear end-items and is an exception to full funding, requiring Congressional approval. MYP is to be identified in the POM and budgeted accordingly. A contract may cover more than one year (up to five years), the funds are budgeted and the contract is financed in *annual increments* that fully fund only the annual requirements. MYP protects the contractor from loss due to canceling subsequent increments by allowing reimbursement of unrecovered, nonrecurring costs through a cancellation charge. MYP is normally for the major procurement appropriations, as well.

Award Fees and Incentive Fees. You must ensure that award fee and incentive fee amounts are budgeted, set aside and *obligated* as a contingent liability prior to the actual award fee determination. Failure to do so could result in a violation of 31 USC Section 1517(a).

Full-time Equivalent (FTE) Ceilings. Per the Federal Work Force Restructuring Act of 1994, FTE ceilings are issued to each agency on the number of full-time equivalent work years that may be executed from FY1994 through FY1999. Although the act expired on 30 September 1999, OMB still imposes a FTE ceiling. A FTE is normally 2,080 hours (40 hours per week times 52 weeks). FTE ceilings are issued to each major claimant. They have the flexibility to realign the ceiling among appropriations or WCF activity groups while remaining within the total ceiling. Therefore, activities must monitor their FTE ceilings and execution, along with their dollars for payroll and benefits.

The Budget Call

Because the President must submit an annual budget to the Congress, the budget call begins at OMB with the annual issuance of OMB Circular A-11. OMB Circular A-11 provides guidance to all executive departments on how to prepare its budgets, and is issued in the July timeframe. The budget call flows down the chain of command similar to the flow of funds description in Chapter 2.

Budget calls delineate the submission format and schedules, as well as control numbers, inflationary factors, full time equivalent (FTE) manpower ceilings, restrictions such as ceilings, fences, floors and special interest items, required exhibits and other administrative guidance. Control numbers are issued by appropriation to each BSO, and are derived from the PPBE changes since the prior President's Budget.

USD(C) and ASN (FM&C) issue budget calls as well, often in advance of the issuance of OMB A-11. ASN (FM&C), via FMB, issues its budget call in the May timeframe. You can see that a series of budget calls will be issued, and the budget formulation process begins at roughly the same time each year. Budget exhibits normally will contain prior year (PY) information from the last completed fiscal year, current year (CY) information and the budget years (BY1 and BY2).

You will see that the Navy budget formulation process is a top-down process, but the actual formulation process is decentralized and spread across many activities. ASN (FM&C) issues the "Budget Guidance" series of memoranda (e.g., BG03-1, BG03-1A, BG03-2, etc., for the FY2003/04 budget estimate submission). In addition, the Navy's Budget Guidance Manual and DoD Financial Management Regulation (FMR) Volume 2 provide additional budget estimate submission guidance.

The level and size of the activity may determine how the budget is formulated. Some activities may choose to do a decentralized approach and solicit inputs from all departments and divisions, while others may elect for the comptroller to prepare the budget in its entirety.

Budget Exhibits

The specific budget exhibits a BSO must prepare depend on many factors. It is primarily appropriation-driven with a few required exhibits for all programs within an appropriation. Then, there are specific exhibits that are completed on an as-required basis. To illustrate, the major exhibits and their purpose for Operations and Maintenance are listed in Figure 21 - Operations & Maintenance, Navy Budget Exhibits below[15]. Clearly some exhibits will apply to only a few activities (e.g., OP-20, OM-4) where others will apply to all activities (e.g., OP-5, OP-32). Similarly detailed tables exist for other appropriations. Program and activity budget analysts must read the budget guidance memos and budget calls carefully to ensure all required exhibits are prepared and are consistent.

[15] Budget Guidance Manual, September 2002

Operation and Maintenance Appropriations
DON Submission Requirements

Exhibit No.	Title	Approp.	Source	Reference
O-1	O&M Funding by Budget Activity and Activity Group	All	NBTS	NHBS on-line
OP-5	Part 1 (Budget Activity) Part 2 (Sub-Activity Group) Attachments 1-5, as applicable	All	OARS	NHBS on-line
OP-14	Individual Training Data	OMN/MC	CNET CNO BUPERS HQMC	FMR 3-55/70
OP-20	Analysis of Navy Flying Hour Program-Summary	OMN/R	N789	FMR 3-87
OP-20A	Analysis of Navy Flying Hour Program-TACAIR	OMN/R	N789	FMR 3-88
OP-20B	Analysis of Navy Flying Hour Program-Fleet Training	OMN/R	N789	FMR 3-89
OP-20C	Analysis of Navy Flying Hour Program-Fleet Support	OMN/R	N789	FMR 3-90
OP-24	Emergency and Extraordinary Expense Limitation	OMN	AAUSN	FMR 3-92
OP-26	POL Consumption and Costs	All	BOCS	NHBS on-line
OP-27	Facilities Sustainment, Restoration And Modernization	All	BSOs with MRP	FMR 8-9/10
OP-27P	Facilities Projects Over $500,000	All	BSO	FMR 8-11/12

OP-30*	Depot Maintenance Program	All	BSO	FMR 3-98/109
OP-30S	Ship Depot Maintenance	OMN/OMNR	LANTFLT/ PACFLT/ NAVSEA	Appendix B
OP-32	Appropriation Summary of Price/Program Change	All	BOCS	NHBS on-line
OP-40	Ship Fuel Data & Operating Tempo Data	OMN OMNR	LANTFLT/ PACFLT	FMR 3-130
OP-41	Ship Operating Cost Data	OMN OMNR	LANTFLT/ PACFLT	FMR 3-131
BS-1	Base Support	OMN	BSO	NHBS on-line
OM-1Q	Quarterly Obligation Phasing Plan	All	BSO	Appendix B
OM-4	MSC Charter by Ship Hull	OMN OMNR	LANTFLT PACFLT SSP	Appendix B
OM-6	Unfunded Requirements	All	BSO	Appendix H
NC-10	Naval Shipyard Workload Summary	OMN	BSO	Appendix H
NC-50S	Mandays at Naval Shipyards	All	NAVSEA/ SPAWAR	Appendix H
OMBP-01	Overseas Military Banking Program	OMN	NAVEUR/ PACFLT	FMR 19-95/96

Figure 21 - Operations & Maintenance, Navy Budget Exhibits

Budget Review

Chapter 4 briefly discussed the role of budget review in the context of PPBE. This section will look at the content of the budget review and strategies for budgeting effectively so that the review goes smoothly with minimal disruption. There are three levels of budget review: the component review, the joint OSD/OMB review, and the Congressional review. The review process begins in the summer at the component level and ends the following summer at the Congressional level.

Component Review of the Budget Estimate Submission

Of course, the review process will begin at the activity level with the comptroller and commanding officer reviewing the budget estimate submission. The budget will be reviewed for balance across all resource areas, and key resource allocation decisions will be made. Upon completion of the review, it will be forwarded to the applicable Administering Office or Budget Submitting Office where it will be consolidated with other estimates, then forwarded to FMB. The DoN budget formulation and review schedule for POM-04 is shown in Figure 22 - FY04 Navy Budget Calendar, below.

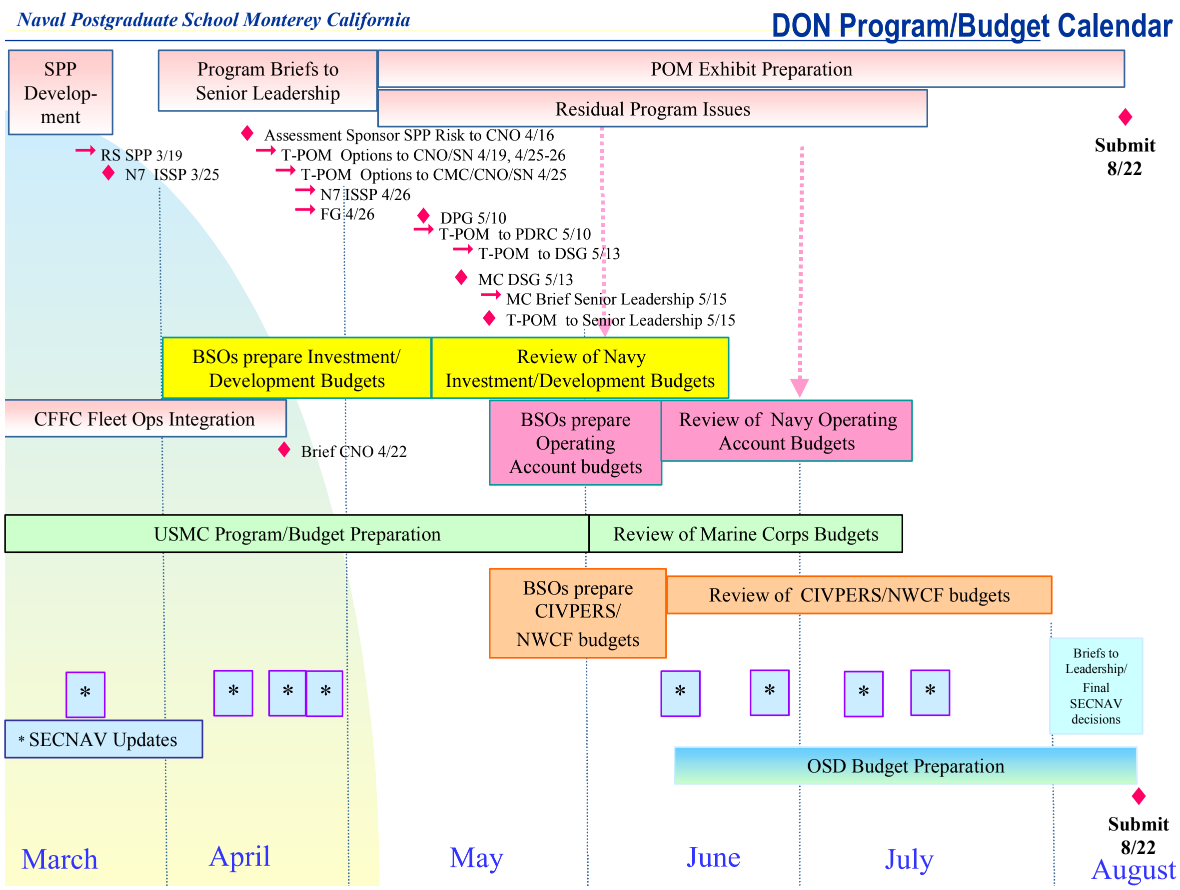

Figure 22 - FY04 Navy Budget Calendar

Major claimants, or Budget Submitting Offices (BSOs), submit their budgets to FMB based on the approved POM and the guidance contained in the Budget Guidance (BG) series of memoranda issued by FMB. The Navy Comptroller staff then begins the process of reviewing the submission for both technical and programmatic factors. The technical factors include things such as the proper preparation of all required exhibits, accurate pricing, accurate prior year execution data, and executability of programs. The programmatic factors also deal with executability but look primarily at whether the program or activity is in compliance with existing laws and regulations, meets the requirement of the DPG, whether performance criteria are appropriate and accurate, and – for acquisition programs – if milestones are on track. During this review, the Director of the Office of Budget (FMB) in the ASN (FM&C) office will often ask routine written questions and may conduct informal DON hearings to ensure that the budget estimates:

- Are in agreement with the POM, SECDEF guidance, and available decision documents;
- Contain current and valid costs and pricing;
- Are well justified and consistent;
- Maintain financial feasibility and balance;
- Are executable;
- Conform to legal requirements

The review process is designed to provide resources for essential programs at the best cost. An inherent "downward bias" exists between the reviewing analyst and the cost estimators. This bias is in place, by design, to ensure that DoN goals are met. The DoN analyst sees what is seen as a "cushion" by the activity or program manager as capricious pricing. The conflict between the reviewing analyst and submitting office will ensure that resources and programs are not lost, and remain in the Navy.

The procurement appropriations will be reviewed for pricing and milestone schedules in the acquisition cycle. Unit costs, the production schedule, inventory requirements and sparing philosophies, and lead-time will be examined.

The Operations and Maintenance appropriation review criteria will depend on the type of program. Cost data will be used to examine overhaul figures, fuel costs, labor costs, operations, medical care, distribution costs and real property maintenance.

The Military Personnel appropriation is reviewed on an average cost basis, using average costs for pay and allowances for all ranks. Attrition, accession and the estimated number of personnel are weighed against the average costs. PCS costs, bonuses and separation costs must be considered, as well.

Unfunded requirements may result from improper POM pricing or a lack of balance across the appropriations, and the Resource Sponsors must provide offsets from other programs to cover the shortfall.

Programs will be reviewed for executability and balance. Contract award dates, phasing of requirements, maintenance phasing, personnel requirements and production rates will be examined to ensure the program will execute in the budget year.

After an initial review and analysis of the material submitted in support of the budget estimates, each FMB analyst may schedule budget review sessions to review program details with representatives from BSOs and resource sponsors (RS). The primary purpose for these sessions is to obtain additional information on programs for which the justification contained in budget exhibits does not adequately support the budget estimates. The respective FMB division issues a schedule of budget review sessions for each appropriation/fund. Representatives from other interested offices (such as DONPIC, OPA, and the offices of the Assistant Secretaries) are also invited to attend these sessions. The analyst conducting the session often provides questions in advance to facilitate the exchange of information at the session and to make BSOs and RSs aware of area of concern or potential budget marks.[16]

Issue Papers

After completing the review and analysis of the budget estimates contained in the submission, an Office of Budget (FMB) Issue Paper is prepared (if required) for each appropriation/fund or major sub-division thereof. The Issue Paper contains recommended adjustments to the budget estimates and the rationale for these adjustments. Issue Papers will be prepared by cognizant FMB budget analysts, issued by the appropriate division director, and posted to the Navy Headquarters Budget System web site[17] for viewing and/or downloading electronically. Unless a reclama to the Issue Paper is submitted, these adjustments become final decisions.[18]

Issue Papers tend to fall in a few broad categories that directly relate to the technical and programmatic factors that are reviewed. Those categories include:

- Approval for Production
- Unfunded Requirements
- Pricing
- Program Executability
- PDM compliance or implementation
- Congressional Action
- Audit Savings
- Interappropriation Transfers
- Prior Year performance
- Outyear adjustments[19]

Reclama Process

Reclama procedures have been established to provide budget submitting offices and other DON organizations an opportunity to respond to adjustments made in the FMB Issue Paper. If a reclama is submitted to a specific Issue Paper, then

[16] Budget Guidance Manual, September 2002, Part I-26
[17] The Navy Headquarters Budget System website can be found at URL: http://navweb.secnav.navy.mil/nhbs/. Readers are cautioned that not all material is in the public domain and that some is password protected.
[18] Ibid.

[19] Budget Guidance Manual, September 2002, Part I-28

that Issue Paper is considered a tentative decision until the reclama is resolved. If no reclama is submitted, then the Issue Paper becomes a final decision.[20]

The reclama process is designed to address erroneous assumptions made by the reviewing analyst, and is not intended for the Budget Submitting Office to shift funds from one program to another.

The reclama should address the Issue Paper, and correct any erroneous assumptions or errors. Issues outside of the Issue Paper should not be addressed, and only factual disagreements should be addressed. In other words*, emotions should remain out of the reclama*.

The issuing analyst resolves most Issue Papers. If required, the branch head or division head will resolve the issue. However, not all Issue Papers can be resolved in this manner. Major Issues Meetings may be held with FMB and the BSO (and Resource Sponsor, as applicable), and are of a level that will possibly require the attention of the Secretary of the Navy. Prior to this, FMB discusses these issues with N8, the DCNO for Resources, Requirements and Assessments. The SECNAV has the final say on all Issue Papers in the DoN.

The outyears must be balanced along with the budget year. The final rebalancing will occur after intense review by the CNO, the CMC and final review by the SECNAV. The last step in the DON Budget Review is the issuance of control totals for submission of budget estimates to OSD/OMB. Final decisions resulting from the Secretary of the Navy review are reflected in these fiscal controls, and no deviations from these controls are allowed. The Navy budget is submitted to the SECDEF, normally by 15 September, and is included in the DoD budget.

Joint OSD and OMB Review

At this point, there is no longer have a Navy budget, Air Force or Army budget – they become *one DoD budget*. Analysts from the Under Secretary of Defense, Comptroller (USD (C)) and the Office of Management and Budget (OMB) conduct an initial review of the material submitted in support of the budget estimates. They will then schedule hearings to review program details with representatives from the Military Departments. Prior to the hearings, the analysts will usually provide a list of questions to be discussed. These questions are passed to FMB, who in turn passes them to the BSOs, as appropriate. Once the hearings are complete, the analysts will then recommend adjustments to the budget estimates in the form of *Program Budget Decisions (PBDs).*

[20] Ibid, p. I-29.

Program Budget Decisions (PBDs)

The OSD decision-making process focuses on the preparation, processing and promulgation of Program Budget Decisions (PBDs). The PBDs provide the Secretary of Defense an analysis of the funding requirements as requested by the components and also provide one or more alternative recommendations. PBDs are adjustments (i.e., Issue Papers) recommended by OSD/OMB analysts that normally highlight problems with program milestones or funding, thus providing the SECDEF an opportunity to make appropriate adjustments to the budget submissions. PBDs are considered drafts until the Services have the opportunity to review and reclama.[21]

Reclamas are drafted by the respective BSO and are reviewed by FMB. The lead analyst will present the PBD reclama to FMB and it will then be forwarded to OSD/OMB as a Coordination Memorandum. The OSD/OMB analysts will review the reclama and make any changes required to the draft PBD. The PBDs are then forwarded for signature to the Undersecretary of Defense (Comptroller), Deputy Secretary of Defense or Secretary of Defense.

Major Budget Issues (MBI) Meeting

If the components still have any outstanding issues with the PBDs, then a Major Budget Issues (MBI) meeting will be scheduled with the SECDEF and the applicable component Secretary. Not all issues may be resolved at the MBI, and the SECDEF will take them forward when he meets with the President to discuss the OSD budget.

SECDEF Meeting with the President

The Secretary of Defense and the Director of OMB meet with the President to resolve any issues between OMB and OSD. After this meeting, OSD will issue PBDs that include the President's decisions in the Defense budget. The final product of this process is the President's Budget (PB or PresBudg) submission to the Congress.[22]

Congressional Review Process

The Congressional Review Process, Budget Resolutions, Authorization and Appropriation were covered in Chapter 2.

[21] The Programming and Budgeting Processes of the USMC, December 1999

[22] The Programming and Budgeting Processes of the USMC, December 1999

Chapter 7: Appropriated Funds

Appropriations – Definition

An appropriation is the authority provided by an Act of Congress to incur obligations for specified purposes and to make payments out of the Treasury. Appropriations are classified in several different categories based on their ***purpose, time, and amount***. The Department of the Navy receives appropriations via the Department of Defense Appropriations Act and in the Military Construction Appropriations Act.[23]

For an appropriation to be available for a legal expenditure of funds, all three of the following must be observed: (1) the purpose of the obligation or expenditure must be authorized; (2) the obligation must occur within the time limits prescribed by the Congress; (3) the obligation and expenditure must be within the amounts prescribed by the Congress.

Before an appropriation act is passed, it is normally preceded by an authorization act. Authorization acts authorize the programs and amounts to be provided by an appropriation, prescribe personnel end-strength numbers, and may also direct the submission of reports. The appropriation act provides the budget authority for appropriated fund activities. *It is important to understand that without an appropriation act, the authority to incur obligations does NOT exist.*

Appropriation Terminology

Obligation availability period. This is defined as the period during which obligations may be incurred as specified by the appropriation. At the end of this period, the appropriation "*expires*" and no new obligations may be made; only within-scope contract changes or valid obligation adjustments may be made. Unobligated balances from expired appropriations retain their fiscal identity in an expired account at the component level.

Expenditure availability period. This is defined as the period beginning at the end of the obligation availability period, which extends for a period of five years for all appropriations. Simply stated, it is the period in which all outstanding obligations are to be *liquidated* with matching expenditures. At the end of this period, the appropriation lapses (also referred to as closes or canceled) and any unexpended balances are returned to the Treasury general fund. Readers are cautioned that this is not a precisely accurate term. Expenditures are not limited to the expenditure availability period; they may post against an obligation any time after making that obligation. In fact, especially for expense type appropriations, the majority of funds will expend during the obligation availability period.

[23] Department of the Navy, Financial Management Policy Manual, NAVSO P-1000 para 074000

Open appropriation. This is defined as the obligation availability period plus the expenditure availability period. For example, Operations and Maintenance is open for a period of 6 years (1 year plus 5 years), while Aircraft Procurement is open for a period of 8 years (3 years plus 5 years). See Figure 23 - Appropriation Terminology for an illustration of these terms.

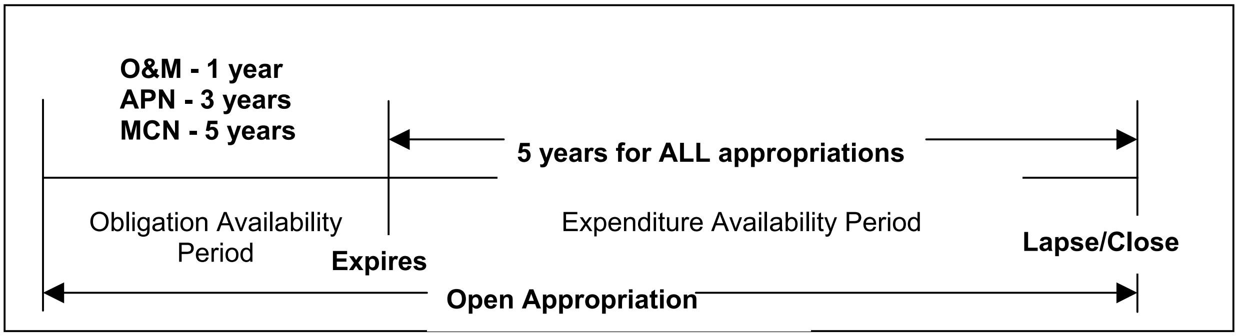

Figure 23 - Appropriation Terminology

A key point to remember is that when the appropriation lapses/closes, any outstanding and unliquidated obligations are canceled. If any valid adjustments are required to a lapsed/closed appropriation, then they will be charged to *current* year funds, up to one percent of the fund authorization. *Simply stated, failure to properly liquidate fiscal year 1998 Operations and Maintenance obligations could result in charges to your fiscal year 2004 Operations and Maintenance account.* One percent may not sound like a significant amount, but one percent of the Navy's Operation and Maintenance (O&MN) dollars is roughly equal to $280,000,000. It adds up at the appropriation level where this is managed. Financial managers are cautioned not to wait until the last year of the expenditure availability period to reconcile these records…an ongoing obligation validation program is essential for accurate funds management.

Transfer authority. The intent of Congress is stated in the Authorization and Appropriations Acts. Funds may not be transferred from one appropriation to another (recall the purpose) without the approval of Congress. Congress gives the SECDEF general transfer authority for high priority requirements, and excludes using the MCON appropriation. Transfer authority may involve moving funds from the Operations and Maintenance appropriation to the Military Personnel appropriation. Notification of the OMB and Congress is required, however.

Reprogramming authority. The DoD is issued cumulative thresholds, by appropriation, for which the components may revise programs *within* appropriations. For example, the Navy may wish to move funds from one budget activity to another budget activity in the Military Personnel Navy appropriation. The thresholds and restrictions are specified in the Appropriations Act, and the appropriate committees (HAC and SAC, HASC and SASC) must be notified if the reprogramming is above the cumulative threshold amount.

Budget authority provided by an annual appropriation is referred to as *New Obligation Authority.* You may also have budget authority from prior years' appropriations, such as *unexpired* budget authority from a multiple year appropriation. These are two of the three components of what is *called Total Obligation Authority*, or TOA. The third component of TOA is *reimbursable authority*. Reimbursables will be discussed in a later chapter, but are simply a lateral transfer of budget authority from one activity to another.

Purpose[24]

The most fundamental statute dealing with the use of appropriated funds is 31 U.S.Code Section 1301(a): "Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law." Since money cannot be paid from the Treasury except under an appropriation[25] and since an appropriation must be derived from an act of Congress, it is for Congress to determine the purposes for which an appropriation may be used. The statute prohibits charging authorized items to the wrong appropriation and unauthorized items to any appropriation.

Generally the language in an appropriations bill is fairly clear, but not always. There are some established guidelines. For instance, a specific appropriation must be used to the exclusion of a more general appropriation that might otherwise have been viewed as available for the particular item. And transfers between appropriations are prohibited without specific statutory authority, even if reimbursement is contemplated. Further, an agency cannot do indirectly what it is not permitted to do directly. Thus, an agency cannot use a contract to accomplish a purpose it could not do by direct expenditure.

So where does one look to find the authorized purpose of an appropriation – or perhaps more common – where does one look to determine which appropriation is proper for a given item of expense? The first place is to the appropriation act itself and the authorizing legislation. The student is referred to Chapter 4 of Principles of Appropriation Law (commonly referred to the as the GAO Red Book, due to its red cover) to read applications of the interpretation of appropriation language. A few items are worth noting here. First, The relationship of an appropriation to the agency's budget request is an important factor in determining purpose availability. If a budget submission requests a specific amount of money for a specific purpose, and Congress makes a specific line-item appropriation for that purpose, the purpose aspects of the appropriation are relatively clear and

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[24] Much of this material is taken directly from Principles of Appropriation Law (commonly referred to as the GAO RedBook), Chapter 4.
[25] U.S. Constitution, Article I, Section 9

simple. The appropriation is legally available only for the specific object described. If the appropriation is a lump sum for broad object categories, there are two basic rules: (1) where an amount to be expended for a specific purpose which is not otherwise prohibited is included in a budget estimate, the appropriation is legally available for the expenditure even though the appropriation act does not make specific reference to it; and (2) the inclusion of an item in departmental budget estimates for an expenditure which is otherwise prohibited by law, and the subsequent appropriation of funds without specific reference to the item, do not constitute authority for the proposed expenditure or make the appropriation available for that purpose.

This brings us to the “necessary expense doctrine.” Certainly, not every item of expenditure can and should be specified in an appropriations act. The spending agency has reasonable discretion in determining how to carry out the objects of the appropriation. This is the basis for the “necessary expense doctrine.” Dating from a Comptroller General decision in 1927: “It is a well-settled rule of statutory construction that where an appropriation is made for a particular object, by implication it confers authority to incur expenses which are necessary or proper or incident to the proper execution of the object, unless there is another appropriation which makes more specific provision for such expenditures, or unless they are prohibited by law, or unless it is manifestly evident from various precedent appropriation acts that Congress has specifically legislated for certain expenses of the Government creating the implication that such expenditures should not be incurred except by its express authority. ”

While this sounds a bit legalistic, it boils down to a simple 3 part test…for an expenditure to be justified, (1) it must bear a logical relationship to the appropriation charged, (2) it must not be prohibited by law, and (3) it must not be otherwise provided for, that is, it does not fall within the scope of some other appropriation.

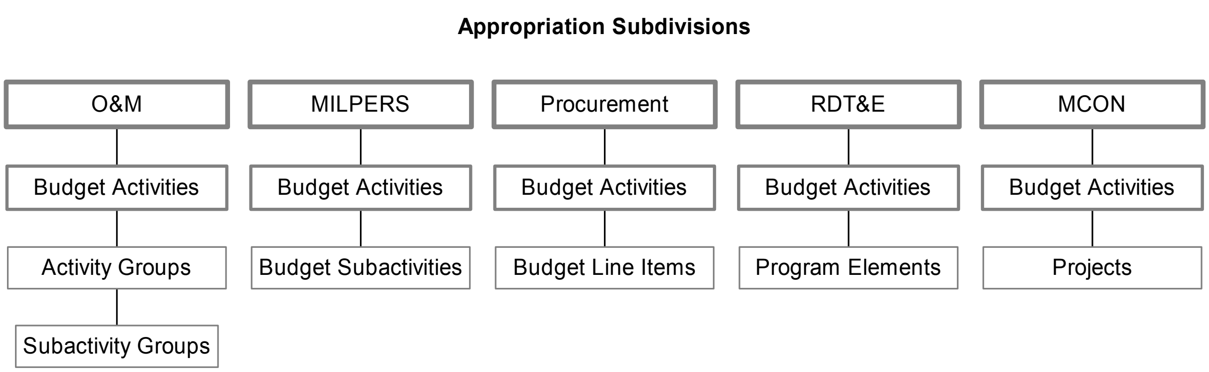

Figure 24 - Appropriation Taxonomy

One final aid in determining the proper appropriation is the structure of the appropriation. All appropriations contain an inherent hierarchy of purpose. The first subdivision for all appropriations is the Budget Activity. From there, each appropriation is a little different. For example, national defense appropriations break down as shown below in Figure 24 - Appropriation Taxonomy.

- **Operations and Maintenance** budget activities include: Operating Forces, Mobilization, Training and Recruiting, and Administration and Service wide Support.
- **Military Personnel** budget activities include: Pay and Allowances of Officers, Pay and Allowances of Enlisted, Pay and Allowances of Midshipmen, Subsistence of Enlisted Personnel, Permanent Change of Station Travel, and Other Military Personnel Costs.
- **Aircraft Procurement** budget activities include: Combat Aircraft, Airlift Aircraft, Trainer Aircraft, Other Aircraft, Modification of Aircraft, Aircraft Spares and Repair Parts, and Aircraft Support Equipment and Facilities.
- **Other Procurement Navy** budget activities include: Ships Support Equipment, Communications and Electronics Equipment, Aviation Support Equipment, Ordnance Support Equipment, Civil Engineering Support Equipment, Supply Support Equipment, Personnel and Command Support Equipment, and Spares and Repair Parts.
- **Procurement Marine Corps** budget activities include: Ammunition, Weapons and Combat Vehicles, Guided Missiles and Equipment, Communications and Electronics Equipment, Support Vehicles, Engineer and Other Equipment, and Spares and Repair Parts.
- **Research, Development, Test and Evaluation** budget activities include: Basic Research, Applied Research, Advanced Technology Development, Demonstration and Validation, Engineering and Manufacturing Development, RDTE Management Support, and Operational Systems Development.
- **Military Construction** budget activities include: Major Construction, Minor Construction, Planning, Supporting Activities, and Historical Projects.
- **Family Housing Operations** budget activities include: Mortgage Insurance Premiums, Operations, Leasing, Maintenance, and Interest Payments.
- **Family Housing Construction** budget activities include: Family Housing New Construction, Improvements, and Planning and Design.

Another aspect of the purpose characteristic is the **expense-investment threshold**. Congress sets the level at which an element of expense is large enough to be considered an investment. Investments are normally procured with investment-type appropriations (procurement, construction) while expenses are funded with expense-type appropriations (operations and maintenance, military personnel). Some appropriations are not so clear (RDT&E, BRAC). The FY03 Consolidated Appropriations Resolution, Public Law 108-7 of 20 Feb 2003 raised the expense-investment threshold from $100,000 to $250,000.

Thought must be given to ascertaining what is an investment or expense, linking the thought process to the purpose of the appropriation. Not all situations will be black and white, and the following are some examples of gray areas:

- Major service life extensions are financed with procurement dollars and extend the life of a weapons system.
- Depot and field level maintenance are routine and recurring requirements and extend the life of items, yet are funded in the Operations and Maintenance appropriation.
- Technology refreshments to improve the reliability or maintainability of an item are funded with O&M dollars. However, technology refreshments that extend the performance envelope are modifications, and therefore are investment costs.
- When family housing units are built and outfitted, family housing construction costs shall fund the procurement of refrigerators, carpeting, shades, etc. When a refrigerator is to be replaced, it will be replaced with family housing *operations* dollars.
- For a military construction project, furniture items that are movable (collateral furnishings) and not a fixed part of the facility will <u>not</u> be funded with construction dollars. These items will be funded as an expense (using O&M dollars) regardless of the aggregate cost (based on the unit cost).
- Minor construction costs financed with O&M dollars are categorized as expenses.

Time[26]

The two basic “uses” of appropriations are obligations and expenditures. An obligation is a binding commitment against an appropriation that will require expenditure at some later time. An expenditure is the actual disbursement of funds. This section will discuss the limitations on the use of appropriations relating to time—when they may be obligated and when they maybe expended.

An 1870 Comptroller General ruling held that “Congress has the right to limit its appropriations to particular times as well as to particular objects, and when it has clearly done so, its will expressed in the law should be implicitly followed. ” The placing of time limits on the availability of appropriations is one of the primary means of congressional control. By imposing a time limit, Congress reserves to itself the prerogative of periodically reviewing a given program or agency’s activities.

When an appropriation is by its terms made available for a fixed period of time or until a specified date, the general rule is that the availability relates to the

[26] Much of this material is taken directly from <u>Principles of Appropriation Law</u> (commonly referred to as the GAO RedBook), Chapter 5.

authority to obligate the appropriation, and does not necessarily prohibit payments after the expiration date for obligations previously incurred.

Appropriations can be categorized as annual, multiple year or no-year (continuing) for the time limits aspect. Annual appropriations can be used only for incurring obligations during the fiscal year specified in the appropriations act language. At the end of the obligation availability period, the appropriation is *expired* and is not available for new obligations. Examples of annual appropriations include Operations and Maintenance (O&M), and Military Personnel. These appropriations are incrementally funded, i.e., enough for one year's worth of operations. Annual appropriations are available only to meet <u>bona fide</u> needs of the fiscal year for which they were appropriated.

The *bona fide needs rule* simply states that a fiscal year appropriation may be obligated only to meet a legitimate, or bona fide, need arising in, or in some cases arising prior to but continuing to exist in, the fiscal year for which the appropriation was made. Bona fide need questions arise in many forms. An agency may wish to enter into or modify a contract or make some other obligation or expenditure, the question being which fiscal year to charge. The question may be whether an obligation previously recorded was a proper charge against that fiscal year's appropriation. An agency may have taken certain actions that it should have recorded as an obligation but did not; when the time for payment arrives, the question again is which fiscal year to charge. These are all facets of the same basic question—whether an obligation, proposed or made, recorded or unrecorded, voluntarily incurred or imposed by operation of law, bears a sufficient relationship to the legitimate needs of the period of obligation availability of the appropriation charged or sought to be charged.

While the rule itself is universally applicable, determination of what constitutes a bona fide need of a particular fiscal year depends largely on the facts and circumstances of the particular case. A common application of the rule in this context is that an appropriation is not available for the needs of a future year. For example, suppose that, as the end of a fiscal year approaches, an agency purchases a truckload of pencils when it is clear that, based on current usage, it already has in stock enough pencils to last several years into the future. It would seem apparent that the agency was merely trying to use up its appropriation before it expired, and the purchase would violate the bona fide needs rule. The bona fide needs rule does not prevent maintaining a legitimate inventory at reasonable and historical levels, the "need" being to maintain the inventory level so as to avoid disruption of operations. The problem arises when the inventory crosses the line from reasonable to excessive.

Bona fide need questions also frequently involve transactions which cover more than one fiscal year. In the typical situation, a contract is made (or attempted to be made) in one fiscal year, with performance and payment to extend at least in part into the following fiscal year. The question is which fiscal year should be charged with the obligation. In this context, the rule is that, in order to obligate a fiscal year appropriation for payments to be made in a succeeding fiscal year, the contract imposing the obligation must have been made within the fiscal year sought to be charged, and the contract must have been made to meet a bona fide need of the fiscal year to be charged.

The bona fide needs rule applies to multiple-year as well as annual appropriations. In other words, an agency may use a multiple-year appropriation for needs arising at any time during the period of availability. An argument can be made, not wholly without logic, that a multiple-year appropriation can be obligated at any time during its availability, but only to meet a bona fide need of the year in which the funds were appropriated. Suppose, for example, that an agency receives a two-year appropriation every year. For FY 2003, it receives an appropriation available through FY 2004; for FY 2004, it receives an appropriation available through FY 2005, and so on. It is possible to apply the bona fide needs rule to require that the FY 2004 appropriation be used only for needs arising in FY 2004, although obligation may occur any time prior to the end of FY 2005. The Comptroller General specifically rejected this approach stating, "There is no requirement that 2-year funds be used only for the needs of the first year of their availability."

Naturally, the bona fide needs rule does not apply to no-year funds, such as working capital funds.

Chapter 5 of the GAO Redbook contains many examples and cases related to the time aspect of appropriations.

Amount[27]

The two preceding sections have discussed the purposes for which appropriated funds may be used and the time limits within which they may be obligated and expended. This section will discuss the third major element of the concept of the "legal availability" of appropriations-restrictions relating to amount. It is not enough to know what you can spend appropriated funds for and when you can spend them. You must also know how much you have available for a particular object.

Under the "separation of powers" doctrine established by the Constitution, Congress makes the laws and provides the money to implement them; the executive branch carries out the laws with the money Congress provides. Under this system, Congress must have the "final word" as to how much money can be spent by a given agency or on a given program. In exercising this power, Congress may give the executive branch considerable discretion within broad

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[27] Much of this material is taken directly from Principles of Appropriation Law (commonly referred to as the GAO RedBook), Chapter 6.

limits, but it is ultimately up to Congress to determine how much the executive branch can spend. In applying this theory to the day-to-day operations of the federal government, it should be readily apparent that restrictions on purpose, time, and amount are very closely related. Again, the Antideficiency Act is one of the primary "enforcement devices." Its importance is underscored by the fact that it is the only one of the funding statutes to include both civil and criminal penalties for violation.

In this respect, the legal restrictions on government expenditures are different from those governing your spending as a private individual. For example, as an individual, you can buy a house and finance it with a mortgage that may run for 25 or 30 years. Of course you don't have enough money to cover your full legal obligation under the mortgage. You sign the papers on the hope and assumption that you will continue to have an income. If your income stops and you can't make the payments, you lose the house. The government cannot operate this way. The main reason why is the Antideficiency Act.

If the Antideficiency Act's prohibition against overobligating or overspending an appropriation is to be at all meaningful, agencies must be restricted to the appropriations Congress provides. The rule prohibiting the unauthorized "augmentation" of appropriations is thus a crucial complement to the Antideficiency Act.

Congress may wish to specifically designate, or "earmark," part of a more general lump-sum appropriation for a particular object, as a maximum, a minimum, or both. These maximums are called "ceilings", the minimums "floors" and restrictions on transferring funds, "fences."

The so-called Antideficiency Act is one of the major laws by which Congress exercises its constitutional control of the public purse. In its current form, the law prohibits:

1. Making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law;
2. Involving the government in any contractor other obligation for the payment of money for any purpose in advance of appropriations made for such purpose, unless the contract or obligation is authorized by law;
3. Accepting voluntary services for the United States, or employing personal services in excess of that authorized by law, except in cases of emergency involving the safety of human life or the protection of property; and
4. Making obligations or expenditures in excess of an apportionment or reapportionment, or in excess of the amount permitted by agency regulations.

The key provision of the Antideficiency Act is 31 U.S.C. § 1341 (a)(l):

"(a)(1) An officer or employee of the United States Government or of the District of Columbia government may not–

"(A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation; or

"(B) involve either government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law."

It is easy enough to say that the Antideficiency Act prohibits you from obligating a million dollars when you have only half a million left in the account (31 U.S. Code Section 1517(a) prevents you from overspending an allotment or allocation), or that it prohibits you from entering into a contract in September purporting to obligate funds for the next fiscal year that have not yet been appropriated. Many of the situations that actually arise from day to day, however, are not quite that simple.

It is imperative to record valid obligations on a timely basis. Assuming obligations are recorded validly, an over-obligation in the records is prima facia evidence of an Anti-Deficiency Act violation. Of course, there could be errors and mis-posted transactions would relieve the responsible officer of accountability. Agencies are required to record all obligations and expenditures in a timely manner and Anti-Deficiency Act violations are considered "real-time" violations…they do not solely occur when accounts are balanced. Thus, failure to record a valid obligation does not relieve one of responsibility for violating the Act.

Antideficiency Act Violations

Many 31 U.S. Code Section 1517(a) violations occur as a result of violation of 31 U.S. Code Section 1301(a). If funds are used improperly (color of money violation), the accounting records must be adjusted. If during the process of adjustment, sufficient funds do not exist to make the adjustment and charge the correct appropriation, at this point a violation of 31 U.S. Code Section 1517(a) has occurred.[28]

Common violations occur when:

- Commitments or obligations exceed fund authorizations for appropriated funds
- When obligations exceed cost authority for working capital funds

[28] Although every violation of 31 U.S.C. Section 1301(a) is not automatically a violation of the Antideficiency Act, and every violation of the Antideficiency Act is not automatically a violation of 31 US.C. Section 1301(a), cases frequently involve elements of both. Thus, an expenditure in excess of an available appropriation violates both statutes. The reason the purpose statute is violated is that, unless the disbursing officer used personal funds, he or she must necessarily have used money appropriated for other purposes.

- Accepting a reimbursable document and incurring costs in excess of the funds authorized on the reimbursable document
- Using O&M dollars in excess of the $750,000 minor construction limit (can't build in several stages to circumvent the $750,000 limit). If this is exceeded, MILCON funds must be used for the entire project including the planning and design although O&M funds may be available.
- Using family housing dollars for repairs in excess of the Congressionally established statutory limit without prior approval

Here are some possible violations of the Antideficiency Act, taken from the FMR.

- While making improvements to a waste storage facility, the activity used Operations and Maintenance funds in excess of the statutory minor construction limitation.
- An activity arranged for a lease to obligate and pay for a subsequent year's 12-month lease with current year Operations and Maintenance funds. You can't obligate the government for the payment of money before the appropriation is available.
- An activity used family housing operations and maintenance funds in excess of the Congressionally mandated limit without prior approval.
- A funds holder erroneously distributed more funds than available. The activities receiving the funds incurred obligations and expenditures in excess of the amount made available to the funds holder, but below the amount distributed to them. The funds holder incurred a violation of the Antideficiency Act.
- Making obligations or expenditures that do not provide for a bona fide need of the period of availability of the funds, and the correct funding is not available.
- Over obligating reserve component personnel accounts.

Persons causing violations of the Antideficiency Act can be subject to disciplinary action such as suspension without pay and removal from office. A person who knowingly or willfully causes a violation is subject to fines and imprisonment.

An Example

One can see from the following Congressional language how the principles of time, duration, and amount interact:

"For expenses, not otherwise provided for, necessary for the operation and maintenance of the Navy and the Marine Corps, as authorized by law; and not to exceed $_____ can be used for emergencies and extraordinary expenses, to be expended on the approval or authority of the Secretary of the Navy, and payments may be made on his certificate of necessity for confidential military purposes. ...to remain available for obligation until September 30, 20___; provided, . . ."

With respect to purpose, one can clearly see the necessary expense doctrine "For expenses… necessary…as authorized by law" and the intent of the appropriation both general "for the operation and maintenance of the Navy and Marine Corps…" and specific, "provided…" With respect to duration, "to remain available for obligation until…" And with respect to amount, "and not to exceed $___".

Continuing Resolution Authority (CRA)

Annual appropriations are often not passed prior to 1 October. In the event Congress does not pass the annual appropriations bills by 1 October they are to enact *Continuing Resolution Authority (CRA)*. The CRA provides funding as a rate of spending as opposed to an amount of funding. CRAs are intended to provide "stopgap" spending until the regular appropriations can be passed. They are levied with various restrictions (i.e., no new starts) so the intent of Congress is not violated. The President must sign the CRA so it will become law. Lastly, in the event that annual appropriations are not passed by 1 October and a CRA has not been enacted, the authority to incur obligations does <u>not</u> exist for appropriated fund activities.

An example of CRA language (from one of the CRAs in the first days of Fiscal Year 2003):

"Current rate is defined as the net amount enacted in FY 2002 (plus supplementals and minus rescissions), plus unobligated balances carried forward from FY 2001 (if any), minus unobligated balance at the end of FY 2002 (if any). This amount is multiplied by the lower of: the percentage of the year covered by the continuing resolution (the prorata rate), or the historical seasonal rate of obligations for the period of the year covered by the continuing resolution (the seasonal rate). Furthermore, ..."

Summary

Provided below in Figure 25 - Appropriation Characteristics is information about the most common Defense appropriations.

Appropriation	Service Abbrev.	Length of Obligation Period	Examples	Properties	Budget Activities Funded
Operations and Maintenance	O&MN O&MMC O&MA O&MAF	1 year	Admin expenses, labor charges, TAD travel for civilians and military	Used for daily operations and expenses, minor construction up to $750K	Operating forces, training and recruiting, administration and support
Military Personnel	MPN RPN MPMC MPMCR	1 year	Officer and enlisted personnel salaries	Used for salaries, training, bonuses, PCS moves, allowances	Officer pay, enlisted pay, allowances, PCS travel, midshipmen
Research, Development, Testing and Evaluation	RDT&EN	2 years	Expenses for developing new technology	Used for the development of new or improved capabilities until ready for operational use	Advanced technology, strategic programs, technology base, tactical programs
Other Procurement	OPN	3 years	Purchasing equipment or conducting modernization greater than $100K	Used to procure equipment not funded by Operations and Maintenance funding	Ships support equipment, ordnance equipment, electronic support equipment, spares and repair parts
Procurement Marine Corps	PMC	3 years	Purchasing equipment, weapons and munitions greater than $100K	Used to procure equipment not funded by Operations and Maintenance funding	Ammunition, vehicles, spares and repair parts
Aircraft Procurement	APN APAF	3 years	Procuring F/A-18s	Used for the acquisition of initial or additional aircraft and related equipment	Combat aircraft, trainer aircraft, aircraft spares and repair parts
Weapons Procurement	WPN	3 years	Procuring Tomahawk missiles	Used for the acquisition of initial or additional weapons	Missiles, torpedoes, ammunition, spares or repair parts
Military Construction	MCON	5 years	Building facilities on a base or installation, acquiring land	Used for the construction, acquisition or installation of permanent public works facilities	Major construction (> $1.5M), minor construction (up to $1.5M), planning, historical projects
Family Housing Operations	FHOPS	1 year	Maintenance of family quarters	Operations of quarters, leasing and maintenance	Operations, leasing, maintenance, interest payments, insurance premiums
Family Housing Construction	FHCON	5 years	Construction of family quarters	Construction of quarters and improvements to existing quarters	New construction, improvements and design
Shipbuilding and Conversion	SCN	5 years	Building of ships, submarines and other craft	Construction of new ships and conversion of existing ships	FBM ships, amphibious ships, mine warfare ships, other ships
Base Realignment and Closure	BRAC	No year	Closure or realignment of shore infrastructure	One time, non-routine operating and investment costs for closure or realignment	MCN, family housing, environmental, ops and maintenance, military personnel, homeowner's assistance

Figure 25 - Appropriation Characteristics

Chapter 8: Reimbursables and Support Agreements

Overview

This section examines reimbursable support agreements, and the two major types of reimbursable documents: the Project Order and the Economy Act Order[29].

A reimbursable situation occurs when an activity has a requirement for goods or services and is not self-sufficient in that area. The activity instead calls on another activity that is so equipped. One simple example of a reimbursable situation is a ship while in port renting vehicles from a Public Works Center. A reimbursable situation has a customer – provider relationship and reimbursable arrangements are analogous to contracts. DoD Instruction 4000.19 governs Interservice and Intragovernmental Support, a basic tenets of which is "DoD activities shall provide requested support to other DoD activities when the head of the requesting activity determines it would be in the best interest of the United States Government, and the head of the supplying activity determines capabilities exist to provide the support without jeopardizing assigned missions."[30]

The requiring activity (customer) may issue a reimbursable work order to another activity outside of its claimancy (provider) for the desired goods or services. Since organizations cannot contract with themselves, reimbursable funding documents are not to be issued to activities within the same claimancy – the major claimant should adjust the activities' budgets accordingly.

Support is reimbursable only to the extent that the support provided to the receiver increases the provider's *direct costs*, i.e., incremental direct cost.[31] Indirect costs are not to be charged, nor are common support costs. In other words, the costs must be directly attributable to the support provided, must be measurable and the provider must not be mission (direct) funded to perform the requested services.

Of note in reimbursable arrangements, the supplying activity is required to perform at least 51% of the work. The philosophy being that if the supplying activity cannot perform most of the work, they should not have accepted the work in the first place. If the supplying activity expects to contract out for part of the effort, it is common practice for the customer activity to finance the effort in two parts, one for the contracted effort (as a Request for Contractual Procurement, discussed later in this section) and one as the reimbursable order.

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[29] While this section of the chapter is written from the perspective of a mission-funded customer and supplier, these same reimbursable agreements apply to the Working Capital Fund. What differs is not the nature of the agreement, but the basis and amount for reimbursement.
[30] DoDI 4000.19 of August 1995, paragraph 4.3.
[31] DoDI 4000.19 of August 1995

Because reimbursable situations result in a lateral transfer of budget authority from the customer to the provider, providers are not to request appropriated funding for the costs incurred. Reimbursable authority is included as part of Total Obligation Authority (TOA) and, to the extent they are known in advance, must be documented in the budget estimate submission process. Reimbursable amounts are to be kept separate and accounted for separately from operating budgets.

Service Agreements, Support Documentation and Definitions

DoD Instruction 4000.19 and the FMR, Volume 11A, provide the guidance for entering into a reimbursable situation. Any support agreement, like a contract with a private party, should be documented in a manner that ensures the interests of both parties are protected. There are several ways to document these agreements, depending on who the parties are and the nature of the agreement.

Interservice Support. Interservice support is that provided within the Department of Defense. The head of the supplying activity will make the determination of acceptability for entering into an interservice reimbursable situation The quality of support services provided to other DoD activities shall be equivalent to the quality of support the supplier furnishes to its own mission, unless otherwise requested or approved by the receiver.

Intragovernmental Support. Intragovernmental support is that provided between a DoD and non-DoD federal activity. The determination of acceptability for entering into an intragovernmental reimbursable situation must be made at the flag officer, general officer or SES level. Reimbursement charges for support provided by DoD activities to non-DoD federal activities shall be determined the same way as reimbursement charges are determined for other DoD activities.

Memorandum of Agreement (MOA). A Memorandum of Agreement is a memorandum that defines general areas of conditional agreement between two or more parties, e.g., one party will provide services while the other party provides material support. MOAs for *recurring reimbursable support* should be supplemented with a Support Agreement.[32]

Memorandum of Understanding (MOU). A Memorandum of Understanding defines general areas of understanding between two parties; however, no conditional agreements exist, e.g., no reimbursement is required for support.[33]

Broad areas of recurring interservice and intragovernmental support not requiring reimbursement should be documented with a MOA or MOU, as applicable.

[32] DoDI 4000.19 of August 1995, para. E2.1.10
[33] Ibid., para. E2.1.11

Recurring support that requires reimbursement should be documented on the DD Form 1144, "Support Agreement."

No-cost agreements with city or county activities and non-profit organization should be executed via a MOA or MOU. Agreements that would require reimbursement with a non-DoD activity, city, county or state must be executed with a contract.

Support Agreement. An agreement to provide recurring support to another DoD or non-DoD activity should be documented on a Support Agreement, DD Form 1144. Support Agreements define the support to be provided by one supplier to one or more receivers, and specify the *basis* (i.e., cost per square foot) for reimbursement.[34]

It is important to note that none of the aforementioned documents provide the funding but are simply supporting documents. Reimbursements must be executed with either a NAVCOMPT Form 2275 (within the DoN) or via the Military Interdepartmental Purchase Request (MIPR) DD Form 448 (between DoD components and other federal agencies).

Reimbursable orders take one of two basic forms, a Project Order or an Economy Act order. Both arrangements are based in federal statute and have unique characteristics.

Project Order (PO)

Project Orders are authorized under the Project Order Law, 41 U.S. Code Section 23. A Project Order (PO) is a definite and specific order issued for the production of material or for repair, maintenance or overhaul. A PO is similar to a private sector contract. POs are to be fully funded from current obligation authority and may cross fiscal years, assuming the bona fide needs rule is met. (If RDT&EN funds are used on a Project Order it may be incrementally funded.) Work must commence within a "reasonable" amount of time upon acceptance of the order and that is normally within 90 days; there is no need to begin the work in the year the PO is issued so long as it begins within this reasonable time. [35] Project Orders may be issued under a fixed price or cost reimbursement basis. POs are subject to the same fiscal limitations that are contained within the appropriation from which they are funded. Work must cease when the funds are used and may not recommence until addition funds are provided. Antideficiency Act responsibility may be levied upon the reimbursable amount and if so, will be specified on the reimbursable funding document.

To determine whether a PO can finance the order, it must be determined if the work is severable or non-severable. If the work is *non-severable*, then a PO can

[34] Ibid. para, E2.1.12.
[35] DoD Financial Management Regulation, Vol. 11A, Chapter 2, paragraph 020510.

finance the work; otherwise, an Economy Act Order (EAO) should be used. An example of a non-severable task would be for the overhaul of an aircraft engine. The engine must be returned in operating condition, and the aircraft engine consists of hundreds of components that must be individually repaired.[36] *Severable* tasks would include custodial services, trash removal, routine maintenance, training, or a level of effort contract (i.e., 100 hours).

Economy Act Order (EAO)

Economy Act Orders (EAOs) are also known as work requests and are authorized by the Economy Act, 31 U.S. Code Section 1535. EAOs are used for normal, routine, day-to-day operations such as custodial services, trash and garbage removal, routine maintenance, level of effort contracts and all severable efforts. An example would be to issue an EAO to the local Public Works Center to obtain janitorial or landscaping maintenance services. Before engaging in an Economy Act Order, the order must be supported by a Determinations and Findings (D&F) that it is in the best interest of the government and the goods or services cannot be obtained as conveniently from private sources.

EAOs are issued each year since the funds expire with the appropriation. That is, funding cannot carry-over into the new fiscal year. As with POs, the restrictions associated with the financing appropriation apply to the EAO and the supplying activity must conform to those rules.

Request for Contractual Procurement (RCP)

A third type of support agreement is a Request for Contractual Procurement (RCP). This is not a reimbursable agreement since there is no transfer of budget authority. A RCP is a request for the supplier activity to enter into a contractual arrangement with a third party directly citing the customer's accounting line. An example of a RCP is an activity issuing a RCP to the local FISC to contract for cellular telephone service. The FISC uses the customer's line of accounting and contracts the services out to a private contractor --- no lateral transfer of budget authority has occurred, nor will any accounting status reports be generated during the accounting cycle.

RCPs are done via the NAVCOMPT Form 2276 (within the Navy) or using the Military Interdepartmental Purchase Request (MIPR).

NAVCOMPT Form 2275

The NAVCOMPT Form 2275 may be used as either a Project Order or an Economy Act Order and is used between Navy activities (i.e., Navy to Navy, or

[36] DoDI 4000.19 of August 1995

Navy to Marine Corps). It is not to be used for requesting local purchase, contractual procurement or requesting material from stock.

Military Interdepartmental Purchase Request (MIPR)

The MIPR (DD Form 448) is a multi-purpose document that is used between federal agencies and DoD components (i.e., Navy to Army, or Navy to NASA). The MIPR can be used as a Project Order, an Economy Act Order, a Request for Contractual Procurement or a combination of the three.

Overview of the Reimbursable Accounting Cycle

The requesting activity initiates the process by submitting a reimbursable work order either as a Project Order (PO) or an Economy Act Order (EAO) as described above.

From an accounting perspective, prior to acceptance of the reimbursable order by the performing activity, the requesting activity has committed its funds. The supplying activity decides whether to accept or reject the request based on its available capabilities. Two very important conditions must be met for all POs and EAOs requested and accepted:

- A bona fide need for the work requested must exist in the fiscal year the reimbursable order is issued
- At least 51 percent of the work requested must be performed by the performing activity with in-house resources (for POs). That is, the performing activity cannot simply contract out the work requested.

The supplier must accept or reject the reimbursable order within five days and forwards it to the requester. Upon acceptance of the reimbursable order by the performing activity, the requesting activity's funds become obligated.

The requesting activity's Authorization Accounting Activity (AAA, a.k.a. DFAS site such as DFAS Norfolk) will "reserve" obligation authority in an amount equal to the authorized dollar value of the reimbursable work order to pay for services to be rendered by the performing activity. This action serves to reduce the amount of obligation authority the requesting activity has available for other purposes.

The performing activity forwards a copy of the accepted funding document to its AAA to increase its obligation authority by the same amount in anticipation of "payments" to be received from the requesting activity. Upon acceptance of a reimbursable order, the performing activity establishes one or more Job Order Numbers and a reimbursable account. As work is performed, the performing activity consumes its own resources then seeks reimbursement from the receiver through periodic billings. The performing activity charges these costs against the appropriate Job Order Number(s) and forwards this information to its AAA.

Costs are charged using a report on the Status of Reimbursables (NAVCOMPT Form 2193) when both the supplier and receiver are naval activities. Performing activities are required to monitor the status of reimbursables using the NAVCOMPT Form 2193. This report is prepared by the performing activity's AAA on a quarterly or monthly basis and contains information on amounts authorized, obligated and billed. It is also the official document used for reporting unused funds and returning any excess funds to the grantor. The performing activity's AAA then prepares and transmits the billing (NAVCOMPT Form 2277) to the requesting activity's AAA.

The billing serves to reduce the balance of available reimbursable funds as work is performed. Upon receipt of the bill, the requesting activity's AAA will record an expenditure that immediately reduces the obligation authority of the performing activity by the amount of the billing. The "payment" is usually a transfer of obligation authority and not an exchange of cash when both the requesting activity and performing activity are federal agencies. See Figure 26 - Reimbursable Accounting Cycle for a graphical representation.

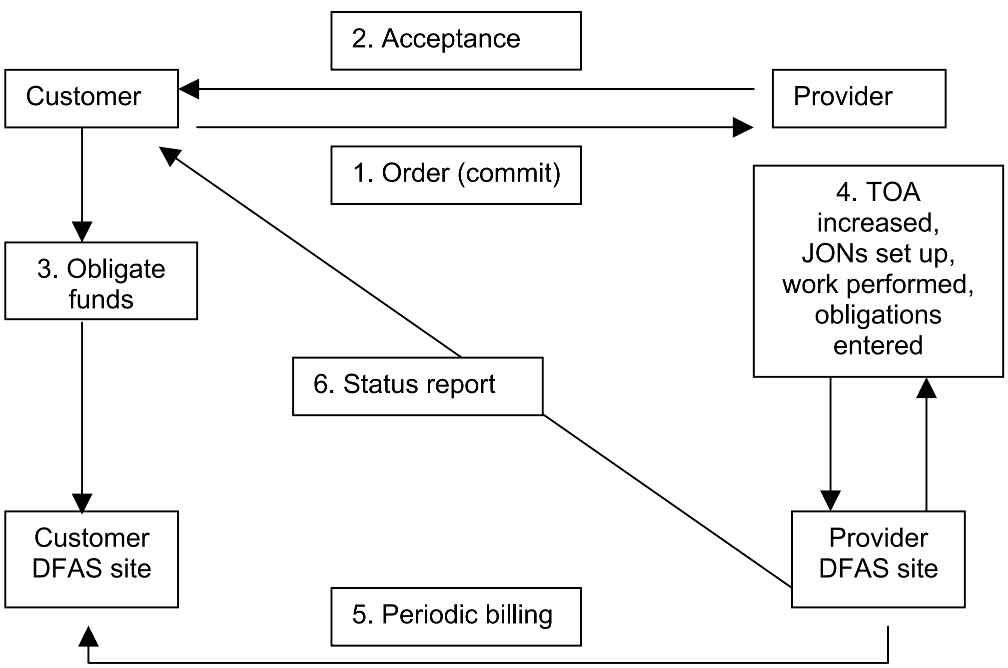

Figure 26 - Reimbursable Accounting Cycle

Chapter 9: Defense Working Capital Fund

Overview

Up to this point, the text has concentrated on two of the three ways a program or activity is financed: through direct appropriation or through reimbursable work orders. This section discusses the third way: revolving funds and specifically, the Defense Working Capital Fund. This section briefly covers the history of the Working Capital Fund, the relationships between the WCF and appropriated funded customers (APF), the concept of unit cost, and some insight on management issues inherent to the working capital fund.

A Brief History of Revolving Funds in DoD

Revolving funds have been used in the Navy since the late 1800's. The National Security Act Amendment of 1949 authorized the establishment of revolving funds within the DoD. A revolving fund is a fund in which all income is derived from its operations and is available to finance the fund's continuing operations without a fiscal year limitation. Simply stated, a revolving fund activity accepts an order from a customer, finances the costs of operation using its "working capital," then bills the customer who reimburses the fund.

Prior to 1991, each component had its own stock fund and industrial fund. *Stock Funds* procure material (spare parts and other items) in volume from commercial sources and holds them in inventory to be sold to customers who need them to achieve weapon systems readiness or to provide personnel support. *Industrial Funds* provide industrial and commercial goods and services such as depot maintenance, transportation, and research and development. In 1991, all of DoD's stock and industrial funds were rolled into a single revolving fund, to form the Defense Business Operations Fund (DBOF), along with five additional defense commercial operations or business areas previously funded with direct appropriations. These included the Defense Finance and Accounting Service, the Defense Commissary Agency, the Defense Technical Information Center, the Defense Reutilization and Marketing Service, and the Defense Industrial Plant Equipment Center.

The Defense Business Operations Fund (DBOF)—the original fund established in 1991—was capitalized at a level significantly less than the sum of the stock and industrial funds it replaced. The consolidation of stock and industrial funds caused overall cash levels to be reduced by allowing funds or capital to be shared across all of the activities. This resulted in cash flow problems. The Defense Authorization Act addressed this issue, requiring that DoD conduct a comprehensive study of DBOF and present its findings along with a proposed improvement plan to Congress for approval. In December 1996, DBOF was reorganized into four working capital funds (Army, Navy, Air Force, and Defense-Wide). With the addition of a fifth fund—the Defense Commissary Agency in 1999—the new organization was now officially called the Defense Working

Capital Fund. The five funds and their corresponding business areas provide goods and services to DoD and authorized non-DoD activities.

With the advent of the working capital funds, the concept of providing total cost visibility remained. The responsibility for cash management and operating functions was levied upon the components to reinforce their roles in managing their respective activity groups. In the WCF, the Army, Navy, Air Force, USTRANSCOM and DLA centrally manage cash as opposed to USD(C). Cash balances must be maintained in a positive balance or a violation of the Antideficiency Act will occur.

Design and Objectives of the Defense Working Capital Funds[37]

The DWCF is a financial strategy that engages the use of competition in the free market and establishes clear customer/provider relations. The WCF adopts private sector techniques for resource management, consolidates various functions, and uses activity based accounting principles to display full costs. This gives management improved cost and performance data to make effective and efficient decisions and compete with other vendors for DoD assets. The DWCF builds upon the principles embodied in the free-market system to facilitate better business practices and budget decisions. Advantages of using the DWCF include:

- Identifies the total or "true" cost of DoD goods and services to Congress, military users (buyers), and those who provide goods and services (sellers), and thereby promotes more efficient and effective allocation and utilization of resources
- Underlines the cost consequences of certain choices and allows purchases to be made in anticipation of future funded orders
- Provides managers with the financial authority and flexibility to procure and use labor, materials, and other resources more effectively
- Improves cost estimates and cost control through comparison of estimates and actual costs
- Places customers in the position of critically evaluating purchase prices and the quality of goods and services ordered
- Allows for greater flexibility and security in decision-making, as there are no fiscal year limitations
- Establishes standard prices or stabilized rates and unit prices for goods and services furnished by DWCF business areas, enabling customers to plan and budget more confidently

The DWCF conserves resources by exposing costs that were previously not reflected in goods and services provided. Now that the provider has increased

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[37] This section is taken from T. J. Moreau, “The Evaluation Of Appropriateness Of OMB Circular A-76 Studies On Revenue-Generating Functions In Defense Working Capital Fund Activities” Masters Thesis, Naval Postgraduate School, December 2002. and from OSD(C) iCenter website at URL http://www.dtic.mil/comptroller/icenter/dwcf/dwcfoversight.htm

the cost visibility of their products, the customer can compare options on a fully informed basis and decide if they want to use the WCF provider. This exemplifies the foundation of the private market, a system that allows the consumer to choose the provider they desire at the price they can afford. If the price is too high or if the quality of work is not sufficient, the customer can search out another supplier. It is the foundation of supply and demand and a reflection of the competitive commercial market at work. The DWCF looks to add value through the integration of better business practices. Here are a few examples:

- Provides for total cost visibility and improved cost awareness
- Enables full cost recovery (capital costs can't be exceeded and money is saved for additional programming)
- Stabilizes rates to protect customers from inflation during execution
- Gives managers more flexibility because they know the true cost of their decisions
- Shifts the focus from spending to cost and cash management
- Minimizes costs because customers determine what they need and can justify their decisions and funding allocation
- Measures performance and promotes greater taxpayer accountability
- Allows for greater flexibility and security in decision-making, as there are no fiscal year limitations

To be included in the DWCF financial structure, a proposed business area must meet four criteria: (1) Outputs (i.e., goods produced and services provided) can be identified; (2) An approved accounting system is available; (3) Organizations (i.e., customers) that require and order products or services have been identified; and (4) Advantages and disadvantages of establishing a buyer/seller relationship have been evaluated.

A chartering process is used to formally establish DWCF business areas and to identify their organizational structure, as well as their assets and liabilities. The DWCF Charter does not provide budgetary resources or authorizations to incur costs for the purchase of goods and services. Components can propose the establishment of new business areas to the Office of the Under Secretary of Defense (Comptroller) by preparing supplemental provision documentation. DoD components are required to review their DWCF operations each fiscal year to ensure that the supplemental provisions are current. Any changes are submitted as a charter amendment request to the OUSD (C). Existing charters are cancelled or amended upon approval by the OUSD (C).

The cost accounting system is necessary in order to allocate all costs associated with the activity across all the products and services sold. Recall, the objective is full cost recovery. The WCF received its initial 'working capital" through an appropriation and/or a transfer of resources from existing appropriations, and uses those resources to finance the cost of operations. The initial appropriation, or lump-sum transfer of cash, is called a corpus. Generally, the WCF does not receive annual appropriations for its operations but finances its activities through the receipt and acceptance of customer orders.

Structure of the Working Capital Funds

The Defense Working Capital Funds consist of activity groups managed by the DoD components. Budgets, operating results, and overall management roll up to the activity group level. Some of the activity groups are unique to each service while the others may cross all or several services and the defense agencies. Figure 27 - Defense Working Capital Fund Business Areas displays the business areas, their relative size (expressed in terms of operating costs in fiscal year 2003) their functions, and their primary customers.

Business Area	FY03 Operating Costs ($B)	Function	Customers
Commissary	6.2	Operates stores for resale of groceries and household supplies.	Members of the DoD military services and their families
Defense Reutilization and Marketing Service	<1	Manages excess property within government.	DoD, Federal agencies, the public
Depot Maintenance	12.8	Performs repairs, overhauls, rebuilds, converts, and inspects materials and vehicles.	Army, Navy, Air Force, Marines
Distribution Depots	1.3	Provides worldwide warehousing for the DoD.	Inventory Control Points within military services and the operating units receiving materials
Financial Operations	1.6	Maintains payroll of all military personnel and responsible for all accounting operations.	All DoD services, including vendors, contractors, military personnel and their families
Information Services	3.8	Provides information processing, software support, communications, and technical support.	Army, Navy, Air Force, Defense agencies, Office of the Secretary of Defense, other Federal agencies
Ordnance	<1	Manufactures and demilitarizes ammunition and artillery for all branches of the DoD; stores and issues ammunition and performs maintenance.	Army

Defense Automated Printing Services	<1	Provides printing and publication products and services.	DoD activities
Base Support	1.7	Provides utilities services, facility maintenance, family housing, transportation support, and engineering services.	DoD activities
Research & Development	7.9	Provides research, development, test, evaluation and engineering support.	Army, Navy, Air Force, and Office of the Secretary of Defense
Supply Management	36.1	Manages inventories of fuels, weapon systems consumable, and depot level reparable spare parts.	Army, Navy, Air Force, other DoD agencies
Transportation	6.0	Provides airlift and sealift services for personnel and cargo; provides traffic management, land transportation, ocean terminals, and intermodal container management.	All services, Defense Logistics Agency, Joint Chiefs of Staff, Special Operations Command, National Security Agency, other DoD agencies

Figure 27 - Defense Working Capital Fund Business Areas[38]

Understanding Cost

The OSD iCenter website states that the DWCF adds value because it "identifies the total or "true" cost of DoD goods and services to Congress, military users (buyers), and those who provide goods and services (sellers), and thereby promotes more efficient and effective allocation and utilization of resources." Just how does it identify those costs? This section explores the nature of costs, how we apply cost accounting principles to the DWCF activity and how those influence budgeting and rate setting.

Cost Elements

In order to calculate and allocate costs among products and services, an understanding of the nature of the costs is necessary.

Direct costs are directly attributable to the end product or output. An example would be the direct labor hours associate with and repair parts consumed in the

[38] From OSD(C) iCenter website, URL: http://www.dod.mil/comptroller/icenter/dwcf/accesschart.htm

overhaul of an aircraft engine. Direct costs are allocated over specific output units.

Indirect costs are costs that can't be directly tied to the output and are normally allocated over a select number of outputs. Some examples include indirect labor and indirect materials. A supervisor who has responsibility over employees who contribute to multiple product lines (or customers) is an indirect labor cost. Indirect material is a part of the end product or consumed in producing it, but is not economical to account for on an individual basis, such as lubricating oil or small fasteners purchased in bulk quantities. Indirect costs are often referred to as production overhead costs. They are allocated on a percentage basis across groups of outputs.

General and Administrative (G&A) costs are costs that do not contribute directly to a specific product or output, but to the overall operation. These costs are overhead costs, as well, and remain relatively constant. Some examples include security costs, custodial costs, and salaries of staff personnel (comptroller, purchasing, etc.). These costs are allocated across all output units.

It is important to understand the behavior of these costs. Some costs are *variable*; that is, they increase or decrease in relation to the amount of work being performed. Direct material and most direct labor is in this category. Other costs are *fixed* or, at least in the short term (a given fiscal year), behave as if fixed. Most infrastructure costs, most G&A and most labor are in this category. Of note is that over the long run, all costs should be considered variable. In the short run, it may cost more to dispose of a fixed cost (e.g., move from one building to another or divest a portion of the activity), but those are things that should be considered when planning and budgeting for future years.

Unit Cost Concept

Working Capital Funds operate on the basis the concept of unit cost. Simply put, unit cost is total costs divided by some measurement of output, i.e., cost per direct labor hour, cost per dollar of sales, or cost per unit shipped. The total costs divided by the total output equals the average unit cost, or average cost per unit.

The elements of cost are in the numerator while the output is in the denominator. Clearly, the supplying activity has control over the numerator (costs) while the customers determine the denominator (output, or demand). Because both costs and output (demand) can vary, managing a WCF activity requires attention to both internal cost control and the scope of the customer base. The latter part of this chapter will explore management issues associated with cost and revenue control.

To determine a unit cost, the *output* must be identified. It must be measurable and able to be separated from other outputs so costs may be allocated across those outputs. Outputs can be a product (e.g., an overhauled engine, a repaired pump, or this textbook) or a service (e.g., research reports, software engineering, accounting functions, or information systems hosting). Normally, the output for a product is the product itself. Often services are reflected in an output measure such as a direct labor hour or billable workyear. Other services are priced based upon usage (e.g., CPU time, forms processed, or passengers transported).

Without going into the details of cost accounting (which would be a textbook in and of itself), the DWCF activity must decide for each unit of output, how the direct, indirect, and G&A cost must be allocated. These are critical decisions since the activity budget and rates are based on this allocation. Poor allocation techniques will distort the true cost of producing an output and the DWCF activity may find itself marketing unprofitable products when it should be repricing them instead. Those students deeply involved in this process are encouraged to take a class in cost accounting.

Unit Cost Goal

Where unit cost is the total cost of producing a good or service divided by the numbers of those outputs, it is a backward-looking metric. It is recorded history. For planning purposes, the unit cost goal (UCG) is used. The UCG is the estimated total cost to produce an estimated number of outputs. These planning estimates serve as the basis for the WCF activity budget, the rates charged to customers and the basis for evaluating the activity's performance. UCGs are issued in the Annual Operating Budget (AOB) and are to be used to manage the activity by comparing actual costs with the established target.

The estimated level of workload drives the unit cost goal. The UCG is the *maximum allowable cost* that can be incurred to produce that level of work; it is a target or goal. The Unit Cost Goal is computed at the product and activity level, but rolls up to the Activity Group level. It is the Activity Group that must achieve its target and those responsible for the management of the activity group may permit one activity within that group to exceed a target if other activities within the group are sufficiently below target to ensure the Group as a whole balances.

It was stated above that the Unit Cost Goal is used to manage the activity. It is actually used in two ways. First, it is the basis for rate setting. Second, it is used as a benchmark to track actual costs against. The rate setting process will be explored first. Rate setting differs between the supply management activities and the non-supply management activities.

Rate Setting[39]

DWCF rates/prices are established through the budget process and remain fixed during the year of execution. These rates/prices charged to customers are developed and proposed by the Components in their Budget Estimate Submissions and, once approved, remain fixed during the year of execution. Rates/prices are required to be established at levels estimated to recover the cost of products or services to be provided by a business area, as well as approved cost recovery elements. Final approved rate changes are established by OUSD (C) and recorded in Program Budget Decision (PBD) documents.

The budget process is also the mechanism used to ensure that adequate resources are budgeted in the customer's appropriated fund accounts to pay the established rates. Once established, rates are stabilized (held constant) for the applicable fiscal year. This "stabilized rate" policy serves to protect appropriated fund customers from unforeseen cost changes and thereby enables customers to more accurately plan and budget for DWCF support requirements. In turn, this policy also reduces disruptive fluctuations in planned DWCF workload levels, permitting more effective utilization of DWCF resources.

Using guidance from OSD and the respective Component, managers of DWCF business areas are required to set their rates and prices to recover all operating and capital costs associated with the products or services to be provided. Rates and prices for the budget year will be set to recover the cost of products or services to be provided. This means that rates/prices will be set to achieve an Accumulated Operating (AOR) in the budget year of zero. During budget execution, business areas will record either a positive or negative Net Operating Result (NOR). Accordingly, rates/prices in the budget year will be set to either make up actual or projected losses or to return actual or projected gains in the budget year(s).

Gains or losses in operations may occur as a result of variations in program execution. *Realized gains or losses* are generally reflected in offsetting adjustments to stabilized rates established in subsequent fiscal years.

Customer rates are established on an end product basis whenever feasible. The term "end product" means the item or service requested by the customer (output) rather than processes or other inputs used in the achievement of the requested output (for example, the product requested rather than the direct labor hours expended in the achievement of that products).

The DWCF includes a variety of business areas that are categorized into two groups for rate setting purposes. The **Supply Management Business Area** uses commodity costs in conjunction with a cost recovery factor to establish customer rates (or standard prices). Individual item prices will be established by

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[39] This section is taken from Defense Working Capital Fund Handbook, available at OSD(C) iCenter website: http://www.dod.mil/comptroller/icenter/dwcf/dhchap3.doc

including the cost recovery elements, by percentage or fixed amount, with the commodity acquisition cost of the item. The commodity cost (or acquisition cost) is the most current cost of a representative procurement. The cost recovery factor is developed based on cost recovery consisting of elements for: operating costs plus prior year gains/losses; shipping and transportation; inventory expenses; economic adjustments for inflation; and repair costs including attrition. The **Non-Supply Management Business Areas** (Depot Maintenance, Research, and Development, Distribution Depots, etc.) use unit cost rates established based on identified input/output measures. These measures establish fully cost burdened rates, such as cost per direct labor hour, cost per product, cost per item received, cost per item shipped, etc. These two areas will be examined in more detail.

Rate Formulation for the Supply Management Activity Group

The Supply Management activity group rate setting process is complex due to inventory valuation procedures, and the use of standard and net prices. For simplicity, we will not be concerned with pricing polices or inventory valuation methods.

The surcharge (or cost recovery) amount is computed on the SM-5a exhibit. First, sales are estimated at the latest acquisition cost (LAC) or the latest repair cost (LRC). "Sales" in this terminology means the estimated dollar value of items issued from inventory, or "cost of the goods sold" to customers. Next, the cost recovery factor elements (surcharge elements) are estimated. These include the cost of supply operations (payroll, utilities, maintenance, etc.), capital depreciation expense, material inflation adjustments, material loss (e.g., depot washout) and obsolescence costs, transportation costs, the AOR recovery amount and any directed adjustments required by DoN or DoD (e.g., those mandated in a PBD). These costs are totaled and allocated across the cost of sales as the "surcharge" amount.

Finally, the SM-5b exhibit is prepared, which shows the customer price change. The surcharge amount from the SM-5a exhibit is divided by the total amount of sales adjusted for inflation. The numerator contains the costs to operate the activity group (driven by the provider) and the denominator contains the estimated dollar value of goods that will be sold (driven by the customer). In other words, the total costs for operations are divided by the estimated dollars of sales, yielding the "cost per dollar of sales."

The cost recovery factor is in the form of a percentage. Say it is 26%…. the customer will pay 126% of the cost of the item. For example, if a customer requisitions an item that costs $100 he will pay $126 ($100 item cost plus the 26% cost recovery factor). If a customer requisitions an item that costs $100,000 he will pay $126,000. By applying the cost recovery factor to the cost of the items, the activity group recovers its costs of operations.

Rate Formulation for the Non-Supply Management Activity Group

The following is an overview of the rate formulation process for the Non-Supply Management Activity Group. The example of an aviation depot will be used for this overview. First, the total number of direct labor hours (DLH) to accomplish a given task or output is established. The number of DLHs required per aircraft (the labor hours required for each job are normally from a “fixed price catalog” at each depot) times the number of aircraft the Navy expects to overhaul equals the projected customer requirement. Prior year orders that are expected to be completed are subtracted from the total, as those were funded in prior years.

Next, the total costs are estimated. These costs include all direct, indirect and G&A costs, and comprise the Cost of Goods Sold (CoGS). The CoGS estimate is divided by the total DLHs and yields an initial rate.

The component then adjusts the initial rate for prior year losses or gains. If there is an accumulated operating loss, then the adjustment is an *increase* to the customer cost. (Since, theoretically, they have been underpaying in the past.) If there were an accumulated operating profit, then the adjustment would result in a *decrease* to the program cost. (Since, theoretically, they have been overpaying in the past.) Of note is that prior year losses and gains may be recouped over a two-year period, with no more than 50% of the recovery in the second year.

The adjusted CoGS is then divided by the total DLHs which results in the rate to be charged. This rate is compared to the prior year’s rate and is promulgated as a percentage change, which is applied to the customer accounts.

Since individual DWCF activities are part of activity groups and the DWCF is managed at the activity group level, there may be further adjustments to the rates. Take, for example, aviation depots where it is sometimes the case that one activity is particularly profitable vs. another. If one depot maintains a type of aircraft that is growing in numbers (F/A-18C/Ds, for example) and another depot maintains aircraft that are decreasing in numbers (S-3s), the first depot has a larger business base across which fixed costs can be allocated. This lowers the rate or raises the profitability of that depot. Conversely, the second depot will experience rising rates or will experience losses. Since the total cost to the aviation depot activity group is the same, the activity group manager could choose to have the first depot subsidize the second depot and have them adjust their rates, accordingly. This would not be done in the long run, but could be done on an ad hoc basis. Other rate adjustments could result from budget Issue Papers and PBDs issued at the service or DoD level.

In short, rates are based on the unit cost goal, adjusted to account for the accumulated operating result and adjusted further (as applicable) by activity group or agency comptroller directive.

There is one more exception. Depots (Navy and Air Force only) do not fall under the annual stabilized rate tenet of other working capital fund business units. Unbudgeted losses or gains of $10 million or more will be recouped or returned in the *current* fiscal year. This change came about in fiscal year 1998 when OSD decided to recover depot losses in the year in which they occur. This decision was promulgated in PBD 437 and Congress later codified this into law. While this policy may help control operating losses in the activity groups, it could cause execution problems for customers. However, since the components are responsible for the management of their working capital funds, they have the incentive to not invoke rate changes during the year of execution --- any resource adjustments would have to be "taken out of hide."

Budgeting

Recall one of the tenets of the WCF: the customer – provider relationship. Customers discuss their projected workload with providers, and the providers project estimated rates based on the projected workload. Budget formulation in the DWCF begins approximately two years in advance, in concert with the appropriated fund budget formulation process. Because the WCF budgets are based on estimated costs and estimated workloads, estimated almost two years in advance, not all data will be accurate. In addition, because the WCF activity groups are managed at the component level, each activity group's projected revenues and expenses are examined in their entirety --- it is not simply a matter of establishing budgets for each individual activity within each activity group. Therefore, the budgets (both the appropriated fund accounts and the WCF budgets) are adjusted up the chain of command, from the component level and finally at the OSD level. We will review this process shortly.

Budgeting for DWCF activities has two parts. First, there is an **operating budget** that includes all direct, indirect, and general & administrative costs, including expenses for depreciation of assets. Costs include labor, nonlabor, materials, supplies, utilities, real property maintenance, personnel and payroll support. The operating budget also includes the output estimates based upon information from customer budget plans. Second, there is a **capital budget** that includes funding of investment items for industrial equipment, construction, telecommunications equipment, IT infrastructure, and software. The capital investments are budgeted separately, capitalized, and depreciated in the operating budget. This process allocates the cost of investments across their useful life. Each budget will be examined in turn.

Operating Budget Formulation

All costs are aggregated from the bottom up, at each cost center or department. The Operating Budget represents the annual operating costs of civilian <u>and</u> military labor, depreciation expense (except for major Military Construction), materials, supplies, utilities, real property maintenance, payroll support, contracts and equipment purchases less than $100,000 (the current capitalization threshold). Military personnel costs are priced at a civilian equivalency rate published by USD(C), and the Military Personnel appropriation is eventually reimbursed by the WCF.

Important budget exhibits used include the Fund-1A: Detail of Price, Program and Other Changes; Fund-4: Summary of General and Administrative Costs; Fund-5: Total Costs per Output Summary; Fund-11: Sources of Revenue; and, Fund-14: Revenue and Expenses.

The Fund-1A exhibit corresponds to the OP-32 Summary of Price and Program Growth exhibit for the Operations and Maintenance appropriation, and is used to match WCF budgets to customer accounts.[40]

Capital Budget Formulation

The Capital Budget is used to budget for capital investments and improvements (i.e., purchases of $100,000 or more) having a useful life of 2 years or greater. Capital investments are grouped into four categories: ADP and telecommunications equipment, non-ADP equipment, software development, and **minor construction** projects from *$100,000 to less than $750,000*. Components may reprogram capital funds between activity groups up to $10 million for each of the four investment categories approved in the President's Budget (PB).

Prior to budgeting for capital investments, an economic analysis must be conducted for projects $1,000,000 and greater and account for workload, costs, alternatives and benefits derived from such investments. If the cost is less than $1,000,000 a cost analysis must be conducted. Additionally, a post-investment analysis is required for recurring-type investment projects of $1,000,000 or greater.

Budget exhibits used for the Capital Budget include the Fund 9-A (Capital Investment Summary), Fund 9B (Capital Investment Justification) and Fund-9C (Capital Investment and Financing Summary).

Capital assets will be depreciated on a *straight-line* basis unless approval has been obtained to use an alternative method. The *depreciation expense* will be included in the operating budget, charged as a cost element in the customers' rates. The depreciation schedule follows (for acquisitions after 1 October 1999):

[40] Defense Working Capital Funds Basic Course, DFAS, October 1997

- ADP and telecommunications equipment: 5 years
- Commercial software: 5 years
- Internally developed software: 10 years
- Printing and duplicating equipment: 10 years
- Equipment and machinery other than ADP or telecommunications: 12 years
- Improvements to land (fences, bridges, etc.): 20 years
- Buildings, hangars and other real property structures: 40 years

Military construction costs (i.e., costs of $750,000 or greater) will be funded by *direct appropriation*. Other costs funded by direct appropriation include general-purpose passenger vehicles, mobilization costs, war reserve material, and unutilized and underutilized plant capacity costs.

Annual Operating Budget (AOB) and Cost Authority

As previously stated, the approved unit cost goal is provided to the components through the Annual Operating Budget (AOB). The AOB is issued to the components, down to the activity group managers (e.g., DLA for distribution depots, NAVSEA for shipyards, NAVSUP for inventory control points, NAVAIR for aviation depots, etc.)

The initial AOB is normally issued just prior to the beginning of the fiscal year after USD(C) obtains apportionment authority from OMB. Modified AOBs are often issued throughout the year of execution to reflect changes in cost and cost authority.

The late issuance of the AOBs is derived from 10 U.S. Code section 2208, which postpones the release of the budgets beyond the appropriation of funds. That way, costs can be changed and customer accounts can be adjusted. As a side note, the *rates* (prices charged to customers) issued in PBD 426 are normally published in the late December or early January timeframe, approximately 10 months prior to execution.

The AOB provides the output measure, the unit cost goal and desired Net Operating Result (NOR). *The total cost on the AOB represents the maximum amount of **costs** that can be incurred.* The NOR is the desired operating result, reflecting revenues based on the composite rate minus the approved costs. In addition to the UCG and total cost, capital budget authority is delineated on the AOB. The unit cost goal and total costs can be changed with approval from USD(C), assuming there is an increase in workload. This change would provide additional authority to incur cost.

Budget Review

Upon compilation of the activities' budgets within the activity groups by the activity group manager (e.g., DLA, NAVSEA, NAVAIR, etc.), they are forwarded to the component FM. Each component reviews the proposed rate structures and all projected costs (based on workload), including new work or any work carried over from prior fiscal years.

The components will review the costs and adjust the proposed rates to account for inflation, pay raises, prior year losses or gains, and any PBDs or other directives affecting operations. The components try to balance the appropriated fund budget and working capital fund budget. Finally, the proposed rates and costs are then forwarded to USD(C) as part of the annual BES submission.

USD(C) will review each component's costs and proposed rates, making adjustments to bring the AOR for each activity group to zero. These *composite rates* are published in PBD 426 in the late December or early January timeframe. *PBD 426 accounts for final costs and program levels at the DoD level, and also makes adjustments to the customers' appropriated fund accounts.*

Although a composite rate is published, components are authorized to develop and use *subsidiary rates* as long as those rates can be "rolled up" into the activity group's composite rate. For example, depot maintenance composite rates can be broken down into different rates based on the type of ship or aircraft being repaired. Not all direct labor hour costs are the same.

You may wonder why OSD has the final approval on WCF budgets although each component is now responsible for its own working capital fund and cash management. The SECDEF is required to submit to the President a budget per 10 U.S. Code Section 221 and is therefore responsible for the *entire DoD budget*, of which the WCF is a large part. Lastly, this process maintains balance between the appropriated accounts (customers) and the working capital fund (providers).

To summarize, the DWCF activity budgets and sets rates based upon an allocation of all costs required to deliver a set of outputs estimated by potential customers. This cost calculation forms the basis for the rates charged to those customers with the objective of attaining a neutral (zero) accumulated operating result by the end of the budget year. The next section examines the management of the DWCF activity during execution when both projected costs and customer orders differ from estimates, yet the objective remains the same.

Working Capital Fund Management

All DWCF activities operate to break even over the long term and budget to an Accumulated Operating Result (AOR) of zero. The AOR is the net sum of the annual Net Operating Results (NOR), where NOR equals the annual revenue minus the annual costs. WCF activities charge annual, stabilized rates based on estimates of costs and projected customer orders. In addition to this long-term goal, activities are to maintain 7 to 10 days worth of operating cash and 4 to 6 months of capital outlays. Solvency must be maintained locally, and overall cash management is performed at the component level.

Between the time the budget is submitted and the year of execution, there have been fact-of-life changes to both the DWCF activity and its customers. Pay raises have been provided, workers have come and gone, the mix of customer orders has changed, there have been technological improvements, authorizing legislation may have changed policy, fleet operations may have affected the quantity and quality of the demand for goods and services. So there are changes to both the numerator effect (costs) and the denominator effect (sales). DWCF activity management must stay actively engaged in both arenas.

Execution and Performance: Changes in Workload and Cost

An example is a helpful way to illustrate the management issues and responses. For the purpose of simplicity, assume this activity began operations this year, no carry-over of prior year work exists, and it has not incurred any prior year losses or gains.

1. Workload is estimated to be 208,000 hours and costs estimated to be $11,440,000. Based on its workload estimate and resultant cost estimate, it will be issued a unit cost goal of $55 via the AOB. The AOB gives a not-to-exceed amount and is the target for management; they are to cover their expenses with revenues (Revenues – Expenses = Net Operating Result). Since there is no AOR adjustment, in this simple example the unit cost goal will equal its rate.

Year 1 in Operation	
Estimated workload (DLH) from customers	208,000
Estimated costs based on workload	$11,440,000
Unit cost goal per AOB	$55
Rate for year 1 (no NOR or AOR)	$55*

2. Advancing to the end of the first quarter, one would expect 25% of the labor hours to be expended and 25% of the costs to be expended. However, that is not always the case. Assume 52,000 hours of output at an actual cost of $3,068,000. The average unit cost exceeds the goal and the NOR at this time is a $208,000 loss.

Quarter 1 (25% of time)	
Actual workload (output) in hours	52,000
Actual costs to date	$3,068,000
Average unit cost	$59

Revenue (output x rate charged)	$2,860,000
NOR to date (Revenue – expenses)	-$208,000

Management would look into the nature of higher costs. Perhaps the work takes a long time and there are high up-front costs and lower costs in the latter stages of the work…this would be acceptable. Customer orders seem to be on target (52,000 hours is 25% of 208,000), but costs are higher.

3. Advancing to the end of the second quarter, 50% into the fiscal year. The numbers provided below are cumulative.

Quarter 2 (50% of time) – cumulative	
Actual workload in hours	114,400
Actual costs to date	$6,520,800
Average unit cost	$57
Revenue (output x rate charged)	$6,292,000
NOR to date	$-228,800

The situation has improved. Workload has increased and is at 55% of the total estimated labor hours, while costs are at 57%. The average unit cost has dropped by $2 per DLH, the NOR is still negative but its rate of growth has declined. Management should look at two variables: the increased orders (if this rate continues through the rest of the year, do we have sufficient resources to fill the demand?), and the higher costs (per unit costs are falling, but remain higher than the UCG, why?).

4. The example advances to the end of the fiscal year.

Quarter 4 (100% of time) - cumulative	
Actual workload in hours	197,600
Actual costs to date	$11,400,000
Average unit cost (actual) per DLH	$57.69
Revenue (output x rate charged)	$10,868,000
NOR for Year 1 in operation	-$532,000

The activity incurred a loss in its first year of operations. Despite running ahead on orders in the first half, those orders slowed in the second half and the actual output was less than projected. Cost, however, was higher than projected for this level of output, resulting in a negative operating result. Overall costs did not exceed the goal established in the budget so that is not a concern.

What happened? The activity "sells" direct labor…perhaps it is an R&D center or a central design activity (IT support, software development) and bills based on direct labor hours. Not all of the billable hours were billed to customers, but the employees needed to be paid, regardless. By not having a reimbursable order against which to charge their time (and receive the allocated portions of indirect and G& A costs) the activity spent the same amount of money, but did not recover it fully. Either customer demand dropped or the workers were more efficient and completed the work in less time than projected. While the latter is good and needs to factor into future estimates, the business result is that not all costs were recovered. If the employees were more productive, management should have solicited additional orders for the employees to bill their time against.

Now the negative NOR of $532,000 will be factored into the rate setting process for the following year. Actually, we budget two years ahead so there is a lag time involved. Again, for simplicity, assume instantaneous budgeting and rate setting; also assume the loss will be recovered in one year instead of two years.

After consulting with customers, they propose a workload estimate of 200,000 hours. This is 8,000 hours less than last year… Based on the workload estimate and our experience from the last cycle, we estimate our costs to be $11,600,000 or $58 per DLH. But unlike last year, there is an AOR that needs to be addressed.

Estimated workload (in hours)	200,000
Estimated costs based on workload	$11,600,000
Unit cost goal per AOB	$58
ADD in -$532,000 NOR to estimated costs for rate determination. Revised cost of goods sold.	$12,132,000
Divide revised CoGS by estimated workload (output) for rate. This is the customer rate charged per DLH.	$60.66
NOR to achieve AOR of zero	+$532,000

In the AOB the activity is issued a unit cost goal of $58 per DLH and are not to exceed $11,600,000 in costs. Also, since the activity lost $532,000 last year, it must be recovered by adding that amount to the $11,600,000 for a total cost basis of $12,132,000. The total cost divided by the estimated workload yields a rate of $60.66 per hour. If they bill all 200,000 hours at that rate, they cover all the costs and recover the prior year loss. In other words, they budget for an NOR of +$532,000 to drive the AOR to zero.

Recall that they charged $55 per DLH last year. When they advertise to their customers the rate is now $60.66, there may be a reaction in the form of lower demand (due to the higher cost). Management must be sensitive to what economists refer to as the "elasticity of demand" – as prices go up, demand drops off, but the rate at which it drops off varies by customer and product.

The example will progress to the end of the second year with slightly different results from the first year. Assume that workload projections exceed expectations.

Actual execution results – subsequent year	
Actual workload (output) in hours	205,000
Actual costs to date	$11,850,000
Average unit cost	$57.80
Revenue (output x rate charged)	$12,435,300
NOR (revenues minus expenses)	$585,300
AOR (NOR + NOR, or total revenues – total expenses)	+$53,300

The actual unit cost per DLH was slightly lower than the unit cost goal. This is probably to be expected. Since they sold 5000 more direct labor hours than projected, they recovered 2.5% more indirect and G&A costs. How? All of the indirect and G&A was allocated across the first 200,000 hours. Selling 2.5% more hours means those costs have been recovered 102.5%. All of the work sold above the initial 200,000 hours need to only recover the direct or marginal costs, but since we have stabilized rates, these additional sales will generate a profit. (Assuming our fixed and direct costs were exactly as budgeted.)

This increase in revenue exceeded the NOR of +$532,000 provided in the AOB; resulting in a $53,300 in "profit." What happens next? The activity again discusses workload requirements with their customers and bases their costs on our measure of output. Then they will factor in the +$53,300 gain by subtracting it from the total costs, resulting in lower customer rates (for the same level of demand).

One can see that the management challenge is to ensure they sell all that they set out to sell (in this case, all of the billable employees are engaged in billable work), but not too much more. They also need to focus on costs to ensure that they remain within projections. Should an activity sell less output, managers may market the activity to make up the deficit, cut costs or some combination of both. If the activity sells more output, managers have the opportunity to spend more on necessary expenses like deferred facility maintenance or employee training, they may offset losses elsewhere in the activity group, or they may "rebate" the funds through lower rates in future years.

Execution and Performance: The "Surcharge"

Our attention now turns to the Supply Management business area and the unique dynamics of managing it. One of the primary management issues here is the perception of the cost recovery rate by the customers. Remember, the cost recovery rate is the surcharge applied to the cost of the material to recover the costs of running the supply infrastructure (warehousing, transportation, purchasing, inventory management, etc.). The customer wants that number to be as low as possible, but the more effective leverage point to save the Navy money is the cost of the material, not the surcharge. To illustrate:

Cost of Operations = $490m
Cost of Good Sold = $3,150m
Total Cost to the Navy = $3,640m
Cost Recovery Rate = 490/3150 = 15.6%

Assume the Supply Management Activity Group management improved efficiency by 25%. Trimmed all the fat from the system, consolidated operations, outsourced non-essential functions, etc. The new figures are:

Cost of Operations = $368m (25% less)
Cost of Good Sold = $3,150m
Total Cost to the Navy = $3,518m
Cost Recovery Rate = 368/3150 = 11.7%

The Cost Recovery Rate dropped from 15.6% to 11.7%…a great savings. This should please the customers. Now, assume that instead of cutting the inefficiency and passing the savings along in a lower recovery rate, the Activity Group management spent the same on cost of operations, but instead focused their efforts on negotiating better prices for the goods sold. These efforts result in a 6% savings in CoGS. The new figures are:

Cost of Operations = $490m
Cost of Good Sold = $2,961m (6% less)
Total Cost to the Navy = $3,451m
Cost Recovery Rate = 490/2961 = 16.6%

Now the Cost Recovery Rate has climbed from 15.6% to 16.6%…this should displease the customers. They are paying more, right? Not exactly. What the customers may not notice is that the *total cost* to acquire the same goods has dropped from $3,640m to $3,451m, a savings of $189m. These savings are half again more than the savings of the measures that merely lowered the Cost Recovery Rate.

Chapter 10: Department of Defense Accounting

Overview

The DoD accounting system is controlled by acts of Congress; regulations of the Comptroller General; the General Accounting Office; the Office of Management and Budget; and the Department of the Treasury.[41] Congress delineates objectives for the DoD accounting systems, and core financial system requirements have been developed by the JFMIP (see the JFMIP web site at http://www.jfmip.gov/jfmip/). Accounting systems are to provide timely and accurate information; provide for reliable reporting; support policy decisions and the formulation and execution of budgets; and, provide an audit trail.

Accounting is the process of capturing, classifying and reporting financial transactions. The DoD has many different funding methodologies such as appropriated funds, revolving funds, trust funds, and nonappropriated funds; therefore we require different accounting systems. One accounting system could not satisfy the numerous requirements for the various funding methodologies.

The DoD must be able to account for appropriated funds (*budgetary accounting*) and also have a set of balancing *proprietary accounts* (financial accounting) to account for its assets, liabilities and property accounts. DoD accounting systems are based on double entry accounting principles; accrual-based accounting (recognition of the revenue or expense during the period incurred); and, have internal controls for the separation of duties (a person making payment does not certify the receipt of the material or services).

History of DoD Accounting

Prior to the 1990s, each service and other defense agencies had their own unique accounting and finance (payroll) systems. The systems were not integrated, even within the same service. Thousands of unique, tailor-made "feeder systems" were developed to satisfy user requirements and they often did not conform to generally accepted accounting principles.

The Defense Finance and Accounting Service (DFAS) was established on January 15, 1991, to reduce the cost and improve the overall quality of Department of Defense financial management through consolidation, standardization and integration of finance and accounting operations, procedures and systems. The Deputy Secretary of Defense issued Defense Management Report Decision (DMRD) 910 in December 1991 on the consolidation of DoD finance and accounting operations. DMRD 910 directed the DFAS to:

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[41] Financial Management Guidebook for Commanding Officers, Department of the Navy NAVSO P-3582 pp V-1.

- Capitalize (*capitalize* means to transfer the functions and ownership) the finance and accounting functions of the DoD components by October 1, 1992.
- Assume responsibility for all finance and accounting regionalization and consolidation efforts throughout DoD.
- Establish an implementation group, with senior representatives from the DoD components to develop an implementation plan for submission to the DoD Comptroller.

In December 1992, DFAS took over responsibility for 338 finance and accounting offices that belonged to the military services and Defense agencies. Through consolidation efforts, DFAS now consists of a headquarters and five centers located in Cleveland, OH; Columbus, OH; Denver, CO; Indianapolis, IN; Kansas City, MO, and 20 sites. The five centers are former accounting and finance activities that are *organized along service (component) lines*. Efforts are now underway to reorganize DFAS' processes along product lines. Personnel have also been reduced from 31,000 in 1992 to the current level of 17,000. The current DFAS organization is shown in Figure 28 - DFAS Organizational Structure.

Cleveland	Columbus	Denver	Indianapolis	Kansas City
Navy	**Defense Agencies**	**Air Force**	**Army**	**Marine Corps**
Charleston Norfolk Oakland Pacific (Pearl) Japan Pensacola San Diego		Dayton Limestone Omaha San Antonio San Bernardino	Europe Lawton-Fort Sill Lexington Orlando Rock Island Rome Seaside St. Louis	

Figure 28 - DFAS Organizational Structure

DFAS further assumed responsibility for 324 disparate finance and accounting systems that used non-standard procedures and practices, and were not compliant with federal accounting and financial management requirements. They were initially developed based on each components' unique interpretations of high-level financial management policies which varied among the components, operated on different architectures and employed various degrees of financial management or business area integration. Additionally, thousands of activities use different "feeder systems", varying from automated applications, to spreadsheets, to manual (paper) input. DFAS has consolidated and standardized finance and accounting systems from those 324 in fiscal year 1991 to 76 in fiscal year 2001. By fiscal year 2005, DFAS expects to further reduce the number of DoD finance and accounting systems to 8 and 22, respectively. In addition, DFAS is at the heart of the DoD’s Financial Management Modernization

Program (FMMP). The scope of FMMP is broad and deep, encompassing the Department's business activities and infrastructure. The Department's business activities include financial and non-financial operations and systems. Non-financial business operations and systems include those that support the acquisition, medical, transportation, property, inventory, supply, and personnel communities, as well as other communities. The first step is to design a **Financial Management Enterprise Architecture (FMEA)** that will modernize and integrate both processes and systems, which are now isolated from one another. The FMEA will be the blueprint to transform the Department's business operations and will leverage systems and technologies to enable this comprehensive change.[42]

The DoD Accounting Cycle

Using a simple example of an activity purchasing an item, we will examine the accounting cycle.[43] Of note is the difference in the accounting on the budgetary side and the proprietary side. The purposes for each account can be clearly seen in this simple example.

Event	Budgetary Accounts	Proprietary Accounts
1. Requirement for material or service identified and purchase request is made	Commitment	No event
2. Material ordered (contract signed)	Obligation, outstanding obligation, unliquidated obligation	No event
3. Material or service is received	No event	Debit Expense, Credit accounts payable
4. Pay for material or service, and match obligation and expenditure in the accounting system	Expenditure, outlay, disbursement, liquidated obligation	Debit cash balance, credit accounts payable

You can see that the first step is establishing a commitment in the accounting system. A commitment tells others that the funds are being held in reserve, that an order is underway and should soon occur; a commitment can be cancelled, if required. This is purely a budgetary accounting term and the mere presence of a commitment does not represent an event in the proprietary accounts (since nothing financially material has yet happened).

When the order is placed or the contract is awarded, it is no longer a commitment but is now an obligation. The government is now legally bound to make payment (presuming the contractor fulfills his agreement). At this point is it also an outstanding (or unliquidated) obligation and an undelivered order as the

[42] From DFAS website, https://fmmp.dfas.mil/ on 10 March 2003.
[43] Accounting has a vocabulary all its own and the author assumes many of the terms below are familiar to the reader. In the event this is an erroneous assumption, there is a glossary in Appendix A.

obligation is not liquidated, nor has the material or service been received. Again, there is no record in the proprietary accounts since the presumption we find necessary in the budgetary realm (to prevent overobligation of funds) is not material to the proprietary accounts.

When the material or services are received, it is no longer an undelivered order but it is still an outstanding obligation. Upon receipt, an accounts payable is posted and the item is expensed (presuming it is not a capital item requiring depreciation). There is no event recorded in the budgetary accounts since there has been no change in our obligation and our obligation is not yet fulfilled.

Finally, when the invoice and purchase order are matched at the paying office (DFAS site), a disbursement of funds is made. Since payment was made, it is no longer an outstanding or unliquidated obligation, but now an expenditure (or outlay or disbursement, they are synonymous) or a liquidated obligation in the budgetary accounts. This makes note of the fact that the obligation was fulfilled and the Treasury has made payment. On the proprietary side, the accounts payable has been satisfied and cash has been disbursed.

Problem Disbursements[44]

Occasionally obligations can't be matched with expenditures, or may be only partially matched. These conditions contribute to what are called Problem Disbursements (PDs). There are two types of PDs addressed here: an Unmatched Disbursement (UMD) and a Negative Unliquidated Obligation (NULO).

An Unmatched Disbursement is a transaction that has been received and accepted by the accounting office, but it has not been matched to the correct obligation. This includes rejected transactions that have been sent back to the paying office.

A Negative Unliquidated Obligation is a disbursement transaction that has been matched to the obligation but the total disbursement(s) exceeds the amount of the obligation.

All disbursements must be posted promptly to liquidate the obligation in the official accounting records (maintained by the DFAS site). Account reconciliation should be conducted continuously, and DoD/DoN policy is to research and correct any potential transaction errors.

For Current and Expired Accounts. NULOs and UMDs must be researched and corrected within 180 days of the date of disbursement; DFAS has 120 days and the fund administering activity has 60 days. Anything outside of this 180-day

[44] Readers are referred to DoD Financial Management Regulations, Vol. 3, Ch. 11

window is considered to be an overaged problem disbursement. Overaged PDs must have an obligation, obligation adjustment or a reduction to unobligated balances. For appropriations scheduled to close (lapse) at the end of the current fiscal year, those obligations must be established by 30 June for all NULOs and UMDs.

As stated earlier, overaged PDs require funds obligated up to the amount of any unobligated balance remaining in the appropriation account. Unobligated, overaged NULOs and UMDs will first be processed and use any of the unobligated balance. New obligations or obligation adjustments may then be recorded, assuming any unobligated balance remains.

Recall our earlier discussion of the Antideficiency Act. If an appropriation account is fully obligated yet has unresolved NULOs and UMDs that require obligation and exceed the account availability, payment (disbursement) may still be made to vendors. However, the account can't be overdisbursed. If the account is overdisbursed, payments must stop and the component shall report a violation of the Antideficiency Act.

But what if the appropriation account is fully obligated, yet still has unresolved UMDs and NULOs? The reconciliation of these PDs must go on. The correcting obligations must be posted, even if they overobligate the appropriation account and a violation of the Antideficiency Act must be reported.

Closed Accounts and Accounts Scheduled to Close. As mentioned earlier, obligations must be established by 30 June for all NULOs and UMDs in appropriations that are scheduled to close (a.k.a. lapse or cancel). If the reconciliation process puts the appropriation account into an overobligation status, the component has 6 months to bring it back into the black. If it is not brought back into a positive balance, a violation of the Antideficiency Act must be reported. Recall that subdivisions of appropriations (i.e., apportionment, allocation, budget activity, activity group, etc.) are subject to Antideficiency Act responsibility. The component may modify the number or level of these subdivisions prior to the closing of the appropriation, but when the appropriation closes no further action may be taken. The component is required to make a new cash disbursement to an appropriation that is available for the same purpose (since the appropriation is closed) and will not exceed either the unexpended amount of the closed appropriation; the unobligated balance of the currently available appropriation; or, one percent of the total amount appropriated to the currently available appropriation. In simple terms, failure to conduct an aggressive obligation validation program 6 years ago can have a negative impact on your current dollars!

Prevalidation. The DoD Appropriations Act of 1995 required the DoD to validate that an obligation existed prior to making a disbursement. This prevalidation threshold began at $5 million and has been reduced over the years.

Prevalidation takes into account that a valid obligation exists in the accounting system prior to making payment. Before enactment of this law, disbursements were routinely made after matching the invoice with a contract and report of receipt.

Accounting Classifications

Given this background in accounting terminology, accounting processes, accounting and finance systems, and the DFAS organization, it is appropriate to discuss the accounting classification code or "line of accounting." The line of accounting eventually links specific costs to the appropriation level, using a standard document number (SDN).

An accounting classification code is used to provide a uniform system of accumulating and reporting accounting information related to public voucher disbursements/refunds (collections). The complete accounting classification code consists of a fixed number of eleven coding elements. The Accounting Classification Reference Number (ACRN) precedes the code. The following is an example of a Navy line of accounting:

AA 1741804 0000 026 63400 3 063340 1D 000151 63580470500E

The line of accounting is broken down into its coding elements in Figure 29 - Line of Accounting Breakdown. "AA" is the Accounting Classification Reference Number (ACRN) and precedes all lines of accounting. The next ACRN would be AB, AC, etc.

The first seven positions (1721804) comprise the appropriation; the first two digits representing the department (17 = Navy), the next digit represents the fiscal year (4 = 2004) and the next four digits represent the appropriation symbol (1804 = O&M,N).

Each service has its own unique terms for some of the above codes, and they may be found at the DFAS web site under "Accounting Classification Data Element Definitions." For guidance on Standard Document Numbers, see DFAS-CL instruction 7200.1 of 14 July 1997, available at the FMO web site. Readers are also referred to the Defense Accounting Classification Crosswalk of October 1998, available for download from the DFAS website.

Department Code	**17**	2 or 4 digit code identifying the military department or agency receiving the appropriation, e.g., 17 is Navy, 21 is Army. Also called Department/Agency Code.
Fiscal Year	**2**	1 position code that designates the year the funds are available for obligation.
Appropriation Symbol or Treasury Basic Symbol	**1804**	4-digit number that identifies the type of funds being used.
Subhead	**0000**	Also called a limit. 4-digit suffix to the Basic Symbol that identifies a subdivision of funds that restricts the amount or use of funds. For Navy, 1st 2 identify major claimant, 3rd identifies the budget activity and the 4th is for local use.
Object Class	**026**	4-position code that classifies transactions according to the nature of the goods or services procured, rather than the purpose. Usually zeros.
Bureau Control Number	**63400**	An allotment authorization number consisting of a 2-digit budget project number and a 3-digit allotment number. For Navy, the UIC of the operating budget holder.
Suballotment	**3**	1 position code assigned by the suballotment grantor for regular suballotments.
Authorization Accounting Activity	**063340**	6-digit number that identifies the activity responsible for performing the official accounting and reporting for the funds. For Navy, a 0 then the UIC.
Transaction Type Code	**1D**	2 position code that classifies transactions by type (i.e., plant property, travel, etc.)
Property Accounting Activity	**000151**	For plant property, is UIC of purchaser; for travel, travel order number; for R&D, the PE and project number; varies by appropriation. Often the last 6 of the SDN for Navy.
Cost Code	**63580470500E**	12 position code of OPTAR number, expense element, program element, functional/subfunctional code and cost code; 11 digit job order number and expense element for Navy.

Figure 29 - Line of Accounting Breakdown

Fund Administration and Standardized Document Automation System (FASTDATA)

You can see that the line of accounting is lengthy and is a potential source of data entry errors. To help ensure accuracy, ASN (FM&C) has designated FASTDATA as the Navy's primary source data tool for ashore field activities. FASTDATA is an automated source document preparation system that generates accounting classification codes and interfaces with STARS. Transactions are initiated from cost centers and relayed through the comptroller staff (fund administrators) to the official accounting system. FASTDATA information is available at http://navweb.secnav.navy.mil/fastdata/fastdata.htm.

Prompt Payment Act (PPA)

The Prompt Payment Act (Public Law 97-177) was signed into law on May 21, 1982 and was amended on October 17, 1988 (Public Law 100-496). The PPA requires federal agencies to pay their bills on time, and if payment is made late then interest should be paid to the contractor. Paying on time means not paying early (no earlier than the 23rd day) and not paying late (no later than the 30th day).

Payment terms may be specified in a contract and payment will be made per those specifications. However, if no payment terms are specified, then payment will be made based on the following:

- Payment will be made as close as possible to, but not later than, 30 calendar days following the *latter of the following three events*:
  - Receipt of the goods or services (execution of a valid, signed contract)
  - Receipt of the invoice by the activity designated in the contract to receive the invoice (normally the consignee)
  - Acceptance of the goods or services, using either the actual or constructive acceptance

Normally an invoice is attached to the goods or it may be mailed. The activity has 7 days to contact the contractor in the event an invoice is not received after receipt of the goods or services. Per the FAR and DFARS, a *proper invoice* must be submitted by the contractor. What constitutes a proper invoice?

1. Name and address of the contractor
2. Invoice date (used by the paying activity if the receipt date is not annotated)
3. Contract number
4. Description, quantity, unit of issue and extended price
5. Shipping and payment terms (PPA discount terms)
6. Name and address of the contractor official to whom payment will be sent

7. Name, title, address and phone number of a person to be notified in the event of a defective invoice
8. Any other information deemed necessary by the contracting officer

Acceptance occurs after the receipt of the goods or services. Acceptance is a formal certification that the goods or services conform to the terms of the contract. The acceptance date normally conforms to the date shown in block 21 of DD Form 250 (Material Inspection and Receiving Report) or block 26 of the DD Form 1155 (Order for Supplies or Services). Otherwise, the date that is stamped on the invoice as the acceptance date will be used. However, one must consider *constructive* acceptance. Unless otherwise specified, constructive acceptance is considered to occur *not later than 7 days after receipt of the goods* or services unless there is disagreement over quantity or quality. So what does this mean? *Simply stated, you must accept the goods or services within 7 days after receipt of such*. If the actual acceptance falls in between the receipt of the goods and the constructive acceptance date, then the actual acceptance date will be used.

Once the material/service ordered has been properly received, accepted and certified, the certifying activity will forward the certified invoice and the purchase order to its assigned bill paying activity (DFAS). It is essential that the receipt, acceptance, and invoice certification process be completed as quickly as possible to avoid costly interest penalties.

The payment period commences based on when the invoice is received, when the material/service is received or when the material or service is accepted, *whichever is later*. The payment period ends as of the date cited on the U.S. Treasury check (or EFT) accomplishing the payment. Interest penalties will be paid whenever payment is not made by the expiration of the applicable period. Interest is computed from the day following the payment due date through the date of payment, and will be compounded each thirty calendar day period following the original due date. In most instances, the rate used to compute interest is provided semiannually to the Department of Defense by the Treasury Department and is payable from the date payment is due to the date it is paid. The Prompt Payment Act stipulates that the interest is compounded every 30 days with accrual *up to 1 year*.

If interest is due to be paid to a contractor, then it should be paid without the contractor having to request the payment. An additional interest penalty is due to contractors if all of the following conditions are met:

- The contractor is owed interest
- The interest was not paid with the invoice payment to the contractor on the date the interest became due
- The contractor was not paid the interest within 10 days after the date on which the invoice was paid

- The contractor makes a written request NLT 40 days after the date on which the payment was made

The additional penalty will equal 100 percent of the original interest payment but will continue to accrue until the payment is made (not subject to the 1-year time restriction discussed above). The additional penalty will be greater than $25 and no more than $5,000.

Below are some scenarios for computing the date from which the 30 day clock begins.

- Receipt of the goods 10 June
- Receipt of the invoice 10 June
- Acceptance of the goods 15 June
  - In this example, the 30-day clock begins on 15 June. This example is fairly easy to understand.

- Receipt of the goods 10 June
- Receipt of the invoice 16 June
- Acceptance of the goods 15 June
  - In this example, the 30-day clock begins on 16 June, as the *invoice is required* for certification.

- Receipt of the goods 10 June
- Receipt of the invoice 13 June
- Acceptance of the goods 19 June
  - In this example, the 30-day clock begins on 17 June, as one must use the *constructive acceptance* date. Note that acceptance occurred 9 days from the receipt of the goods and exceeds the constructive acceptance period of 7 days; therefore, add 7 days to the receipt of the goods date and use the constructive acceptance date.

Chapter 11: Critical Aspects of Budget Execution

Throughout the year of execution, it is important to monitor budget execution. A budget is a plan, and when appropriated, became the legal basis for the purpose, time, and amount aspects of the installation, program or activity that submitted the budget. It is the Navy's obligation to execute that budget as presented and as enacted. There are several tools and metrics at our disposal to manage execution.

Outstanding Obligation Validation

Every activity should continuously perform outstanding obligation validations. Fund holders are required to review commitments and obligations three times a year during each of the four-month periods ending 31 January, 31 May and 30 September of each fiscal year. But one should not wait for those times; it should be a continuous process. Transactions such as cancellations in an obligation status should be corrected. Overaged commitments should be researched and a determination made if there should be obligations or the commitment should be cancelled. Receipts should not be shown as still in an obligation status. Memorandum records should match the official accounting records.

These validations are particularly important as the appropriation ages. Corporate memory fades, records are displaced, and time is short. As the appropriation nears its closing date (fifth year of expenditure availability), it becomes obvious that a continuous validation process pays off. All unliquidated obligations must be researched and settled early in the fifth year to prevent an impact to current funds.

Obligation and Expenditure Rates

The obligation rate is determined by dividing the amount of obligations by the funds authorized. The obligation rate, expressed as a percentage, should track with the goals set by USD(C). The DoD Comptroller is required to set obligation rules per 10 U.S. Code section 2204. Each appropriation has obligation rate targets that activities and programs are expected to achieve.

The expenditure rate is determined by dividing the expenditures by the funds authorized. The expenditure rate, expressed as a percentage, should be tracking to the goals set by USD(C). Each appropriation has different expenditure goals, often called the "expenditure tail." Why are expenditures monitored closely? Because they directly affect outlays, and outlays are monitored by the Congress.

A program or activity that is underobligating (or underexpending) appears to be mis-managed or excessively funded. One that is overobligating (or overexpending) likewise appears to be mis-managed.

Early in the second quarter of the fiscal year, a midyear review is conducted to ensure current funding levels are adequate. Those underexecuting, may face the possibility of losing some funding. Those with compelling unfounded requirements may see additional funds flow their way. This review is an opportunity for the various layers in the chain of command to review budget execution performance and adjust for fact-of-life changes.

The following table (Figure 30 - Expected Obligation and Expenditure Rates for Various Appropriations) displays a few appropriations and their expected obligation and expenditure rates. The first line of each appropriation shows the obligation rate and the second line lists the expenditure rates. You can see that the annual appropriations have much faster outlay rates than the investment appropriations. This is to be expected given the purpose of those appropriations. MilPers, for instance, expends when the paycheck is issued, so one should expect execution rates in the high 90s.

Appropriation	BY	BY+1	BY+2	BY+3	BY+4	BY+5
O&MN	100%					
	81.6%	95.5%	98.8%	99.4%	99.7%	99.9%
MPN	100%					
	96%	99.4%	99.7%	99.8%	99.9%	
R&D	94%	100%				
	60.6%	93.5%	98.0%	99.1%	99.4%	99.6%
APN	78%	93%	100%			
	16%	54.5%	86.3%	92.7%	96.4%	98.4%
SCN	63%	77%	86%	95%	100%	
	7.1%	24.1%	45.4%	64.1%	74.9%	80.0%

Figure 30 - Expected Obligation and Expenditure Rates for Various Appropriations

Lastly, you must monitor the “twenty-two rule” which states that you are prohibited from obligating more than 20 percent of your budget authority in the last two months of the fiscal year. You should have obligated at least 80% of your budget in the first 10 months of the fiscal year. This is a general provision of each Authorization Act.

This rule is directed as a general provision in the DoD Appropriations Act and monitored by USD(C) at the appropriation level. Obligations for the fourth quarter are not to exceed the obligations of the third quarter, and orders for supplies will be kept to essentials only – recall the *bona fide needs rule* for appropriations.

Other Budget Execution Points

There are several other metrics used in managing the execution of a budget. Each program, activity or installation is a little different, but here are some key examples:

Civilian Full-Time Equivalent (FTE) Rates. Most budgets contain a civilian labor FTE figure. Managing this metric early in the year is vital since it becomes nearly impossible to adjust late in the year. An activity simply can't hire a lot of employees in late in the year to correct an underexecution and it is ill advised to involuntarily separate or furlough employees late in the year due to over execution. Civilian personnel management is covered in the next chapter.

Funding Architecture. Funding floors, ceilings, and fences were established in many categories. The activity comptroller must ensure those targets are hit. Recall, that funding earmarks are tools Congress uses to set the level of effort for a particular function. During execution, areas of spending such as SRM, child development centers, appropriated fund support to MWR, travel, and advisory and assistance services require additional monitoring.

Congressional Interest Items. Some budget line items are designed as special interest items. These receive higher levels of scrutiny within DoD and Congress. If you manage funds related to one of these programs, it demands increased vigilance.

Acquisition Programs. Major acquisition programs have unique execution management issues. The supporting financial managers must stay abreast of technical developments and milestones to understand the budgetary and execution impacts. A slipped approval to enter production will certainly affect execution of both the RDT&E and Procurement accounts. Supporting financial managers must also be proficient in Earned Value Analysis…a method for monitoring program as well as financial execution. EVA is beyond the scope of this text and readers are referred to Acquisition Reform, Defense Acquisition University or the Naval Postgraduate School program management resources.

Chapter 12: Civilian Personnel

Overview

Labor is typically the largest cost in any activity and the financial manager must understand the behavior of the costs in order to manage them. This chapter covers essential information on the categories of civil service personnel and cost elements such retirement benefits, leave, disability payments and health care benefits. The focus of this chapter is on the management of labor as a cost and budget category, not on the management or leadership of people. Just as this edition of the text was going to press, the President signed the FY2004 Defense Authorization Bill which created the National Security Personnel System. A summary of the significant changes is provided at the end of the chapter, but students are referred to the following website for current information on this evolving issue: http://www.cpms.osd.mil/nsps/index.html.

Categories of Civilian Personnel

Civil Service is the term used to describe service performed for the Federal Government by employed civilians who have competitively attained their position and who may gain tenure by continuing satisfactory performance. The Civil Service system is divided into three categories: General Schedule (GS), Federal Wage System (FWS), and the Senior Executive Service (SES).

General Schedule. General Schedule (GS) salaries are based on an annual pay scale with 15 salary levels (based on grade) and 10 steps within each level. Entry into the GS system can be at any grade but will begin at the first step in the applicable grade. “Step increases,” which are also known as “within-grade increases” come at specified time frames, assuming satisfactory performance has been demonstrated. For steps 2 through 4, the period is 52 weeks; for steps 5 through 7, the period is 104 weeks; and, for steps 8 through 10, the period is 156 weeks.

GS personnel can be categorized as either full time (greater than 32 hours per week), part time (16 to 32 hours per week), temporary (appointment less than one year) or intermittent (for seasonal work). Of importance is to note that temporary personnel (less than one year of employment without any break in service of greater than 5 days) are not eligible for benefits such as health insurance, life insurance or retirement benefits.

Broad Banding. Some activities, particularly in the Working Capital Fund, are involved in “demonstration projects” with the Broad Banding Classification System. Commonly known as *pay banding*, this system combines the pay and classification of the 15 levels within the GS system into five or six bands. Generic descriptions for each level are applied to each broad band, depending on the career path (scientific, administrative/technical, general support). An example would be having GS 1-4 in Band I; GS 5-8 in Band II; GS 9-11 in Band III; GS 12-13 in Band IV; GS 14-15 in Band V; and, SES in band VI.

The OPM occupational series are still used, and personnel are classified into bands that require the same level of effort and skill. Level descriptions are written for each level as opposed to having individual position descriptions. Satisfactory performance within each band will affect the employees' salary and earnings potential --- his/her salary may increase or could be reduced.

Federal Wage System. Federal Wage System (FWS) personnel are paid on an hourly basis vice receiving an annual salary. The FWS is comprised of individuals in trades or skilled crafts, and the positions are commonly referred to as blue collar, wage grade or wage board. Within the FWS, 15 grades exist and 5 steps exist within each grade. Similar to GS personnel, FWS personnel may enter at any grade but will begin at step 1 within that grade. FWS within-grade increases come at specified time frames, assuming satisfactory performance has been demonstrated. For step 2, 6 months; for step 3, 18 months; for steps 4 and 5, a 2-year waiting period is imposed.

The FWS pay scale is divided into five classes: WG (wage grade); WL (wage leader); WS (wage supervisor); WD (non-supervisory employees under the production facilitating pay plan); and, WN (WD (supervisory employees under the production facilitating pay plan). FWS employees receive annual wage adjustments based on a review of pay against the private sector by wage area. Therefore, no single pay scale exists for FWS personnel.[45]

Senior Executive Service. Senior Executive Service (SES) personnel serve in senior management and executive positions, and are flag/general officer equivalent. The SES has six rates of basic pay, from ES-1 through ES-6. SES personnel are eligible for all benefits, including locality pay, which will be discussed later.

Benefits for Civil Service Personnel: Costs to Consider

This section will examine some of the benefits for which civil service personnel are eligible.

Locality Pay. The Federal Employee's Pay Comparability Act (FEPCA) of 1990 authorizes locality pay for GS and SES employees (not FWS employees, as they are covered under an annual wage survey). It established 32 pay areas (not in Alaska, Hawaii or overseas), and the goal of the FEPCA is to bring the civil service salaries to within 5% of the private sector over a nine-year period. Therefore, there is a standard GS pay scale and 32 pay scales that show the addition of locality pay.

[45] FMR, Volume 8 Chapter 3, p.3-7 of August 1999

The locality pay is based on the location of the duty station, not where the employee resides. Locality pay is considered basic pay for retirement, life insurance, severance pay, worker's compensation, and any premium pay.

Paid Holidays. Full time personnel receive ten paid holidays per year. In the event the holiday is on a Saturday, the employee can take off the preceding Friday; if the holiday is on a Sunday, the employee can take off the following Monday. This policy does not apply to part time personnel.

Retirement benefits. Two retirement plans exist in the federal government: the Civil Service Retirement System (CSRS) and the Federal Employee Retirement System (FERS).

CSRS applies to personnel hired prior to 1984. Benefits are based on the number of years of service and the employee's salary. Personnel covered under CSRS may participate in the Thrift Savings Plan (TSP) and can contribute up to a maximum of 5% of their annual salary. TSP will be discussed later.

FERS applies to personnel hired in 1984 or later. FERS personnel may participate in the TSP and can contribute up to 10% of their basic pay. The FERS is a three-tiered benefit plan, consisting of Social Security, Thrift Savings Plan and the FERS basic annuity. Annuity benefits are based on the employee's salary (high three years of consecutive service) and the number of years of service.

Thrift Savings Plan (TSP). The TSP is a voluntary retirement contribution plan similar to a 401(k) plan and was established in 1986. TSP is a tax-deferred plan that allows employees to contribute a percentage of their pay, and if enrolled under the FERS retirement system, the government will contribute matching funds. FERS employees may contribute up to 10% of their basic pay per pay period. Agencies will contribute up to 5% of the basic pay contributed each pay period; the agency will match the first 3% dollar for dollar, and at fifty cents on the dollar for the next 2 percent. The agencies will automatically contribute 1% of basic pay whether the FERS employee participates in the TSP or not.

CSRS personnel are not eligible for the matching funds provided by the agency or activity. Temporary or intermittent personnel not covered under FERS are not eligible to participate in the TSP.

Health Insurance. Most Civil Service personnel are eligible to participate in the Federal Employee Health Benefits (FEHB) system. Employees pay approximately one-third of the cost of the premiums, while the activity pays for the remaining two-thirds of the cost.

Temporary employees may be eligible for FEHB coverage, assuming they have completed one year of service without any breaks of 5 days or more. However, they are required to pay the full cost of the premiums.

Life Insurance. Most Civil Service personnel are eligible for low-cost life insurance, called the Federal Employees' Group Life Insurance (FEGLI). The activity will contribute one-third of the cost of the premiums, while the employee will pay for the other two-thirds of the cost. Benefits equal approximately the annual rate of pay plus an additional $2,000. Employees may purchase additional, optional insurance, but they must pay the entire cost. Again, temporary and intermittent personnel are not eligible unless employed for one year.

Disability Payments (FECA). The Federal Employees' Compensation Act (FECA) provides up to three-fourths of an employee's salary, tax free, if an employee is injured on-the-job. For employees without dependents, the payout is two-thirds of the employee's salary.

Costs for FECA must be budgeted using historical data. Payments are made by the Department of Labor and are then "billed back" to the agencies for reimbursement.

Leave. Civil Service personnel are eligible for paid annual leave. Depending on the length of government service, employees earn leave at the rate of 4 hours per pay period (26 pay periods), up to 8 hours per pay period. A maximum of 240 hours may be earned, and any hours in excess are considered "use-or-lose" leave. It is important to monitor leave usage, especially if the employee has accumulated any compensatory time.

Sick Leave. Sick leave is earned at the rate of 4 hours per pay period. The number of sick leave hours that may be accrued is not limited.

Premium Pay. Premium pay covers overtime pay, night pay, holiday pay, Sunday pay, environmental pay for FWS personnel, and hazard pay for GS personnel. SES personnel are excluded from premium pay.

Overtime and overtime pay must be controlled. Overtime should be approved, in advance, and in writing. Overtime may be regularly scheduled or irregular. Regularly scheduled overtime is scheduled prior to the beginning of the workweek. For the performance of regular overtime, the overtime rate is 1.5 times the employee's hourly rate (divide by 2,087 hours if full time) if the rate of pay does not exceed the minimum applicable rate of a GS-10. If the employee's basic pay exceeds the minimum rate of a GS-10, then the overtime will be paid at 1.5 times the hourly rate of pay at the minimum applicable rate of a GS-10.[46] Simply stated, if the employee's basic pay exceeds that of a GS-10 step 1, then

[46] FMR, Volume 8 Chapter 3, p.3-8 of August 1999

he/she will be paid 150% of the GS-10 step 1 basic pay as opposed to 150% of his/her own pay.

Compensatory time may be offered in lieu of overtime pay. If an employee's pay exceeds the minimum pay of a GS-10, the activity can require the employee to take compensatory time off. FWS and FLSA-nonexempt employees may not be required to take compensatory time off unless they request compensatory time.

As with overtime, compensatory time worked should be approved in advance in writing. Compensatory time should be granted to an employee within a reasonable amount of time after being earned, and must be balanced with the employee's annual leave. Compensatory time should be used before annual leave, unless the employee is in a "use-or-lose" situation. Otherwise, any used compensatory time beyond the end of the 26th pay period in which it was earned will be paid at the overtime rate at which it was earned.

Cash Awards. Government-wide awards are covered under Title 5 of the United States Code, Chapter 45 and DoD awards are governed under DoD 1400.25-M. Cash awards are *not* mandatory in the DoD, but are traditional in nature.

Cash awards are usually done as on-the-spot awards, special act awards or performance awards. Cash awards can range from $25 up to $10,000 for a special act award. Due to the varying ranges of awards, consult your Human Resources Office (HRO) for guidance.

Awards are for your *top performers*. With the use of the "acceptable" and "unacceptable" two-tier rating system, most personnel will normally be rated as acceptable. Therefore, it may be difficult to differentiate between those who are truly outstanding and those who are performing to standards.

Time-Off Awards. Time off granted as an incentive award must be used within one year from the effective date and can't be converted to a cash award. The maximum time off that can be granted for a single achievement should not exceed 40 hours, and the maximum that can be granted to an individual during a leave year is 80 hours.[47]

Quality Step Increase (QSI). For top-notch performers, QSIs are a way to recognize superior performance. A QSI involves granting a step increase to an employee.

A QSI is not a one-time cost or cash award! Keep in mind that normal within-grade increases will occur, as per the timeframes discussed earlier; therefore, you must budget for the associated increase in payroll costs.

[47] FMR, Volume 8 Chapter 3, p. 3-35 of August 1999

Lastly, Federal Wage System personnel are not authorized Quality Step Increases, as the Title 5 provisions of the U.S. Code do not apply.

Other Costs to Consider

Some other costs to consider are pay raises, Voluntary Separation Incentive Pay (VSIP) and Voluntary Early Retirement Authority (VERA).

The Congress and the President often authorize pay raises. The funds are normally appropriated for the first year of the effective pay raise, but after the first year each activity must then fund the dollar amount of the raises.

VSIP is a program that enables employees to voluntarily leave government service early without being involuntarily separated. Eligible personnel can receive up to $25,000. In additional to the separation incentive, the separating activity is also liable for other expenses associated with the departing employee such as paid out accrued leave. The actual cost can easily rise to over $40,000 per employee. Thus, depending on the employee's salary, after about the first quarter of the year, it is often less expensive to keep the employee on the payroll for the remainder of the year than it is to pay the separation costs.

VERA is a program that enables employees to voluntarily leave government service prior to their normal retirement date. The Office of Personnel Management (OPM) authorizes VERA, and lowers the retirement age to 50 with 20 years of service, or 25 years of service without any age restriction. Like the VSIP, the separating activity is also liable for other expenses associated with the departing employee such as paid out accrued leave and contributions to retirement funds.

Managing the Workforce – Full Time Equivalent (FTE) Ceiling

The Federal Workforce Restructuring Act of 1994 placed workyear ceilings on the number of Full Time Equivalents (FTEs) than can be executed during the year. Although the Act expired on 30 September 1999, the OMB still requires monitoring of the FTEs.

One FTE is equivalent to a workyear, *normally* 2,080 hours. The workyear usually consists of 260 compensable days times 8 hours per day, i.e., 2,080 hours. The Office of Management and Budget (OMB) delineates the number of hours in each work year via OMB Circular A-11. However, some years, such as 1999, 2000 and 2002 have 261 compensable days (2,088 hours).

FTE ceilings are issued to the Navy and the Navy issues the FTE ceilings to each major claimant. Each claimant passes the FTE controls to subordinate activities, as well as to Navy Working Capital Fund activities. Activities are required to submit monthly FTE execution reports to ensure that FTE ceilings are adhered to. If activities are not executing to their assigned ceilings, they face the possibility of losing billets or funding.

What is included in the FTE execution computation? It includes straight time, annual leave and sick leave hours for: full time, part time, temporary and intermittent personnel, stay-in-school, summer hire, junior fellowship, foreign national direct hire and foreign national indirect hire personnel. It does not include overtime, compensatory time or leave without pay.

This is an example of a FTE computation. An activity is issued a ceiling of 600, which means they have 1,248,000 hours (600 X 2,080). The activity has the flexibility to structure its workforce to meet its requirements. A FTE ceiling of 600 does not mean that only 600 personnel can be onboard, for example, the activity can have 500 full time personnel, and 200 part time personnel working 20 hours per week.

Each month the activity will monitor its FTE execution. So, at any time, the activity can see how many hours it has executed and divide by 2,080 hours for this example. Say it has used 104,000 hours during two pay periods – its FTE execution is 50 and 550 FTEs remain.

Labor Acceleration Rate

Up to this point, we have not considered the true cost to the government for labor expended. The cost of direct labor will be reimbursed to the providing activity, unless that activity has been mission funded to provide such support. Otherwise, the provider would be penalized to the extent that they would be providing services using their own resources, and would be augmenting the receiver's appropriated funds.

A leave and holiday rate of 18 percent of basic pay will be added to the cost (hourly or annual salary) of personnel performing work for other DoD components or federal agencies.[48] Note that hourly rates are computed by dividing the salary by 2,087 hours.

Fringe benefit rates will be determined per Volume 11A, Chapter 6 (Appendix C) of the DoD FMR. Simply stated, Object Class 12.1 (civilian benefits) is divided by Object Class 11 (civilian compensation) to yield the fringe acceleration rate. For billing to public and private parties, the rate will be fully burdened and will include an unfunded retirement factor, which is provided by the Office of Personnel Management (OPM).

Each activity will calculate each employee's labor acceleration rate, and it will be recomputed after each pay period. This ensures that the activity has sufficient funding available to cover all civilian personnel costs. A general formula for

[48] FMR, Volume 11A, Chapter 1 p. 1-3 of August 1999

computing the labor acceleration rate is to take the costs of leave (annual, holiday and sick leave) plus the costs of fringe benefits (retirement, health, life insurance), and divide by the employee's total pay.

It is important to understand why it is necessary to be concerned with acceleration. The activity's O&MN funds pay for leave and fringe benefits. If the activity has only direct O&MN funding and no reimbursable funding, then the acceleration technique is not of great concern because the budget is sufficient to cover full salaries plus the government's contribution to fringe benefits. But, if the activity has reimbursable work to perform through funded reimbursable work orders, then the acceleration rate is important to ensure recovery of all the costs associated with the reimbursable work. Without this process, the activity performing the work would be paying the full costs of the worker, but only charging for the hourly rate. This would cause the activity to lose compensation for the fringe and leave costs of that worker.

Other Labor Budget Considerations

There are several other important considerations concerning civilian labor costs and their relation to budget formulation and execution. Because of their significant impact on the budget, each will be discussed in turn below.

<u>Reduction-in-Force (RIF)</u>. Technically, this is a "furlough" of greater than 30 calendar days or 22 work days, and is authorized under 5 CFR Part 351 (reduction in force). The Office of Personnel Management (OPM) must approve all RIFs.

Even if approved, <u>this process will result in increased costs to the activity in the near term</u>. Many substantial one-time costs can result from a RIF. These include severance pay, lump-sum leave payments, and moving costs.

In determining any savings, indirect and non-budgetary costs should also be considered. These costs include the expense of staff time in processing and administering a RIF, placement activities, and the handling of appeals and grievances. A RIF is a last resort action. Check with your Human Resources Office for the latest policy guidance regarding RIFs.

<u>Lump Sum Leave Payments</u>. A possible source of trouble with an established budget is unforeseen expenditures for lump-sum leave. This is even more likely during periods of fiscal constraint. The Federal government often initiates early retirement programs (VSIP), where employees choose to retire rather than be subject to a RIF. In these cases the employee can be entitled to up to thirty days of lump sum leave. If the costs for lump sum leave have not been considered during the budget formulation phase, this will present some challenges for the organization.

Leave Without Pay. Through this process an employee *volunteers* to take leave without pay. If offered to employees and accepted, this process can be used effectively by the activity to achieve short-term savings and is a valuable tool to help meet budgetary restrictions.

Moving Expenses. This category can result in the payout of tens of thousands of dollars to a single employee, depending on the circumstances of the hiring (such as hiring off the register) and the grade of the employee. These costs can include real estate expenses, transportation of the employee and his/her dependents, temporary quarters allowance, the movement of household goods, and non-temporary storage of household effects. Check with the servicing Human Resources Office for the latest rules and entitlements.

Furlough. A furlough is defined as "the placing of an employee in a temporary non-duty, non-pay status (for up to 30 calendar days, or 21 work days) because of lack of work or funds, or other non-disciplinary reason." Furloughs can be imposed individually across the command; however, check with your Human Resources Office for information. Some shipyards may impose command-wide furloughs during the holidays to save on labor costs while workload is down.

Methods to Control Labor Costs

The following methods reflect ways to reduce civilian labor costs:

- Recruit at the entry level vice the journeyman level. This may be easier said than done, however. Competition for personnel and wages in the private sector may make this plan unrealistic in some geographical locations.
- Use awards judiciously. Truly outstanding performance should always be recognized, however, cash awards and QSIs directly affect payroll costs. "Time Off" awards can be used where funds are restricted.
- Use temporary help for periodic workload peaks. This requires establishing a temporary work pool in advance, but the benefits derived from greater flexibility, the ability to be proactive, and the lower costs associated with temps (generally, you do not have to pay for their fringe benefits) is worth the effort. Depending on the type of work performed at the activity, this may not be a viable alternative.
- Minimize the use of deputies and assistants. Care should be exercised when eliminating deputy positions, especially when the senior is military. The civilian deputy to a military superior is often a critical element for continuity.
- Reassess the size of staff support functions. Can some staff support functions be transferred to the line organization? Reorganization of some staff functions can save money and maximize productivity.
- Hiring freezes and gapping billets through attrition. This is one of the best methods to reduce the work force and save money. Through attrition, the organization can achieve true long-term saving by not filling positions deemed unnecessary.

- Leave without pay (LWOP). Through this process an employee volunteers to take leave without pay. Voluntary leave without pay probably has the least long-term impact on the organization while achieving some short-term savings. Extended amounts of LWOP can affect an employee's retirement computation, however.
- Furlough. If less stringent means fail to provide the necessary budgetary savings, it may be necessary to consider the use of furloughs (up to 30 calendar days or 21 workdays). This is equivalent to leave without pay, but is an involuntary action imposed on the employee(s). Furloughs are authorized under 5 CFR Part 752 (Adverse Actions). Under this regulation the employing activity must provide an employee with 30 days advance notice of its intent to furlough. Through advanced planning an activity can reduce the impact of a furlough on the work force. This could be accomplished through the use of discontinuous furlough or intermittent days furlough, such as one workday per week for 15 weeks. Alternately the activity may elect to use the consecutive furlough. Activities should weigh the effect on employee morale before deciding on a furlough to solve budgetary shortfalls.
- Reduction-in-force (RIF). The most extreme action is the RIF and is definitely a last resort option. As discussed earlier, a RIF is a furlough of greater than 30 calendar days. The short term cost savings are just not realized due to the costs of terminating someone's employment and the disruption to the organization. The only hope of saving any money with a RIF is in **long-term savings**, and even these may not be realized. The organization may be smaller but you may have to pay for severance pay, lump-sum leave, and moving costs. Additionally, costs include overpayment to downgraded employees who continue to receive their higher pre-RIF salaries while occupying jobs at lower grades. Employees who have lost employment through a RIF are also entitled to preferential hiring, such as the Priority Placement Program (stopper list) and moving expenses. This could increase your costs of hiring if you needed to grow again after the RIF.

National Security Personnel System

On November 24, 2003, President Bush signed the Fiscal Year 2004 Defense Authorization Bill which created the National Security Personnel System. This legislation removes the civilian personnel system from the rest of the civil service system in place in the federal government and creates a system that more closely resembles that which is used in the Department of Homeland Security.

The new system preserves some significant aspects of the current system: merit system principles (such as veterans' preferences) and it respects the rights of employees to bargain collectively. It preserves the principles of equal opportunity, due process, whistleblower protections, and protections against non-merit based actions (e.g., nepotism).

On the other hand, the new system permits changes in recruitment, assignment, performance management, and pay scales. The legislation makes permanent the authority to offer Voluntary Separation Incentive Pay and Voluntary Early Retirement Authority. Changes in rules will make it easier for the Department to hire annuitants without penalty to the employee, allows for contracting for personnel services in certain areas, allows the hiring of highly qualified experts at appropriate compensation, and permits the hiring of older Americans without jeopardizing their retirement benefits.

A preliminary concept of operations was published in the Federal Register in April 2003. A copy is available at the website noted at the start of this chapter. Many of the attributes of this new system are based on lessons learned and best practices identified from the demonstration projects (pay banding). It is expected that the details of the new system will be defined within the first half of calendar year 2004 and full implementation will take approximately two years.

Chapter 13: Morale, Welfare and Recreation (MWR)

Overview

This chapter examines the different categories of MWR programs and the two primary means of providing financial support for those programs: appropriated funds (APF) and nonappropriated funds (NAF) generated from Exchange and MWR activity profits.

MWR Categories

Financial managers must be aware of the appropriated fund support that they are required to provide to MWR activities. MWR activities can be categorized into three primary groups, and their categorization relates to the amount of appropriated funding that can be provided.

The DoD standard delineated in DoDI 1015.6 is to use appropriated funds (APF) to fund 100% of all *authorized costs*. *Authorized* is the key word, and we will look at what costs are authorized to be covered using APF. Generally, any resale activity cost can't be covered with APF.

Category A – Mission Sustaining Programs

- Armed Forces professional entertainment overseas
- Free motion picture theaters
- Physical fitness and aquatic training
- Library programs and information services
- Installation parks and picnic areas
- Basic social recreation activities
- Shipboard, company and/or unit level programs
- Sports and athletics (self-directed, unit level or intramural)

At the "essential" end of the spectrum are mission-sustaining activities in which the military organization is a primary beneficiary and the activity provides identifiable recruiting and/or retention incentives. The activity generally has universal appeal to the Navy community and develops duty-related skills or capabilities. Corporations or local government heavily subsidize similar activities in the private sector. In addition, these activities are considered most important for the health and well being of the *military member.* This category is authorized 100% appropriated fund support (less certain common support/management overhead costs) for all *authorized costs*. The DoD minimum standard of APF support for this category is 85%.

It is essential that APF be used to the maximum extent possible in authorized MWR areas. Moreover, APF should be used in a manner that serves to reduce

NAF operating expenses, i.e., to offset a continuing (direct) expense such as converting civilian billets to appropriated funded billets.

When APF is not available to fund activities for which its use is authorized, such as Category A activities, NAF (sailors' recreation dollars) may be diverted to cover the appropriated funding shortfalls. *The sailor then effectively subsidizes what is the Navy's MWR responsibility to support mission readiness. This is not a proper use of Sailors' dollars*. By using non-appropriated funds for Category subsidies, sailors are denied the benefit of the NAF funds --- they are then diverted from other requirements that can only be funded with non-appropriated funds, e.g., business activities such as bowling centers.

The major impact of using NAF in Category A has been a significant increase in the MWR facility construction/maintenance backlog. Only the Sailor and his dependents lose in these situations.

Category B – Basic Community Support Programs (5 major groups)

- Child care and youth programs
    - Child development programs
    - Youth activities
    - Family child care
    - School age care
    - Resource and referral
- Community programs
    - Cable and/or community TV
    - Recreation information, tickets and tours services
    - Recreational swimming
- Outdoor recreation programs
    - Directed outdoor recreation
    - Outdoor recreation equipment checkout
    - Boating without resale or private berthing
    - Camping
    - Riding stables
- Individual Recreation Skill Programs
    - Amateur radio
    - Performing arts
    - Arts and crafts
    - Automotive crafts
    - Bowling (12 lanes or less)
    - Other
- Sports programs above the intramural level

In the middle of the spectrum are activities that contribute to the mission, but are capable of generating some revenue by the collection of small user's fees.

However, they are not expected to sustain their operation solely as a result of that revenue. These activities differ from those in Category A primarily because fees are usually charged for participation. Appropriated fund support is authorized for a significant portion (65% to 100%) of the operating costs of these activities.

Category C – Revenue Generating Programs

- Hospitality and lodging
  - Joint service facilities and/or Armed Forces Recreation Centers
  - Food, beverage and entertainment programs
    - Membership club program
    - Non-membership club program
    - Snack bars
- Unofficial lodging program
    - Recreational lodging (cabins, cottages, trailers, RV parks)
    - PCS lodging facilities (<u>not</u> Navy Lodges)
- Other special interest programs
  - Flying club
  - Parachute and sky diving club
  - Rod and gun club
  - Horseback riding
  - Video program
  - Other
- Other revenue generating programs
  - Resale activities
  - Amusement and recreation machines
  - Bowling (13 lanes or more)
  - Golf
  - Boating (with resale or private boat berthing)
  - Equipment rental
  - Unofficial commercial travel services
  - Other

At the other end of the spectrum are activities that primarily benefit the individual. These activities are similar to those that are operated for profit by a private enterprise in the civilian sector. These business activities have a significant capacity to generate revenue through the sale of goods and services, and appropriated fund support is very limited (the general rule of thumb is to cover common support costs with appropriated funds, approximately 5%). However, business activities located in extremely remote and isolated areas, as approved by Congress, may be provided appropriated support similar to that authorized for Category B activities (i.e., from 65% to 100% of authorized costs).

Authorized Costs Covered by APF Support

Common support costs provided to the entire base such as fire, security, grounds-keeping services and waste removal are authorized costs all categories. This does not include janitorial services for Category C activities, nor does it include grounds-maintenance on golf courses.

Direct operating costs for Category A and B activities are authorized costs for APF support. These costs would include managerial and supervisory personnel, utilities and rents, equipment repairs and supplies. If personnel are engaged primarily in resale, their salaries must be paid with NAF. Direct operating costs for Category C activities must be covered with NAF funds.

All construction costs for Category A activities can be covered using appropriated funds. Construction costs for Category B activities, such as child development centers and overseas youth centers may be covered using APF. Other Category B construction costs should be funded with NAF. However, facility maintenance costs can be funded with APF funds for all categories.

Any Category C construction is generally to be funded with nonappropriated funds. Exceptions to using appropriated funds are for construction costs overseas. Nonappropriated funding (NAF) can be used for Category B construction costs, but can’t be used for any Category A construction costs.

Lastly, it is important to understand the additional requirements placed on fewer and fewer appropriated dollars. The financial manager, ultimately the commanding officer, will have to make resource allocation decisions regarding where the dollars will go.

Chapter 14: Contracting Overview

Overview

In this chapter a broad overview of the contracting function and a discussion of contracting terms in a general nature will be provided. A contract is the vehicle by which we obtain the majority of our goods and services from the private sector.

Objective of the Contracting Process

The objectives of the contracting process are to acquire the needed systems, supplies and services at the best value; have them delivered on time and within an acceptable level of quality; support socioeconomic policies; and to retain the vital national industrial base.

Socioeconomic Programs

Our contracting process operates under numerous socioeconomic programs, such as:

- Small businesses
- Minority-owned businesses
- Women-owned businesses
- Blind and handicapped programs
- Prison-made products (UNICOR)
- Buy American Act
- Clean Air Act
- Labor Surplus
- Davis-Beacon Act (construction)
- Services Contract Act
- Walsh-Healy Act (supply contracts)

Competition in Contracting Act (CICA)

Contracting officers are to promote and provide for full and open competition in soliciting offers and awarding government contracts through the use of competitive procedures. Exceptions to CICA are for only one responsible source, urgency, statutory requirements, national security or if necessary in the public interest.

The FAR

The Federal Acquisition Regulation (FAR) is the primary directive for contracting and procurement, applying to the acquisition of all systems, goods and services. The FAR is available online at http://www.deskbook.osd.mil/.

The FAR guiding principles are to work together as a team to build a system that will work better and cost less to deliver the best value product or service to the customer. Its objectives are to satisfy the customer, minimize administrative costs, conduct business with integrity, and fulfill public policy objectives.

The FAR principles state: do not assume that practices not otherwise prescribed or required are prohibited and interpret the absence of direction as an opportunity to innovate, consistent within sound business practices and the law.

What is a Contract?

A contract is a legal agreement that creates duties and obligations. Elements of a contract are at least two persons with the legal capacity to act; consent to terms through offer and acceptance; consideration (some form of payment); is for only legal purposes; and is sufficiently clear.

Uniform Contract Format

Per the FAR 15.204-1, a uniform contract format is specified. It is in four parts, consisting of the following:

A. Solicitation/contract form
B. Supplies or services and prices/costs
C. Description/specifications/work statement
D. Packaging and marking
E. Inspection and acceptance
F. Deliveries or performance
G. Contract administration data
H. Special contract requirements
I. Contract clauses
J. List of attachments
K. Representations, certifications, and other statements from offerors
L. Instructions, conditions and notices
M. Evaluation factors for award

Contracting Spectrum

The following is an “A to Z” overview of the contracting spectrum, or steps required:

1. Determination of requirements
2. Communication of the requirements
3. Method of procurement determined
    - Sealed bids
        - Fixed price type
    - Competitive or sole source proposals

    - Fixed price type
    - Cost reimbursement
4. Solicitation of sources
    - Request for Proposal (RFP)
    - Invitation for Bid (IFB)
5. Response and evaluation
6. Award of contract
7. Post-award contract administration
8. Delivery and contract completion
9. Contract closeout

Contract Types

The types of contracts may vary according to the degree and timing of the responsibility assumed by the contractor for the costs of the performance, i.e., *risk*. Also, the amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards, i.e., *opportunity*.

We will discuss the **fixed price** contract and the **cost reimbursement** contracts. Essentially, the fixed price contract is where the government pays a price, subject to some fixed maximum ceiling amount if a sharing incentive is used. The cost reimbursement contract is where the government pays the cost, subject to limitations on costs that are *allowable* and *allocable*, and *cost reasonableness*.

Both types have many variations, using an award fee (for qualitative measures) and incentive fee (for quantitative measures) structure. Within these categories we find the most common types of Firm Fixed Price (FFP) -- high risk to the contractor, Fixed Price Incentive (FPI), Cost Plus Incentive Fee (CPIF), Cost Plus Award Fee (CPAF) and Cost Plus Fixed Fee (CPFF) -- high risk to the government.

Fixed Price Contract

A fixed price contract is for a firm requirement that is well defined. Payment is made after delivery of the goods and the contractor's profit is based on performance or by controlling costs. The risk to the contractor is high, and the risk to the government is low. These must be done with an IFB or RFP.

- **Firm-fixed-price**. Establishes a fixed-price for the product or service being procured that can't be changed unless the scope is changed.

- **Fixed-price incentive**. Provides for adjusting profit and establishing a final contract price by a formula based on the relationship of the final negotiated total cost to total target cost.

Cost Reimbursement Contract

A cost reimbursement contract levies higher risk on the government and less risk to the contractor. The contracts are based on the "best efforts" of the contractor, and payment is made as the costs are incurred. The fee or fee formula are agreed upon in advance. These must be done via RFPs only.

- **Cost**. Provides for reimbursement of costs but no fee.

- **Cost-sharing**. The contractor receives no fee and is reimbursed only for an agreed-upon portion of allowable costs.

- **Cost-plus-incentive-fee**. Provides for an initially negotiated fee to be adjusted later by a formula based on the relationship of total allowable costs, schedule or performance to total target costs, schedule or performance.

- **Cost-plus-award-fee**. Provides for a fee consisting of a base amount (limited to 3% of estimated cost) fixed at inception of the contract plus an award amount based upon a judgmental evaluation by the Government.

- **Cost-plus-fixed-fee**. The contractor and the Government negotiate the estimated cost of performance for the requirements. Based upon that estimate, a fixed fee is determined and the contractor will receive that fee regardless of the actual cost to perform the work. If the contractor's actual costs reach the estimate and the government wants the contractor to continue work, the contracting officer must provide the contractor with funds to continue, but no additional fee.

Other Contract Types and Agreements

Indefinite Delivery Contracts: Used when the exact times and/or quantities of future deliveries are not known at the time of contract award. This can be for a definite quantity for a fixed period; for all actual purchase requirements for specific supplies or services during a specified period; or, for an indefinite quantity within stated limits, of specific supplies or services during a fixed period.

Labor-Hour Contract: Variation of a time and materials contract where only labor is purchased.

Letter Contracts: A preliminary contractual instrument that authorizes the contractor to begin work prior to negotiation of specific terms. It includes a ceiling price and a limitation of Government liability, which is usually 50% of the ceiling price.

Time and Materials Contract: Specifies direct labor hours at a specified fixed hourly rate (including all overhead and profit) and materials at cost. Hours and material can then be purchased up to a specified ceiling.

Agreements: Two types of agreements exist, the Basic Agreement and Basic Ordering Agreement (BOA). Though Basic Agreements are not a contract they contain clauses applying to future contracts between the parties during its term, contemplating separate future contracts that will incorporate by reference or attachment the required and applicable clauses agreed upon in the basic agreement. A BOA is similarly not a contract but contains terms and clauses applying to future contracts (orders) between parties during its term and a description, as specific as practicable, of supplies or services to be provided and methods for pricing, issuing and delivering future orders under the BOA.

Chapter 15: Management Controls and Auditing

Overview

This chapter examines the DoD Management Control (MC) program; an important aspect of management control, the audit function, and provides an example, personal property accounting. Management controls and property accounting have been cited as material weaknesses within the DoD. As stewards of the public trust, it is important that we have adequate controls to provide reasonable assurances that assets under our control are properly managed and accounted for, that processes produce the outputs expected, and that programs achieve the outcomes expected.

Introduction to Management Controls

Management controls are how we control and safeguard our resources, which include manpower, dollars and property. Since we are dealing with public funds and assets, we have a plethora of guidance on management controls:

- Federal Manager's Financial Integrity Act (FMFIA) of 1982
- OMB Circular A-123 Management Accountability and Control
- DoD Directive 5010.38 Management Control Program (gives the what)
- DoD Instruction 5010.40 Management Control Program Instruction (gives the how)
- GAO Standards for Internal Controls in the Federal Government
- SECNAVINST 5200.35D

What is a Control?

A control is a collection of cost-effective procedures to provide *reasonable assurance* that programs achieve their intended results; resources are used only in support of the mission; waste, fraud and mismanagement are prevented; statutes and regulations are followed; and information on which decisions are made is reliable and timely.

Some examples of controls are organizational structures, policies and procedures, a budget, and padlocks on warehouses.

Controls come in two forms: proactive and reactive. Proactive, or preventive, controls are ex ante – they create a safeguard or provide a standard of compliance before action is taken. Some examples include employee safety programs, toxic waste limits for industrial effluent, comptroller certification of funding documents, and bar-coding of inventory items. Reactive, or detective, controls are ex post – they rely on documentation and records to ensure compliance and effectiveness after action is taken. Some examples include travel claim audits, obligation validation reviews, and water test samples to ensure quality.

Balance of Controls

It is important to strike a careful balance of controls. Too many proactive controls impede progress and efficiency. Too few lead to non-standardized performance and ineffectiveness. In general, too little control can lead to the violation of statutes and regulation, provides unreliable information, results in lost assets, programs fail to achieve goals, and creates opportunity for fraud. On the other hand, too much control can stifle initiative, dampen morale, and can be labor intensive.

Because a comprehensive management control program would duplicate many of the reviews required by other authority, the Navy position is to give the local commander broad authority over the content and nature of each activity management control program. SECNAVINST 5200.35D states, “Implementation of the DON Management Control Program at each activity is thus a leadership decision for the manager on how best to ensure that the goals of the program are met…Providing flexibility for commanders and managers to direct their programs without undue administrative control is a prime goal of the DON Management Control Program; however, when doing so, commanders/managers must be able to reasonably ensure that: obligations and costs comply with applicable laws and regulations; assets are safeguarded against waste, loss, unauthorized use or misappropriation; and, revenues and expenditures are properly accounted for and recorded.”

GAO’s Standards for Internal Controls

GAO has five standards for internal controls in the government, and these are considered the minimum standards:

1. **Control environment**: Employees and management should have an attitude about management controls that is positive and supportive throughout the organization.
2. **Risk assessment**: The internal controls should provide for an assessment of the risks from internal and external sources. Risk is discussed further below.
3. **Control activities**: The internal control activities should be effective and efficient, ensuring management’s directives are carried out. The nature of controls was discussed above.
4. **Information and communications**: For efficient and effective operations, an organization needs timely information that is relevant and reliable, and is communicated to the <u>entire</u> organization. This includes training. Many management control programs are well designed, but if they are not known or practiced, they are ineffectual.

5. **Monitoring**: The internal control monitoring should assess the performance over time and occur over the course of normal operations without requiring undue difficulty. This refers not to monitoring the organization (which is part of control activities), but rather monitoring the management control process itself. While management controls provide for organizational efficiency, it is possible to have inefficient or ineffective controls. Those with significant management control responsibility should have performance criteria and performance appraisals that reflect that responsibility.

Material Weaknesses

The Navy is required to identify, report and correct material weaknesses. What makes a weakness material? Material weaknesses should cover significant issues, answering questions such as: is it DoD/DoN wide and systemic; is there significant Congressional interest; and, is there heavy media interest. Weaknesses can occur at the Department level, component level, major claimant/major command level or at the activity level.

Corrective action plans should be developed for each material weakness. Correction should take place in a timely manner and achieve effective results. The Navy reports material weaknesses on the annual FMFIA Statement of Assurance. This is sent to the President by 31 December of each year. The agency head must provide a statement of assurance, a qualified statement of assurance, or a statement of no assurance.

Risk Assessments and Assessable Units

What processes and activities require internal controls? Certainly an activity does not need or desire to have an internal control staff so large that all functions are monitored. The activity should conduct routine risk assessments of its core business and operational functions. The risk assessment should ask the set of questions: what could go wrong, how likely is it to go wrong, what is the consequence if it does go wrong? Given this risk assessment, the more vulnerable areas should have a set of internal controls to guide them. These areas are referred to as *assessable units*. SECNAVINST 5200.35D provides suggestions for assessable units. Those in the comptroller function include: unmatched disbursements, financial accounting, property accounting, voucher payment and fund accounting. An inventory of assessable units must be maintained and managed as part of the local management control program.

The Audit Function

What is an audit? An audit is a comprehensive review and report on the performance of an activity or program. It may report on the financial or material condition of the activity. The intent of auditing is to improve the condition and efficiency of the area being audited.

General Accounting Office (GAO) Standards

The GAO standards are delineated in the *Government Auditing Standard*, often called the "Yellow Book." It is available at http://www.gao.gov. These Generally Accepted Government Auditing Standards (GAGAS) apply to audits of government organizations and programs, and contractors receiving assistance from the government. Other requirements are delineated in the CFO Act of 1990 and the GPRA of 1993.

GAO has established general standards and specific controls for audit controls. The four general standards include:

1. Independence – impartial decisions are to be made
2. Due professional care – sound judgment should be used by the auditors and they will exercise due care, adhering to GAGAS
3. Competent personnel – the staff conducting the audit is qualified.
4. Quality control – each audit organization will have an appropriate internal control system in place and will have an external quality control review

Types of Audits

There are four basic types of audits described below:

Financial Audits

- Predetermined objectives
- Determine if the financial information is in compliance with laws, directives and statutes
- Ascertain if the organization has internal controls of financial reporting and the safeguarding of assets

Contract Audits

- Determine compliance with the terms of the contract
- Normally collect physical evidence to determine if the product or service conforms to the terms of the contract
- Determine if the contractor is performing to the terms of the contract

Performance Audits

- Determine the performance level of the organization by using standards

that would vary for each organization, depending on its structure and mission
- Determine if the organization is accomplishing its mission within the guidelines of laws and regulations and if the programs are achieving the intended results
- Provide causes for poor performance and recommended actions to improve performance

Computer Processed Data Audits

- Assess the reliability of computer processed data
- Look for an audit trail and the completeness of the data
- Verifying the accuracy of source transactions by manually duplicating the process and comparing the results

Three Phases of a Government Audit

Three phases must exist for government audits: planning, reviewing and reporting.

Planning Phase

First, an overall audit plan will be developed. It will select issues to review and look at the materiality and significance of those issues. The plan should address the organization's internal controls and address current issues.

Review Phase

The review phase begins with the gathering of evidence. Consideration will be given to prior audit findings and prior performance, as well as determining if recommendations were considered and implemented.

The evidence gathered is to be significant --- is it important in relation to the audit objectives?

The evidence must also be material in nature --- what is the magnitude of the omission or misstatement regarding the information? Would such have influenced or changed the outcome?

Reporting Phase

All audits require a written report to address the objectives of the audit, the findings, and any applicable recommendations. Financial audits must address the following areas:

- If the statements presented were in accordance with GAGAS
- If the information in the statements were adequate

- Identification of any times in which the standards were not observed
- An overall statement of opinion regarding the financial statements, or a statement as to why an overall statement of opinion can't be given

One Example of Management Control: Property Accounting

Government employees are not only charged with safeguarding funds, but are charged with accountability over the items procured with the taxpayers' dollars. One of the material weaknesses cited in recent audits of the Department's financial statements regards controls on property accounting. The Federal Managers' Financial Integrity Act (FMFIA) of 1982, Title 10 U.S. Code section 2721, and the Federal Accounting Standards Advisory Board require federal agencies to provide reasonable assurance towards the safeguarding of funds and assets. In addition, the DoD requires that assets be under continuous accounting controls from the time of acquisition to disposal. Much of this section is taken from the DoD Financial Management Regulations (Volume 4, Chapter 6) and SECNAV Instruction 7320.10.

Personal Property

Personal Property is defined as those items used, but not consumed, to produce goods or services in support of DoN's mission. Personal Property includes: office equipment, industrial plant equipment, vehicles, material handling equipment, ADP equipment, government furnished equipment (GFE), and other types of assets. It does <u>not</u> include inventory items held for sale, operating materials or supplies, real property (land, buildings), ordnance, weapons or weapons systems, or items of an historic nature.

Personal Property is part of the larger hierarchy of materials categorized as Property, Plant and Equipment (PP&E). There are four categories of PPE: National Defense PP&E, Heritage Assets, Stewardship Land, and General PP&E. Briefly, National Defense PP&E includes weapons, weapon systems and support equipment; Heritage Assets includes items of historical, cultural, educational or artistic importance; and Stewardship Land is land <u>not</u> acquired for or in connected with General PP&E. The fourth category, General PP&E, is divided into two sub-categories, which are: real property (land and buildings) and personal property, which is the focus here.

Personal property is further divided into six categories: capitalized, minor, pilferable, sub-minor, government personal property in the possession of contractors, and leased personal property. Property in any of these categories may be sensitive or classified in nature. All Personal Property requires controls, but the application and extent of the controls are different for each category.

- <u>Capitalized Personal Property</u>: has an acquisition cost equal to or greater than the capitalization threshold established by DoD (currently $100,000), has a useful life of 2 years or more, and is not intended for sale in the course of operations. These assets will reported as assets on the annual financial statements, will be depreciated over time, and will be tracked in the property accounting system.

- Minor Personal Property: has an acquisition cost greater than the accountability threshold (currently $5,000) but less than the capitalization threshold, or does not meet all the capitalization criteria. Minor Personal Property items will be expensed on the annual financial statements and will be tracked in the property accounting system.
- Pilferable Personal Property: has no minimum acquisition cost and includes portable items that can be easily converted to personal use, have been determined to be critical to fulfilling the activity's mission and are hard to repair or replace. These items will be tracked in the property accounting system.
- Sub-Minor Personal Property: has an acquisition cost of less than the accountability threshold and does not meet the criteria for pilferable, classified or sensitive. There are no financial reporting requirements and no mandated accountability requirements except those established at the activity level.
- Government Personal Property in the Possession of Contractors: this category includes personal property acquired by the government or acquired by the contractor to complete a government-sanctioned activity.
- Leased Personal Property: An asset that is leased and may be a capital item or an operating (expensed) item.

Accounting for Personal Property

An accounting for all capitalized, minor, pilferable, GFE and leased property from the time of receipt through disposal must be maintained in a compliant personal property system approved by DoN. The **Defense Property Accountability System (DPAS**) has become the DoN standard system for both the Navy and Marine Corps. Other property accounting systems are not authorized and probably do not provide general ledger control of these assets.

All Personal Property receipts must be recorded in DPAS within 7 calendar days and the property must have a tracking bar code applied within 7 calendar days of receipt. The bar code numbers are to be 10 digits in length, with the 5-digit Unit Identification Code (UIC) followed by a unique alphanumeric code assigned by the local activity. Any of these items that have been disposed of shall be removed from DPAS at the time of disposal.

Capitalized items shall be depreciated at the appropriate depreciation rate, upon receipt. The depreciated value of all capitalized assets will be reported on the DoN's annual financial statements. To support this endeavor, major claimants are required to compile claimancy financial information and make quarterly financial reports to ASN (FM&C). Readers are directed to SECNAVINST 7320.10 for detailed instructions on computing acquisition costs, recorded costs, cost estimates, depreciation methodology, net estimated residual values, and the like.

Defense Property Accountability System (DPAS)

DoD property accounting has repeatedly been identified as one of DoD's five high-risk areas. The Defense Property Accountability System (DPAS) was directed to be the DoD's single system for property accounting and providing general ledger control. DPAS provides the user with property accountability information and includes all action related to property management, financial accountability, equipment utilization, preventive maintenance schedules, bar code inventory capabilities and warranty information. Information may be obtained at the following web site: https://www.dpasweb1.day.disa.mil/webdpas/dphome2.htm.

Property Control Responsibilities

Each activity commander is required to designate in writing a Personal Property Manager (PPM). The PPM is responsible for management of the activity's Personal Property program, training personnel, coordinating physical inventories and maintaining property system data security and integrity.

Responsible Officers (RO) will be designated, and Responsible Officers are the personnel charged with exercising due care for the personal property assigned to them or for property in the custody of persons reporting to them.

Documentation Requirements

Substantiating documentation is required for all capitalized, minor and pilferable Personal Property. In addition, the PPM must have a copy of the original site license for all externally developed software. Documentation must be maintained for 36 months after the item(s) is/are disposed of. Documentation requirements are numerous and should be researched in the SECNAVINST 7320 series.

Inventory Requirements

Physical inventories must be accomplished for all Personal Property items maintained in the DPAS. Inventories must compare the DPAS records to the physical assets *and* the physical assets back to the DPAS. Physical inventories will be accomplished at least every three years for capitalized, minor and pilferable personal property; when there is a change in the PPM, ROs or Commander/Commanding Officer; or, as directed. Documentation must include the asset listing, record of adjustments, signatures of persons conducting the inventory and evidence that physical assets were compared to the DPAS and the DPAS was compared to the physical assets. Responsible Officers are responsible for completing the DD Form 200 (Financial Liability Investigation of Property Loss) for items that are lost, stolen, missing, etc., unless the items are sub-minor property and not pilferable.

Chapter 16: Ethics in Government

Overview

This, the final chapter of the text, addresses a topic that should pervade the daily business of a government employee: ethics. It is not enough to do our jobs well; we need to ensure we also do the right things. Samuel Adams once said, "The public cannot be too curious concerning the characters of public men" and Henry Clay added, "Government is a trust, and the officers of the government are trustees; and both the trust and the trustees are created for the benefit of the people."

Ethics, per the Oxford Dictionary, is "the science of morals in human conduct; moral principles; or a set of moral principles." This, of course, begs for a definition of morals: "concerned with the distinction between right and wrong; concerned with accepted rules and standards." Thus, ethics, and this chapter, provide a framework for action based on a set of standards that form a distinction between right and wrong.

Bases for Ethical Decision-Making

In this postmodern era, the concepts of "right" and "wrong" are viewed relatively and, too often, cynically. While certain individual actions may be universally construed to be right or wrong, there is no universally agreed upon framework for the less extreme actions. It's useful then to look at several bases for ethical decision-making.

<u>Utilitarian</u>. This basis seeks to achieve the greatest good for the greatest number. Our progressive tax system is utilitarian in that relatively many low-income citizens benefit from the tax revenue of very few extremely wealthy citizens.
<u>Proportional</u>. This basis seeks to serve all equitably. Our Equal Employment Opportunity laws are based in part on the proportional theory and, in part, on the following one.
<u>Justice</u>. This basis seeks to protect the weaker or disadvantaged members of society as well as the strong. Many of the tenets of our criminal justice system (the right to counsel, even if you can't afford it) and legislation such as the Americans with Disabilities Act are based in this theory.
<u>Rights</u>. This basis comes from the theory of legal and moral rights. Censorship is considered ethically wrong since we have a legal right to freedom of speech.
<u>Virtue</u>. This basis is rooted in honesty, fairness, and benevolence. Whistleblower protections are based in part on virtue (as well as in Justice).
<u>Doctrine</u>. This basis submits individual judgment to scrutiny against a higher authority. A devout religious practitioner would examine his actions against the teachings of scripture.

Readers are encouraged to consider their decisions in light of these various bases of decision-making. Particularly “hairy” problems should be viewed through several of these lenses to arrive at a course of action that is both ethically sound and defensible to critics. The text will now examine one aspect of doctrinal-based ethics, the Principles of Ethical Conduct for Government Officers and Employees, from the Office of Government Ethics. While federal codes of ethics have existed for about 50 years, the most recent version is provided below.

Principles of Ethical Conduct for Government Officers and Employees[49]

President George Bush (41) signed Executive Order 12731 on October 17, 1990. It lists 14 principles:

1. Public service is a public trust, requiring employees to place loyalty to the constitution, the laws, and ethical principles above private gain.

2. Employees shall not hold financial interests that conflict with the conscientious performance of duty.

3. Employees shall not engage in financial transactions using nonpublic Government information or allow the improper use of such information to further any private interest.

4. An employee shall not, except pursuant to such reasonable exceptions as are provided by regulation, solicit or accept any gift or other item of monetary value from any person or entity seeking official action from, doing business with, or conducting activities regulated by the employee's agency, or whose interests may be substantially affected by the performance or on performance of the employee's duties.

5. Employees shall put forth honest effort in the performance of their duties.

6. Employees shall make no unauthorized commitments or promises of any kind purporting to bind the Government.

7. Employees shall not use public office for private gain.

8. Employees shall act impartially and not give preferential treatment to any private organization or individual.

9. Employees shall protect and conserve Federal property and shall not use it for other than authorized activities.

[49] Executive Order 12731 of October 17, 1990

10. Employees shall not engage in outside employment or activities, including seeking or negotiating for employment that conflict with official Government duties and responsibilities.

11. Employees shall disclose waste, fraud, abuse, and corruption to appropriate authorities.

12. Employees shall satisfy in good faith their obligations as citizens, including all just financial obligations, especially those -- such as Federal, State, or local taxes -- that are imposed by law.

13. Employees shall adhere to all laws and regulations that provide equal opportunity for all Americans regardless of race, color, religion, sex, national origin, age, or handicap.

14. Employees shall endeavor to avoid any actions creating the appearance that they are violating the law or the ethical standards promulgated pursuant to this order.

Laws and Regulations

In addition to this code of ethical conduct, there are several statutes on the books regulating the activities of government employees. We often are directly or indirectly involved in transactions and decisions involving millions of dollars. These decisions can materially affect the financial welfare of many individuals and businesses and so the potential exists for those individuals to attempt to influence those decisions. Likewise, opportunities exist for government employees to unfairly gain from the knowledge or position they possess. Statutes include Title 18 of the U.S. Code and Title 5 of the Code of Federal Regulations. Topics addressed in these statutes include:

- Gifts from outside sources
- Gifts between employees
- Conflicting financial interests
- Impartiality in performing official duties
- Seeking other employment (both as a government employee and shortly after leaving government service)
- Misuse of Position
- Outside activities

Readers are encouraged to take advantage of the materials available at the Office of Government Ethics web site at http://www.usoge.gov. At this site are examples of situations common to government employees. Another useful resource is your command ethics counselor or office of counsel.

Appendix A: Glossary of Terms

ACCELERATED LABOR RATE--Labor expense recorded in such a manner that as an employee works one straight time hour, the expense will equal the employee's actual wage plus an "acceleration" percentage to cover the cost of anticipated leave and fringe benefits.

ACCOUNTING CLASSIFICATION--A code used to provide a uniform system of accumulating and reporting information related to public voucher disbursements/refunds.

ACCOUNTS PAYABLE--Amounts due the public or other U.S. Government agencies for material and services received, wages earned, and fringe benefits unpaid. May include amounts billed or billable under contracts for progress payments, earnings of contractors held back, or amounts due upon actual deliveries of goods and services.

ACCOUNTS RECEIVABLE--Amounts due from debtors on open accounts. Under appropriated funds, amounts due from debtors for reimbursements earned or for appropriation refunds due.

ACCRUAL BASIS OF ACCOUNTING--A method of accounting in which revenues are recognized in the period earned and costs are recognized in the period incurred, regardless of when payment is received or made.

ACTIVITY GROUP/SUBACTIVITY GROUP (AG/SAG)--Basic purpose for which an activity proposes to spend money (i.e., Operating Forces).

ADMINISTERING OFFICE--The office, bureau, systems command, or Headquarters, U.S. Marine Corps assigned responsibility for budgeting, accounting, reporting, and controlling obligations and assigned expenditures for programs financed under appropriation(s) or subdivisions of an appropriation. The “Responsible Office” assigns the responsibility.

ADMINISTRATIVE LIMITATION--A limitation imposed within an administrative agency upon the use of an appropriation or other fund having the same effect as a fund subdivision in the control of obligations and expenditures.

AGENCY--Any department, office, commission, authority, administration, board, Government-owned corporation, or other independent establishment of any branch of the Government of the United States.

ALLOCATION--An authorization by a designated official of a component of the Department of Defense making funds available within a prescribed amount to an operating agency for the purpose of making allotments (i.e., the first subdivision of an apportionment). The allocation process ensures Congressional intent is met at levels below the appropriation level.

ALLOTMENT--The authority, expressed in terms of a specific amount of funds, granted by competent authority to commit, obligate and expend funds for a particular purpose. Obligation and expenditure of the funds may not exceed the amount specified in the allotment, and the purpose for which the authorization is made must be adhered to. Allotments are granted for all appropriations except the operating accounts, such as O&M,N and RDT&E,N which use operating budgets.

ANNUAL/ONE YEAR APPROPRIATION--An appropriation available for incurring obligations only during the fiscal year specified in the Appropriation Act.

ANTI-DEFICIENCY ACT, 31 UNITED STATES CODE 1341, 49-50; 1512-14, 17-19 (formerly part of Section 3679, Revised Statutes)--The salient features of this Act include:

- Prohibitions against authorizing or incurring obligations or expenditures in excess of amounts apportioned by the Office of Management and Budget or in excess of amounts permitted by agency regulations;
- Establishment of procedures for determining the responsibility for violations and for reporting violations to the President, through the Office of Management and Budget, and to the Congress;
- Provisions for penalties that may include removal from office, a $5,000 fine, or imprisonment for two years; and
- Requirements for the apportionment of appropriations, funds or contract authority.

APPEAL--This is an alternate term for reclama; usually used in communications with congressional committees and not used at the installation level.

APPORTIONMENT--A determination made by the Office of Management and Budget which limits the amount of obligations or expenditures which may be incurred during a specified time period. An apportionment may limit all obligations to be incurred during the specified period or it may limit obligations to be incurred for a specific activity, function, project, object, or a combination thereof. Apportionment is designed to limit the number of supplemental and deficiency appropriations.

APPROPRIATION--A part of an appropriations act providing a specific amount of funds to be used for designated purposes. Appropriations are divided into budget activities and further divided into sub-activities, programs, projects or elements of expense, depending on the type of appropriation.

APPROPRIATIONS ACT--An act under the jurisdiction of an appropriations committee, which provides funds for federal programs. There are 13 regular appropriations acts. Congress also passes supplemental appropriations acts when required.

APPROPRIATION LIMITATION--A statutory limitation within an appropriation that cannot be exceeded by incurring obligations or expenditures.

APPROVED PROGRAMS--Resources or data reflected in the latest Future Years Defense Program (FYDP).

ASSETS--Anything owned having monetary value. Property, both real and personal, including notes, accounts, and accrued earnings or revenue receivable; and cash or its equivalent.

AUDIT--The systematic examination of records and documents to determine:

- Adequacy and effectiveness of budgeting, accounting, financial and related policies and procedures;
- Compliance with applicable statutes, regulations, policies and prescribed procedures;
- Reliability, accuracy and completeness of financial and administrative records and reports; and
- The extent to which funds and other resources are properly protected and effectively used.

AUTHORIZATION--Basic substantive legislation enacted by Congress that sets up or continues the legal operation of a federal program or agency. Such legislation is normally a prerequisite for subsequent appropriations, but does not provide budget authority.

AUTHORIZATION ACCOUNTING ACTIVITY--A Navy term representing an activity designated by DFAS to perform accounting for another activity. Also formerly known as an Operating Location, or OPLOC (a DFAS site).

BALANCED BUDGET -A budget in which receipts are equal to outlays.

BASE YEAR--Fiscal year basis of cost estimates.

BUDGET--A plan of operations for a fiscal period in terms of:

- Estimated costs, obligations and expenditures;
- Source of funds for financing including anticipated reimbursements and other resources; and
- History and workload data for the projected programs and activities.

BUDGET AMENDMENT--A proposal that has been submitted to the Congress by the President after his formal budget transmittal, but prior to the completion of appropriation action by the Congress, that revises his previous budget request.

BUDGET AUTHORITY- Authority provided by law to enter into obligations which generally result in immediate or future outlays of Government funds. The basic forms of budget authority are:
- Appropriations,
- Contract authority and
- Borrowing authority.

BUDGET CALL--Budget planning guidance provided from higher authority, down the chain of command.

BUDGET DEFICIT--The amount by which the Government's budget outlays exceed its budget receipts for any given period. Deficits are primarily financed by borrowing from the public.

BUDGET EXECUTION--The accomplishment of the plan prepared during budget formulation. It is the process established to achieve the most effective, efficient and economical use of financial resources in carrying out the program for which the funds were approved.

BUDGET FORMULATION--A process that incorporates those actions performed in the development, review, justification and presentation of budget estimates.

BUDGET PROJECTS--Commodity groups for navy working capital stock fund material.

BUDGET REQUEST--The actual budget that is submitted up the chain of command.

BUDGET SURPLUS (+) OR **DEFICIT** (-)--The difference between budget receipts and outlays.

BUDGET YEAR--The year following the current fiscal year for which the budget estimate is prepared. For example, if the current fiscal year is Fiscal Year 2002, the budget year would be Fiscal Year 2003.

CEILING--A maximum amount of an appropriation imposed by Congress which is designated for a specific purpose, (e.g., travel funding).

CIVIL SERVICE--The term commonly used to describe service performed for the federal government by employed civilians who have competitively attained their positions and who may gain tenure by continuing satisfactory performance.

CLOSED APPROPRIATION ACCOUNT--An appropriation account, the balance of which has been transferred to the Treasury. The appropriation recorded in the account is lapsed.

COMMITMENT--A firm administrative reservation of funds based upon firm procurement directives, orders, requisitions, authorizations to issue travel orders, or requests which authorize the recipient to create obligations without further recourse to the official responsible for certifying the availability of funds. The act of entering into a commitment is usually the first step in the process of spending available funds. The effect of entering into a commitment and the recording of that commitment on the records of the allotment is to reserve funds for future obligations. A commitment is subject to cancellation by the approval authority if it is not already obligated. Commitments are not required under O&M appropriations.

COMMON SERVICE--Non-reimbursable service that has been directed or agreed upon between or among DoD components at the department level.

COMMON USE FACILITY--A building or structure in which both supplier and receiver use space concurrently.

CONGRESSIONAL BUDGET--The budget as set forth by Congress in a concurrent resolution on the budget. These resolutions include:

- The appropriate level of total budget outlays and total new budget authority;
- An estimate of budget outlays and new budget authority for each major functional category; for contingencies, and for other categories;
- The amount of the surplus or deficit in the budget (if any);
- The recommended level of federal revenues; and
- The appropriate level of the public debt.

CONSIGNMENTS (PREVIOUSLY UNFILLED REQUISITIONS)--The Request for Contractual Procurement (NAVCOMPT Form 2276) which does not obligate the requester's funds until the copy of the procurement document is received.

CONTINUING OR NO-YEAR APPROPRIATION--An appropriation that is available to incur obligations for an indefinite period of time. Revolving funds are included in this classification.

CONTINUING RESOLUTION ATHORITY--Congressional action to provide budget authority for specific ongoing activities when the regular fiscal year Appropriations Act has not been enacted by the beginning of the fiscal year. The continuing resolution usually specifies a maximum rate at which the agency may incur obligations and is sometimes based on the rate of spending of the prior year.

CONTROL NUMBERS--Planning limits provided by a major claimant or a local comptroller to a subordinate activity or department, providing an estimate of the next year's resources.

COST ACCOUNT--Accounts established to classify transactions, according to the purpose of the transactions. Cost account codes are also used to identify uniformly the contents of management reports.

COST ACCOUNT CODES (CAC)--An accounting classification which states specific aspects of functions (i.e., Purchased Electricity [8350]).

COST ACCOUNTING--An accounting system that provides information as to who has spent resources and for what purpose.

COST-BASED BUDGET--A budget based on the cost of goods and services actually to be received during a given period whether paid for before the end of the period or not. Not to be confused with an expenditure-based budget, which is based on the cost of goods and services received and actually paid for.

COST CENTER--A cost center is a subdivision of a field activity or a responsibility center. An individual cost center is a group of homogenous service functions, processes, machines, product lines, professional and/or technical skills, etc. It is an organizational entity for which identification of costs is desired and which is amenable to cost control through one responsible supervisor.

CROSS SERVICING--Support performed by one activity for which reimbursement is required from the activity receiving the support.

CURRENT YEAR--The fiscal year in progress. (See also "Budget Year.")

DEFENSE BUSINESS OPERATIONS FUND--Combined existing commercial and business operations previously managed as individual revolving funds, plus other business areas, into a single revolving business management fund. Now called Defense Working Capital Funds (DWCF).

DEFENSE PLANNING GUIDANCE--This is guidance that is issued by the Secretary of Defense. It provides policy guidance, specific programming guidance and fiscal constraints that must be observed by the military departments, defense agencies, and the Joint Chiefs of Staff in the formulation of force structures and six-year defense programs, and by the staff of the Secretary of Defense in reviewing proposed programs.

DEFERRAL OF BUDGET AUTHORITY--An action of the President that temporarily withholds, delays or precludes the obligation or expenditure of budget authority. A deferral must be reported by the President to Congress in a deferral message. The deferral can be overturned if either house passes a resolution that disapproves it. A deferral may not extend beyond the end of the fiscal year in which the message reporting it is transmitted to Congress.

DEFICIENCY APPROPRIATION--An act passed after a fiscal year has expired, to increase funds available such that the appropriation will have a positive balance.

DEOBLIGATION--A downward adjustment of previously recorded obligations. This may be attributable to cancellation of a project or contract, price revisions or corrections of accounts previously recorded as obligations.

DIRECT COSTS--Direct costs are costs incurred directly for and are readily identifiable to specific work or work assignment.

DISBURSEMENT--A term used to describe the actual payment of funds from the U.S. Treasury.

ECONOMY ACT ORDER--An order executed for materials, work or services to be furnished by one activity for another under the authority and limitations of the Economy Act (31 U.S. Code 1535).

EXECUTION--The operation of carrying out a program as contained in the approved budget. It is often referred to as "Budget Execution."

EXPENDITURE--An accounting term used to describe the satisfaction of an obligation; either through the transfer of funds (i.e., O&M,N to WCF) or the disbursement of funds from the U.S. Treasury.

EXPENDITURE AVAILABILITY PERIOD--The expenditure availability period begins upon completion of the obligation availability period. It lasts five years during which the accounting records must be maintained and no new obligations may be created.

EXPENSES--Costs of operation and maintenance of activities on the accrual accounting basis. Expenses include but are not limited to the cost of:

- Civilian personnel services;
- Military personnel services;
- Supplies and material consumed or applied;
- Travel and transportation of personnel;
- Rental of facilities and equipment;
- Minor construction costs less than $750,000 (APF)
- Equipment (having a value of less than $100,000) and
- Services received (purchased utilities, leased communications, printing and reproduction, and other).

EXPENSE ELEMENT--An expense element identifies the type of resource being consumed in the functional/sub-functional category or program element.

EXPENSE LIMITATION--The financial authority issued by a claimant to an intermediate level of command is an expense limitation. Amounts therein are available for issuance of operating budgets to responsibility centers.

EXPENSE TYPE APPROPRIATIONS--Appropriations that finance the cost of ongoing operations. Within DoD they are normally broken down into two main subcategories: Operations & Maintenance, and Military Personnel.

EXPIRED APPROPRIATION--An appropriation that is no longer available for obligation but is still available for disbursement to liquidate existing obligation.

FENCES--Explicit limitations (ceilings and floors) on the uses of funds that are provided in the funding authorization document.

FISCAL YEAR (FY)--Accounting period beginning on 1 October and ending by 30 September of the following year. The fiscal year is designated by the calendar year in which it ends. Fiscal Year 2002 began on 1 October 2001 and ends 30 September 2002.

FISCAL POLICY--Federal policies on taxes, spending and debt management, intended to promote the nation's goals, particularly with respect to employment, gross national product, inflation and balance of payments. The budget process is a major vehicle for determining and implementing fiscal policy.

FIXED PRICE (FP)--A dollar amount upon which two government activities agree that a service will cost. Once agreed, the service must be provided by the servicing activity at that price regardless of what it costs the servicing activity to perform the service. The purpose of such pricing is to reduce accounting costs. Such prices should not be based upon "ball park estimated," only upon knowledge of the total job. A form of fixed price is a unit rate per hour, day or month charged for Materials Handling Equipment (MHE) or service. Such unit rates are computed at least semi-annually upon a basis of actual cost. It may be a Reimbursable Work Order (RWO) accepted for a stated amount to be billed upon completion of the RWO. Expenses incurred in excess of, or for less than, the agreed amount will constitute a gain or loss to the performing Expense Operating Budget.

FLOOR--A minimum amount of funding that is designated for a specific purpose, (e.g., Maintenance of Real Property).

FRINGE BENEFITS (FRINGE)--The cost of the government's share of a civilian employees': retirement, life insurance, health insurance, social security, and thrift savings plans. Fringe benefits are recovered using an accelerated labor rate for reimbursable work.

FUNCTIONAL CLASSIFICATION--A system of classifying budget resources by major purpose so that budget authority, outlays and credit activities can be related in terms of the national needs being addressed (e.g., national defense, health) regardless of the agency administering the program. A function may be divided into two or more sub-functions, depending upon the complexity of the national need addressed by that function.

FUNCTIONAL MANAGER--A person (manager) responsible for a specific area, such Financial Inventory, Stock Material Sales, Housing and Utility Costs, Flying Hour Costs, Ship Overhaul, Steaming Hour Reports, etc.

FUNCTIONAL/SUB-FUNCTIONAL CATEGORY (F/SFC)--Sub-functional categories are a finer grouping within the functional category grouping. They are used to accumulate expenses separately for various functions encompassed by a single functional category. Combined they provide a classification which states what functions will be performed (e.g., Administration).

FUND AVAILABILITY--The amount of obligation authority in a fund or fund subdivision.

FUND SUBDIVISION--A segment of an appropriation or other fund, created by funding action as an administrative means of controlling obligations and expenditures within an agency.

FUNDED REIMBURSEMENT--A reimbursement in which the performing activity receives a written order.

FUTURE YEARS DEFENSE PROGRAM (FYDP)--The FYDP summarizes all approved programs of the entire Department of Defense. Resources or inputs required for six years are combined with military outputs of programs for the same period. The FYDP is expressed in terms of TOA (dollars), manpower (civilian FTE and military) and forces (equipment such as tanks, planes, etc.).

GENERAL EXPENSES--Costs incurred by general cost centers which are not incurred for, and are not readily identifiable with, specific direct job orders and which are not included in the indirect expense of the direct cost centers.

GENERAL LEDGER--The general ledger is the book of accounts in which all accounting entries are ultimately summarized. It is maintained by an authorization accounting activity for each operating budget/allotment holder. It is designed so that summary reports of all financial transactions can be readily prepared for management.

GROSS ADJUSTED OBLIGATIONS--The sum of all liquidated and unliquidated obligations.

GROSS DISBURSEMENTS--Represents the amount of checks issued, cash or other payments made, less funds received.

HOST ACTIVITY--This is an activity that provides facilities to another activity and may supply its services.

IMPOUNDMENT--See Deferral of Budget Authority

IMPREST FUND--Fixed amount of cash used to make minor expenditures for local commercial purposes. Payments from the fund are reimbursed from time to time to maintain a fixed amount in the fund.

INCREMENTAL FUNDING--The provision (or recording) of budgetary resources for a program or project based on obligations estimated to be incurred within a fiscal year when such budgetary resources will cover only a portion of the obligations to be incurred in completing the program or projects as programmed. This differs from full funding, where budgetary resources are provided or recorded for the total estimated obligations for a program or project in the initial year of funding. Annual appropriations are incrementally funded.

INDIRECT COSTS—Indirect costs are those mission costs that can't be identified to a single output. They are allocated over a select number of outputs.

INDIRECT EXPENSE--Indirect expenses are costs incurred by direct cost centers, which are not incurred directly for and are not readily identifiable with specific job orders established for the accomplishment of assigned work.

INDUSTRIAL PLANT EQUIPMENT--Equipment with a value of at least $100,000 and useful life of 2 years or more, that cuts, abrades, bends or otherwise reshapes or reforms materials.

INPUT BUDGETING--A budgetary method that focuses on the cost of the objects or inputs.

INTERNAL AUDIT--The independent appraisal activity within an organization that reviews the accounting, financial and related operations as a basis for protective and constructive services to management.

INTERSERVICE SUPPORT--Action on the part of one activity to provide support to another activity within the same DoD component or other federal agency.

INTRAGOVERNMENTAL SUPPORT--Support provided by one Federal Agency or subdivision thereof to another Federal Agency or subdivision thereof.

INVESTMENT-TYPE APPROPRIATIONS--Appropriations for investment type items as opposed to ongoing operations. The investment category is essentially split into two areas: procurement and military construction.

INVOICE--This term includes contractor requests for payment, travel claims and other miscellaneous vouchers.

INVOICE CERTIFICATION--Invoice certification (also called receipt certification) is a statement placed on an invoice, or a receiving document related to an invoice, certifying that the goods or services were received and accepted.

ISSUE PAPER—Preliminary or final decision by line item indicating a change (usually a decrease) in a budget request. Formerly referred to as a MARK.

JOB ORDER--Two definitions are used:
- A formal instruction to perform certain work according to specifications, estimates, etc.;
- Descriptive of a cost system whereby costs are accumulated by job orders.

JOINT USE FACILITY--A separate building or structure that is occupied jointly, when specific space has been designated for the sole use of each of the occupants.

LABOR DISTRIBUTION--The vehicle that transfers the actual cost of labor to the job order cost accounting system.

LABOR DISTRIBUTION CARD--A card that identifies hours spent day by day for each job order applicable to their effort.

LAPSED APPROPRIATION--An appropriation whose undisbursed balance is no longer available for disbursement as the five-year expenditure availability period has ended. This is also known as a closed or canceled appropriation.

LIABILITIES--Amounts of money owed to others for goods and services received, or for assets acquired. Liabilities include accrued amounts earned but not yet due for payment, and progress payments due to contractors.

LIMITATION--A statutory restriction within an appropriation or other authorization or fund that establishes the maximum amount that may be used for specific purposes.

LIQUIDATED OBLIGATION--An obligation that is matched with a matching expenditure.

MAJOR CLAIMANT/SUBCLAIMANT--A major claimant is a bureau, office, command, or Headquarters that is designated as an administering office under the Operation and Maintenance appropriations in NAVSO P-1000. Navy major claimants receive operating budgets directly from the Chief of Naval Operations Fiscal Management Division (N-82). Subclaimants are bureaus/offices/ commands designated as administering offices that receive a subclaimant operating budget from a major claimant.

MANAGEMENT CONTROL--Management control consists of internal checks established to safeguard property and funds; to check accuracy, reliability and timeliness of accounting data to promote operational efficiency; and to ensure adherence to prescribed management policies and procedures.

MARK--Decision by line item indicating a change (usually a decrease) in a budget request. Now referred to as an Issue Paper.

MEMORANDUM ACCOUNT--An account, usually stated in financial terms, but not always a part of the basic double-entry system of accounts, used for obtaining data required for control, reporting or other purposes.

MIDYEAR REVIEW OF THE BUDGET--A locally conducted review to determine the adequacy of present funding levels, to update unfunded requirements to the next level in the financial chain-of-command and to update the budget submission being prepared for delivery to Congress.

MILSTRIP/MILSTRAP--The Military Standard Requisitioning and Issue Procedures (MILSTRIP) system provides a standardized language of codes and coding techniques and a standard set of forms for requisitioning and issue transactions. The Military Standard Transaction Reporting and accounting Procedures (MILSTRAP) system provides uniform procedures, codes and documents for use in transmitting receipt, issue and adjustment data between inventory managers and stock points in support of supply and financial management.

MINOR NEW CONSTRUCTION--Describes construction costing from $1 to $1,500,000; however, construction projects costing greater than $750,000 can only be processed as Minor Construction if so urgently required that authorization and funding cannot possibly be delayed for a regular Military Construction (MILCON) program. The Navy Operations and Maintenance appropriation may fund projects costing $1 to $750,000.

MINOR PERSONAL PROPERTY--Navy personal property acquired for immediate use and having a unit cost of $5,000 to less than $100,000, or a cost of greater than $100,000 but with a useful life of less than 2 years.

MULTI-YEAR APPROPRIATIONS--Appropriations available for incurring obligations for a definite period that is in excess of one fiscal year.

NEW OBLIGATIONAL AUTHORITY (NOA)--This term has been replaced by Budget Authority. However, it is sometimes used to indicate budget authority newly enacted in an appropriation (as distinguished from transfer of Budget Authority).

NONAPPROPRIATED FUNDS--Monies derived from sources other than Congressional Appropriations, primarily from the sale of goods and services to DoD military and civilian personnel and their dependents and used to support or provide essential morale, welfare, recreational and certain religious and education programs. Another distinguishing characteristic of these funds is the fact that there is no accountability for them in the fiscal records of the Treasury of the United States.

NO-YEAR APPROPRIATION--See Continuing Appropriation.

OBJECT CLASSIFICATION--A uniform classification identifying the transactions of the federal government by the nature of the goods or services purchased (e.g., personnel compensation, supplies and materials, equipment) without regard to the agency involved or the purpose of the programs for which they are used.

OBLIGATION--A duty to make a future payment of money. The duty is incurred as soon as an order is placed, or a contract is awarded for the delivery of goods and the performance of services. It is not necessary that goods actually be delivered, or services actually are performed, before the obligation is created; neither is it necessary that a bill, or invoice, be received first. The placement of an order is sufficient. An obligation legally encumbers a specified sum of money that will require outlay(s) or expenditure(s) in the future.

OBLIGATION AVAILABILITY PERIOD--Appropriations have a specific obligation availability period or duration that can be grouped as either annual or multi-year. Generally, the duration of this period is consistent with the funding characteristics of the appropriation.

OBLIGATIONAL ACCOUNTING--A method of keeping track of the cumulative total of resources for which authority to spend has been passed for a particular fiscal year.

OBLIGATIONAL AUTHORITY--Three definitions may apply:

- An authorization by Act of Congress to procure goods and services within a specified amount by appropriation or other authorization.
- The administrative extension of such authority as by apportionment or funding.
- The amount of authority so granted.

OFFICE OF MANAGEMENT AND BUDGET (OMB)--Established as the Bureau of Budget by the Budget and Accounting Act of 1921 and renamed in 1970. Major functions include assisting the President in budget preparation and fiscal program formulation; supervision and control of budget administration; and increasing efficiency and economy of government service.

OFFSETTING COLLECTIONS--Moneys received by the government as a result of business-type transactions with the public (sale of goods and services) or as a result of a payment from one government account to another. Such collections are netted in determining budget outlays.

OFFSETTING RECEIPTS--All collections deposited into receipt accounts that are offset against budget authority and outlays rather than reflected as budget receipts in computing budget totals. Under current budgetary usage, cash collections not deposited into receipt accounts (such as revolving fund receipts and reimbursements) are deducted from outlays at the account level. These transactions are offsetting collections but are not classified as "offsetting receipts."

OPEN APPROPRIATION ACCOUNT--An appropriation account, the balance of which has not been returned to the Treasury general fund. The appropriation recorded in the account may be unexpired or expired.

OPERATING AND SUPPORT COSTS--Those recurring costs associated with operating, modifying, maintaining, supplying and supporting a weapon/support system in the DoD inventory.

OPERATING BUDGET (OB)--An operating budget is the annual budget of an activity stated in terms of subactivity group codes, functional/sub-functional categories and cost accounts. It contains estimates of the total value of resources required for the performance of the mission including reimbursable work or services for others. It also includes estimates of workload in terms of total work units identified by cost accounts.

OPERATING BUDGET PLAN--An estimate of monetary needs for a fiscal year, developed by cost center managers and the activity comptroller by accounting group and sub-accounting group.

OPERATING TARGET (OPTAR)-A planning estimate rather than legal limitation on expenditures provided to an afloat operating unit or department ashore.

OPERATION AND MAINTENANCE, NAVY (O&M,N)--An appropriation intended to finance the basic day-to-day operation of the fleet and principal shore activities of the Navy, issued to Operating Budget (OB) holders for normal expenses incurred in operating and maintaining an activity.

ORDERING ACTIVITY--An activity that originates a requisition or order for procurement, production, or performance of work or services by another activity.

OTHER PROCUREMENT, NAVY (OPN)--An appropriation of funds established for the financing of systems, equipment and related support meeting the investment criteria.

OUTLAYS--A budget term used to describe an actual cash payment or issuance of a check against the Treasury to satisfy a government obligation. Outlays include interest accrued on the public debt or other forms of payment, net of refunds and reimbursements. Outlays are also called expenditures or net disbursements.

PAST YEAR--The fiscal year immediately preceding the current year, the last completed fiscal year.

PERFORMANCE BUDGET--A budget that focuses attention upon the general character and relative importance of the work to be done by taking as its basis the estimated cost of programs, function, and project designed to accomplish mission. For example, the cost of a function: e.g., operating a rifle range, communications centers, motor pool, etc.; versus the cost of "things"; e.g., supplies, equipment, personnel services, etc.

PERFORMING ACTIVITY--An activity that is responsible for performing work or services, including production of material and/or procurement of goods and services from other contractors and activities.

PLANNING ESTIMATE/OPERATING TARGET (OPTAR) HOLDER--A planning estimate/OPTAR Holder is a person granted administrative control of a designated amount of funds. Planning estimates/OPTAR's are issued by operating budget holders to departments, divisions, etc., within a responsibility center.

PLANNING, PROGRAMMING, and BUDGETING SYSTEM (PPBE)--An integrated system for the establishment, maintenance and revision of the FYDP and the DoD budget.

PLANT PROPERTY--DoD owned/controlled real and personal property of a capital nature located in the naval shore establishment.

PRESIDENT'S BUDGET--The budget for a particular fiscal year transmitted to the Congress by the President in accordance with the Budget and Accounting Act of 1921, as amended.

PRINCIPAL ITEMS--A relatively small number of very high cost major end-items that are procured through investment appropriations and normally managed by a hardware command. Principal items are normally issued to Navy end users without charge.

PROGRAM--A combination of program elements designed to express the accomplishment of a definite objective or plan which is specified as to the time phasing of what is to be done and the means proposed for its accomplishment. Programs are aggregations of program elements and, in turn, aggregate to the total FYDP.

PROGRAM COST CATEGORIES--

- **Research and Development**. Those program costs primarily associated with Research and Development efforts including the development of a new or improved capability to the point where it is ready for operational use. These costs include equipment costs funded under the RDT&E appropriations and related Military Construction appropriation costs. They exclude costs that appear in the Military Personnel, Operation and Maintenance and Procurement appropriations.
- **Investment**. Those program costs required beyond the development phase to introduce into operational use a new capability, to procure initial, additional or replacement equipment for operational forces or to provide for major modifications of an existing capability. They include Procurement and Military Construction appropriation costs, and exclude RDT&E, Military Personnel, and Operation and Maintenance appropriation costs.
- **Operating**. Those program costs necessary to operate and maintain the capability. These costs include Military Personnel and Operations and Maintenance.

PROGRAM DECISION MEMORANDUM (PDM)--A document which provides decisions of the Secretary of Defense on Military Department POMs.

PROGRAM ELEMENT--A description of a mission by the identification of the organizational entities and resources needed to perform the assigned mission. Resources consist of forces, manpower, and equipment, as applicable. The Program Element is the basic building block for the FYDP.

PROGRAM OBJECTIVES MEMORANDUM (POM)--A formal submission from the Military Departments to the Secretary of Defense in a prescribed format which outlines the resource allocation decisions made by the Military Departments in accordance with the Defense Planning Guidance.

PROGRAMMING COST--Cost data for making program decisions. Programming costs are based on sets of factors that will provide consistent cost data under the same or similar circumstances and which are directly related to the explicit elements of the program decision.

PROJECT--A planned undertaking having a finite beginning and ending, involving definition, development, production and logistic support of a major weapon or weapon support system or systems. A project may be the whole or part of a program. A Designated Project is a project that, because of its importance or critical nature, has been selected for intensified project management.

PROJECT MANAGER--The individual within the bureaus, and offices responsible, within well-defined boundaries of time, resources, and performance requirements, for executing an approved project.

PROJECT ORDER--A specific, definite and certain order between DoD activities, for work or for the manufacture of supplies, material or equipment that, for the purpose of obligation assumes the characteristics of orders or contracts placed with commercial enterprises.

PROMPT PAYMENTACT--Legislation that requires the Federal Government to pay interest on late payments made on contracts and purchase orders.

REAPPORTIONMENT--A revision of an annual "apportionment" during the fiscal year, either upward or downward.

REAPPROPRIATION--Congressional action to restore the obligation availability, whether for the same or different purposes, of all or part of the unobligated portion of budget authority in an expired account. Obligation availability in a current account may also be extended by a subsequent appropriation act.

RECEIVABLES--A collective term used to describe amounts due or to become due from others, usually within a relatively short time.

RECLAMA--A request for reconsideration of an item that has been deleted, reduced or otherwise adjusted during the FMB and OSD/OMB phases of the budget process. Although the term "Appeal" has the same meaning, it is not normally used in connection with these phases.

RECONCILIATION--A process use by Congress to reconcile amounts determined by tax, spending, and debt legislation for a given fiscal year with the ceilings enacted in the concurrent resolution on the budget for that year.

REFUNDS--Recoveries of excess payments that are for credit to an appropriation or fund account. These items, such as the recovery of a salary overpayment or a return of the unused portion of a travel advance, will not be included as reimbursements but will be treated as reductions of disbursements.

Refunds will also include credits to an appropriation or fund account due to accounting adjustment relating to obligations or disbursements where such procedure is permitted by law or regulations.

REIMBURSABLE EXPENDITURE--An expenditure that is made for another agency, fund, or appropriation, or for a private individual, firm or corporation, which subsequently will be recovered.

REIMBURSABLE OPTAR--Funds provided by a tenant to a host command in return for the host's providing specified and mutually agreed services.

REIMBURSABLE WORK ORDER (RWO)--A request to provide a product or service which may entail expenditure of labor, material, services or sub-contractual support to fulfill the request, and with funds coming from outside the Operating Budget.

REIMBURSEMENTS--Amounts received by an activity for the cost of material, work, or services furnished to others, for credit to an appropriation or other fund account.

REPROGRAMMING--The transfer of funds between programs of an appropriation; a shifting of funds from the original purpose for which they were justified by Congress.

REQUEST FOR CONTRACTUAL PROCUREMENT—A request normally used to provide funds for direct citation on contracts or requisitions. These citations are of the requester's fund vice those of the performing contracting activity.

RESCISSION BILL--A bill or joint resolution that provides for cancellation, in whole or in part, of budget authority previously granted by the Congress. Under the Impoundment Control Act of 1974, unless Congress approves a rescission bill within 45 days of continuous session after receipt of the proposal, the budget authority must be made available for obligation.

RESOURCE AUTHORIZATION--Title of the Funding Document NAVCOMPT 2168-1, NAVCOMPT 372, etc., authorizing Obligation and/or Expense/Military Services Authority (funds).

RESOURCE MANAGEMENT SYSTEM (RMS)--The formalized system by which the DoD tracks and accounts for financial resources provided to and employed by ashore commands within the Operations and Maintenance (O&M) and Research and Development Appropriations (RDT&E).

RESOURCES--Resources consist of military and civilian personnel, material on hand and on order, and the entitlement to procure or use material, utilities and services.

RESPONSIBLE OFFICE--The office, bureau, systems command, or Headquarters, U.S. Marine Corps which has been assigned the responsibility for overall management for all programs financed by an appropriation. The Director, CNO Fiscal Management Division (N-82) is the responsible office for all Navy appropriations, except RDT&E,N appropriation. The Headquarters, U.S. Marine Corps is the responsible office of all Marine Corps appropriations. The Office of the Chief of Naval Research is the responsible office for RDT&E,N.

RESPONSIBILITY CENTER--An activity listed in the Standard Navy Distribution List. Several activities may be combined in one responsibility center when the individual activities are considered small enough to justify the combination or when operational requirements make the combination necessary.

REVENUES--Receipts collected by the federal government as duties, taxes or as premiums from social insurance programs.

REVOLVING FUND--A fund established to finance a cycle of operations in which reimbursements and collections were returned for reuse in a manner that maintained the principal of the fund. A self-perpetuating or working capital fund. See Defense Business Operations Fund (DBOF).

SEQUESTRATION--An automatic, across-the-board (less exempted categories) reduction of funds that can occur if spending exceeds the caps on "discretionary spending" in accordance with the Budget Enforcement Act of 1990

SERVICES REQUEST--An order for services to be performed issued by an activity, organization or private party to another. Documents utilized for this purpose are ordered for Work and Services (NAVCOMPT Form 2275), Requisition (DD Form 1348), and Request for Issue or Turn-in (DD Form 1150). The accepted order is the basic source of authority to incur costs and perform work.

SOLE USE FACILITY--A building or structure that is designated for the exclusive use of the receiver. Identifiable costs are reimbursable.

SPECIFIC JOB ORDER--A job order established for the accomplishment of specified work with an estimated completion date and for which summarization of cost incurred is desired upon completion.

SPENDING PLAN-A responsibility center's documented budget execution plan detailing how it intends to spend that fiscal year's funds.

STABILIZED RATES-- Predetermined rates for billing customers for work to be accomplished by WCF activities.

STANDARD DOCUMENT NUMBER--A 15-character alphanumeric code assigned to each document prepared and processed as inputs to the financial system. The first six positions represent the unit identification code (UIC) of the issuing activity.

STANDING JOB ORDER--A job order established to provide for services in connection with the maintenance and operation of the activity during a specified period.

SUBHEAD--A four digit numerical or alphanumeric character identifying the first level subdivision of an appropriation used primarily for administration, accounting and control of an appropriation.

SUCCESSOR "M" ACCOUNT--Previously, upon lapse of annual and multiple-year appropriations, the obligated but unexpended balances merged/transferred into the appropriations Successor "M" Account. The "M" Account was phased out on 30 September 1993.

SUPPLEMENTAL APPROPRIATION--An appropriation enacted as an addition to a regular annual appropriation act. Supplemental appropriations provide additional budget authority beyond original estimates for programs or activities that are too urgent to be postponed until the next regular appropriation.

SUPPORTING ACTIVITY--This is an activity that provides only services to another activity.

SURPLUS--The amount by which revenues exceed outlays.

TENANT ACTIVITY--An activity that uses facilities and receives support from another activity.

TOTAL OBLIGATIONAL AUTHORITY (TOA)--TOA is the total amount of funds available for programming in a given year, regardless if the year the funds are appropriated, obligated, or expended. TOA includes new obligation authority, unprogrammed or reprogrammed obligation authority from prior years, reimbursements not used for replacement of inventory in kind, advance funding for programs to be financed in the future and unobligated balances transferred from other appropriations.

TRANSACTION (FINANCIAL)--The conduct of business involving the participation of two or more parties for the purpose of exchange of goods or services for money or other considerations. A transaction is comprised of various stages before completion. The function of an accounting system is to identify, classify and record transactions.

TRANSFER AUTHORITY--Authority provided by Congress to move budget authority from one appropriation or working capital fund or any statutory subdivision thereof, to another.

UNDELIVERED ORDERS--An undelivered order is any document, meeting the criteria for an obligation that is issued for material or services that has not as yet been received by the activity that ordered it. Includes material requisitions applicable to reimbursable orders issued for material to be delivered from a stock funded inventory, purchase orders issued which cite annual appropriations and overhead materials requisitions issued by modified industrial activities whose operations are principally financed by reimbursable orders.

UNDISTRIBUTED DISBURSEMENTS--Disbursements not processed by the authorization accounting activity against obligation records.

UNFUNDED REIMBURSEMENTS--Unfunded reimbursements result when work or services are provided without a specific order. Reimbursement for user charges (i.e., commissary surcharge) and jury duty fees, are examples.

UNFUNDED REQUIREMENTS--Those programs and functions that cannot be performed within the constraints of the control numbers assigned to an activity.

UNIFIED BUDGET--Describes the way the federal budget is currently displayed. This display includes revenues and spending for all regular federal programs and trust funds except Social Security, which was removed from budget totals beginning with Fiscal Year 1987. Prior to the creation of the unified budget in 1969, all trust funds were excluded from budget totals.

UNIT COST--Determined by taking actual total costs divided by actual workload (outputs). The unit cost is based on actual results.

UNIT COST GOAL--Determined by taking total budgeted costs and divide by total budgeted workload (outputs). These goals are issued to activities operating in the Annual Operating Budget (AOB).

UNLIQUIDATED OBLIGATIONS--Outstanding obligations with no matching expenditures.

UNMATCHED DISBURSEMENTS--Disbursements that cannot be matched to existing obligations.

VOUCHER--Any document that is evidence of a transaction, showing the nature and amount of the transaction. It usually indicates the accounts in which the transaction is to be recorded.

VOUCHER NUMBER--A serial number assigned to a voucher used to make payments to a contractor for delivery of supplies or performance of a service.

WARRANT--An official document issued by the Secretary of the Treasury and countersigned by the Comptroller General of the United States by which monies are authorized to be withdrawn from the Treasury. Warrants are issued after appropriations and similar congressional authority have been enacted.

WORK MEASUREMENT--The process of establishing performance standards in terms of hours per work unit. Some of the principal techniques used are: stopwatch observations, synthesis of predetermined standards; work sampling; and statistical inference from historical data. The principal purpose of the standards is to compare the work performed with the man-hours expended. Such information may be used for personnel planning, work scheduling, budget justification and cost control.

WORK UNIT--Work units are measures of output that express volume of work; conversely, man-hours and dollars are measures of input required to produce work units or perform work.

WORKING CAPITAL FUND--A revolving fund used as a source of financing for work that will be paid for by the customer after the completion of the job. Working Capital Funds replaced DBOF in December 1996. See Defense Business Operations Fund.

WORK-IN-PROCESS ACCOUNT--Temporary investment of cost into customer requested work that as yet is unbilled.

YEAR-TO-DATE (YTD)--Cumulative totals lodged against job orders or cost accounts from the beginning of the fiscal year to current date.

Appendix B: Acronyms

AAA	Authorization Accounting Activity
ABS	Amended Budget Submission
ACDUTRA	Active Duty Training
ACO	Administrative Contracting Office
ACRN	Accounting Classification Reference Number
ADO	Associate Disbursing Office
ADP	Automated Data Processing
ADPE	Automated Data Processing Equipment
ADS	Automated Data System
AF	Air Force (for form numbers)
AG/SAG	Activity Group/Sub-activity Group
AO	Administering Office
APADE(S)	Automated Procurement and Accounting Data Entry (System)
APDM	Amended Program Decision Memorandum
APF	Appropriated Funds
APN	Aircraft Procurement, Navy
APPN	Appropriation
APV	Automated Public Voucher
ASD	Assistant Secretary of Defense
ASN	Assistant Secretary of the Navy
ASPR	Armed Services Procurement Regulation
AUOL	Aged Unfilled Orders Listing
AUTODIN	Automatic Digital Network
BA	Budget Activity
BA	Budget Authority
BAM	Baseline Assessment Memorandum
BCP	Budget Change Proposal
BCN	Bureau Control Number
BEA	Budget Enforcement Act
BES	Budget Estimate Submission
BOS	Base Operating Support
BP	Budget Project
BPA	Blanket Purchase Agreement
BRAC	Base Realignment and Closure
BSO	Budget Submitting Office
BUPERS	Bureau of Personnel
BY	Budget Year
CA	Commercial Activity
CAB	Centralized Accounting Billing
CAC	Cost Account Code
CAM	Claimant Accounting Module
CAO	Central Accounts Office
CBO	Congressional Budget Office
CDA	Central Design Activity

CDO	Central Disbursing Office
CEB	CNO Executive Board
CERPS	Centralized Expenditure Reporting Processing System
CFO	Chief Financial Officer
CGFM	Certified Government Financial Manager
CIM	Corporate Information Management
CMC	Commandant of the Marine Corps
CMD	Command
CNAVRES	Chief of Naval Reserve
CNET	Chief of Naval Education and Training
CNO	Chief of Naval Operations
CO	Commanding Officer
COCOM	Combatant Commander
COG	Cognizance Symbol
CONUS	Continental United States
CPA	Chairman's Program Assessment
CPAM	CNO's Program Analysis Memorandum
CPR	Chairman's Program Recommendation
CPRRS	Civilian Personnel Resource Reporting System
CRA	Continuing Resolution Authority
CRF	Central Reporting Facility
CSRS	Civil Service Retirement System
CY	Current Year
DAASO	Defense Automatic Addressing Systems Office
DAB	Defense Acquisition Board
DAR	Defense Acquisition Regulation
DBOF	Defense Business Operations Fund
DBR	Detail Billing Record
DCAA	Defense Contract Audit Agency
DCASR	Defense Contract Administration Services Region
DCNO	Deputy Chief of Naval Operations
DCPS	Defense Civilian Payroll System
DD	Department of Defense (for form numbers)
DDO	Deputy Disbursing Officer
DERA	Defense Environmental Restoration Account
DFAS	Defense Finance and Accounting Service
DFMC	Defense Financial Management Certification
DJMS	Defense Joint Military Pay System
DLA	Defense Logistics Agency
DLR	Depot Level Repairable
DMRD	Defense Management Report Decision
DO	Disbursing Office
DoD	Department of Defense
DODAAC	DoD Activity Address Code
DODADD	DoD Activity Address Directory
DODD	DoD Directive

DODIG	DoD Inspector General
DODI	DoD Instruction
DON	Department of the Navy
DOV	Disbursing Officer Voucher
DPAS	Defense Property Accountability System
DPG	Defense Planning Guidance
DRAS	Defense Retiree and Annuitant Pay System
DRB	Defense Resource Board
DRIS	Defense Regional Interservice Support
DTS	Defense Travel System
EAP	Expenditure Availability Period
EE	Expense Element
EFD	Engineering Field Division
EOB	Expense Operating Budget
ERP	Enterprise Resource Planning
FAA	Funds Administering Activity
FAR	Federal Acquisition Regulation
FASAB	Financial Accounting Standards Advisory Board
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act of 1996
FFP	Firm Fixed Price
FHCR	Flying Hour Cost Report
FICL	Financial Inventory Control Ledgers
FINMIS	Financial Management Information System
FIPC	Financial Information Processing Center
FIPS	Financial Information Processing System
FIR	Financial Inventory Reporting
FLSA	Fair Labor Standards Act
FM	Financial Management
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMS	Foreign Military Sales
FMSO	Fleet Material Support Office
FPR	Federal Procurement Regulation
FRS	Financial Reporting System
F/SFC	Functional/Subfunctional Category
FTE	Full Time Equivalent
FWS	Federal Wage System
FY	Fiscal Year
FYDP	Future Years Defense Program
FYTD	Fiscal Year to Date
GAO	General Accounting Office / Gross Adjusted Obligations
GASB	Governmental Accounting Standards Board
G&A	General and Administrative
GDP	Gross Domestic Product
GLA	General Ledger Account
GM	General Manager

GMRA	Government Management Reform Act of 1994
GNP	Gross National Product
GPRA	Government Performance and Results Act of 1993
GS	General Schedule
GSA	General Services Administration
HAC	House Appropriations Committee
HASC	House Armed Services Committee
HRO	Human Resources Office
IBR	Investment Balance Review
ICP	Inventory Control Point
IR^{3}B	Integrated Resources and Requirements Review Board
IPE	Industrial Plant Equipment
IPL	Integrated Priority List
ISA	Interservice / Intraservice Support Agreement
ISR	Investment Strategy Review
IWAR	Integrated Warfare Architecture
JFMIP	Joint Financial Management Improvement Program
JON	Job Order Number
JCS	Joint Chiefs of Staff
JTR	Joint Travel Regulation
JOPES	Joint Operational Planning and Execution System
JPAM	Joint Program Assessment Memorandum
JROC	Joint Requirements Oversight Council
JSPD	Joint Strategic Planning Document
JSPS	Joint Strategic Planning System
LAS	Ledger Accounting System
LMC	Local Management Code
LWOP	Leave Without Pay
MBI	Major Budget Issues
MCN	Military Construction, Navy
MCR	Management Control Review
MEO	Most Efficient Organization
MILCON	Military Construction
MIPR	Military Interdepartmental Purchase Request
MOA	Memoranda of Agreement
MOU	Memoranda of Understanding
MPN	Military Personnel, Navy
MPMC	Military Personnel, Marine Corps
MRP	Maintenance of Real Property
MTD	Month to Date
MTP	Managing to Payroll
MWR	Morale, Welfare & Recreation
MYP	Multi-Year Procurement
NAF	Non-appropriated Fund
NAFI	Non-appropriated Fund Instrumentality
NAVAIR	Naval Air Systems Command

NAVAUDSVC	Naval Audit Service
NAVCOMPT	Office of the Comptroller, Navy
NAVFAC	Naval Facilities Engineering Command
NAVSUP	Naval Supply Systems Command
NC	NAVCOMPT (for form numbers)
NHBS	Navy Headquarters Budget System
NMSD	National Military Strategy Document
NOA	New Obligation Authority
NSN	National Stock Number
NSS	National Security Strategy
NWCF	Navy Working Capital Fund
OAP	Obligation Availability Period
OB	Operating Budget
OMB	Office of Management and Budget
O&M	Operations and Maintenance
O&M,MC	Operations and Maintenance, Marine Corps
O&M,N	Operations and Maintenance, Navy
O&M,NR	Operations and Maintenance, Navy Reserve
OICC	Officer in Charge of Construction
OPFORCES	Operating Forces
OPLOC	Operating Location
OPM	Office of Personnel Management
OPTAR	Operating Target
OPNAV	Office of the Chief of Naval Operations
OPNAVINST	Instructions from the Office of the Chief of Naval Operations
OPN	Other Procurement, Navy
ORF	Official Representation Funds
OSD	Office of Secretary of Defense
PA&E	Program Analysis & Evaluation
PAN&MC	Procurement of Ammunition, Navy and Marine Corps
PAA	Property Accounting Activity
PBAS	Program Budget Accounting System
PBIS	Program & Budget Information System
PBD	Program Budget Decision
PCO	Procurement Contracting Officer
PCP	Program Change Proposal
PDM	Program Decision Memorandum
PE	Program Element
PMC	Procurement, Marine Corps
PMRS	Performance Management and Recognition System (old)
POM	Program Objectives Memorandum
PPB	Program Policy Board
PPBE	Planning, Programming, Budgeting and Execution System
PPC	Proposed Program Change
PR	Purchase Request; Program Review
PWC	Public Works Center

PWLA	Public Works Lead Activity
PWO	Public Works Officer
PY	Prior Year
QSI	Quality Step Increase
RAD	Resource Allocation Display
RCP	Request for Contractual Procurement
RDT&E,N	Research, Development, Test & Evaluation, Navy
RFP	Request for Proposal
RIF	Reduction in Force
RMS	Resource Management System
RO	Responsible Office
ROICC	Resident Officer in Charge of Construction
RPM	Real Property Maintenance (replaced by SRM)
RPN	Reserve Personnel, Navy
RWO	Reimbursable Work Order
SA	Suballocation Holder
SABRS	Standard Accounting, Budgeting and Reporting System
SAC	Senate Appropriations Committee/Special Accounting Class
SAG	Subactivity Group
SASC	Senate Armed Services Committee
SCN	Shipbuilding & Conversion, Navy
SECDEF	Secretary of Defense
SECNAV	Secretary of the Navy
SES	Senior Executive Service
SGL	Standard General Ledger
SOP	Standard Operating Procedures
SOW	Statement of Work
SPP	Sponsor Program Proposal
SPS	Standard Procurement System
SRM	Sustainment, Restoration and Modernization (formerly, RPM)
STARS	Standard Accounting & Reporting System
SYSCOM	Systems Command
TAC	Type of Address Code/Transportation Account Code
TCO	Termination Contracting Officer
TIR	Transaction Item Report
TOA	Total Obligation Authority
TSP	Thrift Savings Plan
UFR	Unfunded Requirement
UIC	Unit Identification Code
USC	United States Code
USD	Under Secretary of Defense
USGSGL	United States Government Standard General Ledger
VERA	Voluntary Early Retirement Authority
VSIP	Voluntary Separation Incentive Pay
WPN	Weapons Procurement, Navy
YTD	Year to Date

Appendix C: Financial Management Checklist for Activity Comptrollers

The following checklist was provided by CINCLANTFLT a few years ago... portions may be out of date.

FINANCIAL POLICIES and PROCEDURES

- Have 31 USC 1517 responsibilities been assigned/lifted in CY or PYs? (Reference: DoD Financial Management Regulations (FMRs), Vol. 14, Navy Financial Management Policy Manual, para 073200)

- Has 1517 responsibility been formally delegated by the Commanding Officer? If yes, to whom was it assigned? If not, why not? (NOTE: This question can be answered only by the C.O.)

- Do adequate controls exist to preclude a violation of 31 U.S.C. 1301? (Reference: DoD Financial Management Regulations (FMRs), Vol. 14; DFAS-CL Appropriation, Cost & Property Accounting (Field) Manual, para 032010)(Formerly NAVCOMPT Vol. 3)

- Are purchases being made in compliance with the current Expense/Investment threshold in CY and PYs? Have applicable ASDPs been prepared and approved for IT purchases? (Reference: Navy Financial Management Policy Manual, para 075001, CINCLANTFLTINST 5231.1a)

- Are there any indications of split-procurements to circumvent the Expense/Investment threshold?

- What are the Financial Management responsibilities of the various Department heads? Are there any internal Station instructions?
  (1) Have OPTARs been issued?
  (2) Have they been exceeded?
  (3) Do the Departments have distinct financial personnel? If not, what financial information is provided to them by the Comptroller?
  (4) What STARS-FL Fund Status reports are provided?
  (5) How are they reconciled with departmental memo records?

- Are Comptroller and Operating Departments' personnel 'financially knowledgeable'? Assess:
    - Specific levels of past and planned financial training curricula (formal, OJT, or both);
    - STARS-FL knowledge;
    - Appropriation Law knowledge;
    - Funding & Accounting policies, rules and procedures' knowledge (Reference: DoD DMR, Vol. 4, Navy Financial Management Policy Manual (formerly NAVCOMPT Vol. 7. Also see SECNAVINST 12400.5B, Joint Financial Management Improvement Program, CC-1 [Framework for Core Competencies for Financial Management Personnel in the Federal Govt.]; Joint Financial Management Improvement Program, [Continuing Professional Education Study – Budget Analysts in the Federal Govt., GS-560 Series]; Joint Financial Management Improvement Program, CC-2 [Core Competencies in Financial Management for Program Managers in the Federal Govt.]; Joint Financial Management Improvement Program, CC-4 [Core Competencies for Financial System Analysts in the Federal Govt.]; Joint Financial Management Improvement Program, [Continuing Professional Education: Federal GS-510 Accountants' Report – December 1990]

- Review Budget vs. Accounting Functional Responsibilities

- Has the Activity established an Executive Steering Committee, and if so, what is its function?

- Are on-hand financial management 'directives' current? Does the activity dialogue with CINCLANTFLT Fleet Comptroller Staff?

- What is the COMMAND EVALUATION (CE) function's relationship to the Comptroller? (Reference: SECNAVINST 7510.9)
- Is this an 'independent function' in support of the Commanding Officer?
- Has CE reviewed any Comptroller Department responsibilities? What were the results of this review?

FINANCIAL MANAGEMENT METRICS

- What metrics does the activity use to measure and analyze its financial performance? Is this a continuing effort? How are results communicated to management?
- Ensure that the activity includes the following financial management performance measures published by ASN (FM&C):

Obligation Performance
(a) Actual Obligations against obligation phasing plan
(b) % of outstanding commitments vs. total program
(c) % uncommitted vs. total program Age of outstanding commitments/obligations
(d) % of direct and reimbursable funds obligated of the total available funds
(e) % of 30 Sept funds deobligated after expiration

Expenditure Performance
(a) % Of direct and reimbursable expenditures compared to funds authorized
(b) Dollar value of prompt pay interest penalties

Problem Disbursements
(a) Dollar value of unmatched disbursements and negative unliquidated obligations
(b) % or dollar value change in unmatched disbursements and negative unliquidated obligations

FTE Execution
(a) % variance from planned FTE execution
(b) % or dollar variance from direct and reimbursable FTE budget

Recruitment and Retention
Number of positions currently filled with current/past Financial Management Interns
Shortages in job series
Diversity in the workforce

Succession Planning
(a) Planned grade structure to feed from lower to higher grades
(b) Currency of organizational/financial management mission as reflected in the position descriptions
(c) Ensure functions can be adequately performed in the absence of specific personnel (address one deepness per function/issue)
(d) For all key comptroller personnel (Comptroller, Deputy Comptroller, Budget Officer, Accounting Technicians, etc.,) within 5 years of retirement eligibility (55/30), what succession plans have been developed?

Training
(a) Average number of hours personnel attend training courses during the fiscal year
(b) %/number of persons involved in rotational assignments
(c) %/number of personnel receiving/participating in long term (six weeks or more) training
(d) What do you consider to be the most significant gaps in knowledge/skills in financial management on your staff?
(e) Which financial management core competencies do you consider being the highest priority at your activity?
(f) Have you budgeted for this and other core competency training?

FINANCIAL DOCUMENT PREPARATION AND PROCESSING

- GENERAL INFORMATION
  - Do applicable financial personnel know 'how' to correctly prepare financial documents?
  - Do they know who are authorized signers of these documents? Is this information included in a local/station instruction?
  - Are authorized signers designated in writing?
  - Are Job Orders established correctly -- Direct and Reimbursable?
  - What's the Cost Center (CC)/Sub Cost Center (SCC)/Segment structure?
  - Are RWO Masters established correctly?
  - Are actual transactions (requisitions/labor/etc.) citing applicable job orders properly chargeable to that AG/SAG/SIC/CAN/EE?
  - Are STARS-FL EXECUTION, TRANSACTION, and NTE codes being properly used?

- DIRECT FUNDS AUTHORIZED
  - Does UGLA 1031 on the NC2199 match the NC 2168-1 for all FYs? (Reference: NAVSO P-3006/3013)
  - Are there any unobligated 'drawing rights' contained in the PYs?
  - Have all legal and administrative restrictions (i.e., floors/ceilings/targets) on the NC 2168-1 been complied with? (Reference: NAVSO P-1000, notes/provisions contained in CINCLANTFLT issued NC2168-1)
  - What are the reasons for abnormal NC 2199 UGLA balances in CY or PYs? What corrective actions are planned?

- INCOMING REIMBURSABLES (Reference: DoD FMR Vol. 6, DFAS-CL Appropriation, Cost & Property Accounting (Field) Manual, para 035411)(formerly NAVCOMPT Vol. 3)
  - What work or services have been requested?
  - Has the requesting activity provided the proper reimbursable document?
  - Can the performing activity legitimately perform the work or provide the services?

- Is the 51% rule being followed?
- Can the funds cite on the incoming reimbursable legally pay for the work or services?
- What is the organizational relationship of granting and performing activities? (i.e., no intra-claimancy reimbursables)
- What is the funds expiration date on the incoming reimbursable?
- Does it coincide with the projected performing activities completion date?
- Does STARS-FL reflect any over-accruals of costs incurred on incoming reimbursables?
- Are there any reimbursable billing or collection problems?
- Has the STARS-FL reimbursable work order record been completed and excess funds returned to the requesting activity in a timely manner?
- Are NC2193s being generated and sent to the requesting activity in a timely manner?
- Have work requests or project orders been amended after the funds expiration date? What was the reason for the amendment?
- Has the performing activity formally accepted and returned the reimbursable document in a timely manner?
- Are Work Requests/Project Orders/MIPRs/Requests for Contractual Procurement prepared according to current guidelines? Are these documents being sent to the proper performing activity?
- Are document numbers in compliance with the DFAS-CL Standard Document Number (SDN) construction guidance?
- If the description of work or services to be provided is blank or vague, is there another document referenced which provides this definitive description?

- OUTGOING REIMBURSABLES (Reference: DoD FMR Vol. 6, DFAS-CL Appropriation, Cost & Property Accounting (Field) Manual, para 035411)(formerly NAVCOMPT Vol. 3)
  - Are NC2193s being received and reviewed in a timely manner?
  - Have all excess funds been returned and sent to the requesting activity in a timely manner?
  - Are Project Orders vice work requests being issued to request provision of services vs a definitive end product?
  - Do Project Orders serve a bonafide need in the fiscal year they were issued, or does it appear that they were issued primarily to continue the availability of an appropriation?
  - Are Work Request/Project Order funds obligated in STARS-FL prior to acceptance by the performing activity?
  - Have work requests or project orders been amended after the funds expiration date? What was the reason for the amendment?
  - Are Intra-Claimancy reimbursables being issued?

- TRAVEL
  - Review travel obligations, travel advances, and claims' liquidation processes (including use of the AMEX card) (Reference: DoD FMR Vol.9)
  - Are STARS-FL travel related transactions posted in a timely manner?
  - Have letters of follow-up been issued to travelers who haven't liquidated travel claims within the five day period
  - Are outstanding travel advance liquidations delinquent?

- CIVILIAN LABOR
  - Who is responsible for time & attendance input?
  - Who is responsible for Master Employee Record (MER) input?
  - Are STARS-FL labor costs current?
  - Are STARS-FL labor exception corrections delinquent?

- IMPAC CARD
  - Who is the Activity Program Coordinator (APC)?
  - How many cards are issued?
  - Have cardholders been trained about their duties & responsibilities?
  - Is retained documentation maintained IAW NAVSUPINST 4200.85C (i.e., log record or rotation among vendors)?
  - Are 'bulk funding procedures' used by the activity to ensure IMPAC purchases are properly obligated?
  - What has been the activity's past delinquency record?
  - What has been the cause of each month's delinquency?
  - Are delinquencies caused by the activity and/or cardholder? What corrective actions have been taken?
  - For delinquencies caused by DFAS or the Bank, what correspondence has been written?

- OBLIGATION VALIDATION REVIEWS (OVR)
  - Does the activity perform the required periodic OVR for all FYs to ensure the validity of outstanding documents? (Reference: ASN (FM&C) memo of 13 Jan 97) (enclosure 2)
  - Are OVRs conducted and reported in accordance with the latest CINCLANTFLT guidance? (Reference: CINCLANTFLT ltr 7000 Ser N02F1/00185 of 25 Jun 97)
  - What is the trend in unobligated balances for prior years?
  - What are the principal reasons for de-obligations?

- SUSPENSE TRANSACTIONS
  - Are unmatched disbursements (UMDs) (UGLA 1960) corrections' delinquent? (Reference : USD memo of 30 Jun 95, ASN (FM&C) memo of 12 Feb 96, ASN (FM&C) memo 7300.3 FMO-323 of 8 May 96)
  - Have Summary Administrative Obligations SAOs) been established when required? (Reference: CINCLANTFLT ltr 7000 Ser N02F21/006815 if 23 Aug 95, CINCLANTFLT ltr 7000 Ser N02F21/0099 of 9 Apr 96)
  - Are GSA/DLA suspense corrections' delinquent?
  - Are IDA 128 suspense corrections' delinquent?

- OFFICIAL REPRESENTATION FUNDS (ORF) MANAGEMENT
  - Do vouchers include an Expense Documentation Sheet? (Reference: SECNAVINST 7042, para 9(a))
  - Do vouchers identify specific itemized expenses and are they documented in accordance with SECNAVINST 7042.7H, para 9(a)(1-3)
  - Do Expense Documentation Sheets document that individuals receiving Official Representation Funds (ORF) funded mementos meet the criteria authorizing use of the ORF funds? (Reference: SECNAVINST 7042, para 6(a))
  - Does the Commanding Officer/Commander sign vouchers or Expense Documentation Sheets? Note: By Direction signatures are not authorized. (Reference: SECNAVINST 7042, para 6(a))
  - Guest ratio: Does the DoD and Non-DoD guest ratio meet the minimum SECNAV threshold of 20% Non-DoD guests in attendance during functions where the total number of attendees is less that 30 people? If not, then pro-rated reimbursement of the ORF account is required. A copy of the collection voucher should be sent to CINCLANTFLT N02F1. (Reference: SECNAVINST 7042, para 6(b))
  - Guest ratio: Does the ration of DoD to Non-DoD guests meet the minimum SECNAV threshold of 50% Non-DoD guests in attendance during functions where the total number of attendees is greater than 30 people? If not, then pro-rated reimbursement to the ORF account is required. Provide a copy of the collection voucher to CINCLANTFLT N02F1. (Reference: SECNAVINST 7042, para 6(b))
  - Is the type of function prohibited under ORF guidelines? (Reference: SECNAVINST 7042, para 6(d))
  - Is the expense prohibited under ORF funding guidelines? (Reference: SECNAVINST 7042, para 6(d))
  - Do mementos presented to guests appear to be for personal use and not 'official' in nature? (Reference: SECNAVINST 7042, para 6(d)(4))
  - Do mementos presented have an official theme or contain an appropriate inscription? Is there documentation supporting this? (Reference: SECNAVINST 7042, para 6(c)
  - Should expenses charged to ORF funds be charged instead to another appropriation/program? If so, is documentation available indicating that

the ORF account has been reimbursed? (Reference: SECNAVINST 7042, para 6(d)(1))

- Are labor charges for DoD personnel being incurred under ORF expenditures? (Reference: SECNAVINST 7042, para 6(d)(5))
- Do memento costs exceed the maximum amount authorized ($225)? (Reference: SECNAVINST 7042, para 6(c))
- Are mementos presented to inappropriate individual(s) using IRF funds? (Reference: SECNAVINST 7042, para 6(c))
- Are mementos funded by ORF funds presented to unauthorized DoD personnel? (Reference: SECNAVINST 7042, para 6(a)(5))

Appendix D: Websites of Interest to Financial Managers

American Society of Military Comptrollers (http://asmconline.org)
Army PPBS Regulations (http://books.usapa.belvoir.army.mil/cgi-bin/bookmgr/BOOKS/R1_1/CCONTE)
ASA (FM&C) (http://www.asafm.army.mil/secretariat/asafm.asp)
ASN(FM&C) (http://navweb.secnav.navy.mil/)
Association of Government Accountants (http://www.agacgfm.org/)
A Brief Wrap on Ethics
(http://www.usoge.gov/pages/forms_pubs_otherdocs/fpo_files/booklets/bkbriefwrap_00.pdf)
CNO N4
(https://ucso1.hq.navy.mil/n4/webbas01.nsf/(vwWebPage)/webbase.htm?OpenDocument&Set=1,Return=/n00/webbas01.nsf/(vwWebPage)/webbase.htm?OpenDocument&Set=1)
CNO N7
(https://ucso1.hq.navy.mil/n7/webbas01.nsf/(vwWebPage)/webbase.htm?OpenDocument&Set=1,Scope=N_7_____)
CNO N8
(https://ucso1.hq.navy.mil/n8/webbas01.nsf/(vwWebPage)/webbase.htm?OpenDocument&Set=1,Scope=N_8_____)
Congressional Budget Office (http://www.cbo.gov)
Congressional Research Service Reports (http://www.house.gov/markgreen/crs.htm)
CRS Report: Authorization and Appropriations for FY2003: Defense
(http://www.house.gov/htbin/crsprodget?/ra/RL31305)
Congressional Research Service: A Defense Budget Primer
(http://mems.ida.org/documents/CRSBudgetPrimer.pdf)
Congressional Research Service: The Congressional Appropriations Process
(http://www.house.gov/rules/97-684.pdf)
Constitution of the United States
(http://www.archives.gov/exhibit_hall/charters_of_freedom/constitution/constitution_transcription.html)
Core Competencies (http://www.jfmip.gov/jfmip/download/corecomps/itpfinal.pdf)
CQ Weekly (http://library2.cqpress.com/cqweekly/)
Defense Acquisition Deskbook (http://web2.deskbook.osd.mil/default.asp?)
Defense Acquisition University (http://dau.mil)
Defense Technical Information Center (http://www.dtic.mil)
Defenselink (http://www.defenselink.mil)
DFAS Reference Library (http://www.dfas.mil/library/)
Director, Program Analysis & Evaluation (http://www.pae.osd.mil/)
DoN IM - IT (http://www.don-imit.navy.mil/)
DoD Directives (http://www.dtic.mil/whs/directives/)
DoD & Military e-Journals (http://www.au.af.mil/au/aul/periodicals/dodelecj.htm)
DWCF iCenter (http://www.dtic.mil/comptroller/dwcficenter/)
Early Bird (http://ebird.dtic.mil)
Federal Web Locator (http://www.infoctr.edu/fwl/)
FedLaw (http://www.thecre.com/fedlaw/default.htm)
Financial Management Regulations (http://www.dtic.mil/comptroller/fmr/)
Financial Mangement Sites (http://library.nps.navy.mil/home/acqui.htm)
FirstGov (http://firstgov.gov)
FYDP Structure Management (OSD(PA&E)) (http://www.ra.pae.osd.mil/fsm/)
FY2004 Federal Budget (http://w3.access.gpo.gov/usbudget/)
GAO and Comptroller General Reports (http://www.gao.gov/index.htm)
GAO Red Book (http://www.cfo.doe.gov/budget/gao/)
Glossary of Terms (http://www.dau.mil/pubs/glossary/glossary.pdf)

Google Government Search Engine (http://www.google.com/unclesam)
GPO Resources (http://www.access.gpo.gov/su_docs/)
HQMC Programs & Resources (https://hqipom1.hqmc.usmc.mil/hqpr/)
Joint Financial Management Improvement Program (http://www.jfmip.gov/jfmip/)
Library of Congress (http://lcweb.loc.gov/)
Marine Corps Directives (http://www.usmc.mil/directiv.nsf/web+orders)
National Military Strategy (http://www.dtic.mil/jcs/nms/)
Navy Directives (http://neds.nebt.daps.mil/)
Navy Ethics Office (http://www.ethics.navy.mil)
Navy / Marine Corps White Pages (http://http://sdiego.dir.navy.mil/)
NPS GSBPP Home Page (http://http://web.nps.navy.mil/~sm/)
Office of the Secretary of Defense (http://www.defenselink.mil/osd/)
Office of the Undersecretary of Defense (Comptroller) (http://www.dtic.mil/comptroller/)
OMB (http://www.whitehouse.gov/omb/)
OMB Circulars (http://www.whitehouse.gov/omb/circulars/index.html)
Resource Allocation: The Formal Process (http://www.nwc.navy.mil/nsdm/nsdmedm1.htm)
Sea Power 21 (http://www.usni.org/Proceedings/Articles02/proCNO10.htm)
Treasury's Don't Buy List (http://arc.publicdebt.treas.gov/fs/fsdontbuy.htm)
U.S. Code (http://www4.law.cornell.edu/uscode/index.html)
U.S. House of Representatives (http://www.house.gov)
U.S. Senate (http://www.senate.gov)

Appendix E: Common Questions on the Use of Appropriated Funds

This section covers common questions regarding the proper use of appropriated funds. The general rule of thumb is that appropriated funds will not be used for personal or entertainment purposes. These scenarios are simplified vignettes to illustrate some basic principles. Readers are encouraged to seek the advice of their command's general counsel and the policy branch of their comptroller's office when faced with actual situations like these.

Ceremonial Functions

Question: We have various ceremonial functions at our command. They include changes of command, building dedications, command milestones, promotions, retirements, and reenlistment ceremonies. Can we use appropriated funds for these ceremonies?
Discussion: Official ceremonies are categorized in SECNAVINST 5720.44 series. Appropriated funds are only authorized for "essential costs" incident to the ceremony itself. This may include assembly or disassembly of a speakers platform, janitorial services for restoration of facilities to pre-ceremony conditions, invitations ordered through the supply system, hook up of a public address system as well as local on station transportation of ceremony participants or guests.
Answer: Costs related to the reception are clearly not considered essential and therefore cannot be supported with appropriated funds. The types of such nonessential costs include refreshments (ceremonial cakes, pastry, cookies, beverages and beer) as well as decorations (bunting, red carpets, draperies, and ornaments).

Refreshments at Command Celebrations

Question: Are there any situations where we can use appropriated funds to purchase refreshments for internal command celebrations?
Discussion: There are two specific cases where appropriated funds can be used:
Ethnic observations: Navy organizations are permitted to expend appropriated funds, as authorized, to carry out activities designed to recognize the contribution that minorities have made to society under the authority of Comptroller General B199387 of 23 March 1982. The Navy observes, for example, National Hispanic Heritage Week, Black History Month and Asian Pacific American Heritage Week. Small "samples" of ethnic foods prepared and served during a formal ethnic awareness program may be purchased with appropriated funds. The samples should be of minimal proportions and are not intended to serve as meals or refreshments.

Awards ceremonies: Commanders may hold awards ceremonies for military and civilian employees. These ceremonies are usually attended by award recipients, families, friends and work associates for the following personnel:
Civilian Employees: The Federal Personnel Manual (Chapter 451) states that it may be appropriate under authority of 5 U.S.C. 4503. (NOTE: The cost of light refreshments for personnel who are paid from non-appropriated funds will be charged to non-appropriated funds).
Military Personnel: Similar authority is provided under 10 U.S.C. 1124 which states "...and incur necessary expenses for the honorary recognition of a member of the armed forces under his jurisdiction who by his suggestion, invention, or scientific achievement contributes to the efficiency, economy, or other improvement of operations or programs relating to the armed forces."
Answer: In general, the adage that "federal employees do not eat or drink from the public trough" is applicable. A recent change to the JTR/JFTR allows appropriated funds to purchase light refreshments for conferences, however the Comptroller General has ruled that JTR/JFTR changes cannot violate fiscal law. The best advice: don't serve food at conferences using appropriated dollars.

Seasonal Decorations

Question: Can we use appropriated funds (APF) to purchase Christmas or seasonal decorations?
Discussion: Comp. Gen. Decisions B-226011, B226900 of 17 November 1987 has reversed its long-standing prohibition against using APF for seasonal and Christmas decorations. This new ruling allows the various agencies the option of using APF for various seasonal decorations, including poinsettias, menorah candelabra and Christmas trees.
Answer: Although the Comptroller General allows the various Departments the authority to authorize such expenditures, the individual agencies determine whether to allow such expenses to be incurred. Each Service may implement this authority, limit it in scope, or choose not to implement this authority based upon other funding priorities.

Active Ships Scheduled for Induction into the Naval Reserve

Question: We have active ships scheduled for transfer to the Reserve fleet during the next six years. The ships are also scheduled for Selected Restricted Availabilities (SRAs) and Phased Maintenance Availabilities (PMAs) after transfer and funded with O&M,NR funds. The question arose whether advance planning costs should be supported with O&M,N or O&M,NR funds since these ships were in an active status when advance planning efforts were required.
Discussion: Whether an active ship, craft, or any type of product or item is scheduled to be transferred to the Naval Reserve Force at a future date is not germane to the issue. 31 U.S.C. 1301(a), which is promulgated in NAVSO P-1000, requires that the correct appropriation funding will be determined by the actual status of the ship or item at the time such funds are to be obligated. The

fact that the ship was intended to be transferred at a future date does not justify current or premature use of O&M,NR funds. Consequently, the O&M,N appropriation was the correct funding resource.
Answer: In any similar situation described above, who "may" necessarily benefit in the end is not the prime factor. *Rather, the status of the item to be funded at the time of obligation is the sole criteria*.

Non-monetary Awards

Question: Can I use appropriated funds to purchase non-monetary awards that have a utilitarian value?
Discussion: OPM publishes an annual list of some of the more notable honorary awards most of which are non-monetary awards. OCPMINST 12451.1 of 11 August 1988 states that activities are to use discretion on the monetary value of this type of recognition, as these awards are to be modest in cost and have no "utilitarian" value." However, the instruction goes on to state that the awards can take the form of a tie tack, coffee mug, belt buckle or jacket or other similar item provided for recognition of significant one-item achievements of an individual or group or major contributions of minor impact or benefits.
Answer: The key factor is the concept of "utilitarian use." This instruction requires that the appropriate emblem reflecting the accomplishment must be shown on the award. Therefore, although a coffee mug or jacket with the appropriate logo would have a utilitarian benefit, its primary purpose would be to display the purpose or achievement of the award and is allowable.

Awards for Employees with Good Sick Leave Records

Question: Can I give awards (monetary or non-monetary) to employees with good sick leave records?
Discussion: The Office of Civilian Personnel Management (OCPM) requested and received a written decision from the Office of Personnel Management (OPM) on the use of awards for nonuse of sick leave. OPM does not support the payment of cash awards for good sick leave records. However, OPM does support granting non-monetary awards for good sick leave records. It is the Services' option whether to implement, limit in scope, or disallow such an award.
Answer: Guidance in OCPMINST 12451.1 series states that sick leave is a statutory entitlement available to all government employees and incentives for nonuse of sick leave are inappropriate. Monetary awards cannot be used for programs designed to recognize good sick leave records.

Refrigerators and Microwave Ovens

Question: Can I use appropriated funds to purchase a refrigerator or microwave oven for our Comptroller Office?

Discussion: Comptroller General Decision B-210433 of 15 April 1983 and B-180272 of 23 July 1974 have ruled that the GAO will not object to the use of APF funds to purchase a microwave oven or refrigerator where a proper official determines that the expenditure is necessary in view of the work hours involved and the lack of available eating facilities in the immediate area. To what extent does this authority authorize the purchases of similar equipment in Government offices?

Answer: The particular issue here is whether the purchase of a microwave oven or refrigerator may be considered a "necessary expense" of operating the facility. These Comptroller General Decisions were reached because such equipment was a necessary expense since the facility operated 7 days a week, 24 hours a day, the personnel had to be continuously available during an 8-hour shift, and no nearby eating facilities existed. These decisions are readily distinguishable from the long line of decisions denying such requests for Government employees working at their normal duty station even under difficult or unusual circumstances. Appropriated fund support cannot be given to purchase equipment in such matters as personal convenience or preference.

Conditions: The conditions of necessary expenses must meet these criteria:

- There must be a determination by responsible officials that the appliance in question is reasonably necessary for, and not just incidental to, the proper execution of an authorized program.
- There are no snack bars or other eating facilities readily accessible.
- The responsible officials, considering the nature of the shop or other function, have determined that employees must remain at their place of duty (work station) during the work shift.
- The appliance acquisition must enhance employee morale and increase employee productivity.
- The acquisition costs are relatively small.
- The appliance is not being purchased for the purpose of providing entertainment.

Rental of Non-government Owned Meeting Rooms

Question: Can I use investment funds to rent non-government owned meeting rooms for official activity mission functions when the purpose of the meeting deals with that particular appropriation?

Discussion: NAVSO P-1000 states that expenses are costs of resources consumed in operating and maintaining the Department of Defense. This includes rental payments on leases for equipment and facilities.

Answer: Accordingly, rental payments should be financed from an appropriation available for expenses (e.g., Operation and Maintenance, Navy (O&M,N).

Flowers

Question: We had an active high-ranking member of the Navy who used to work with us, pass away suddenly while stationed overseas. We'd like to send

some nice flowers from the command. What appropriation can we use to fund the flowers?
Discussion: The source of such funding is the same as for any other coworker.
Answer: OWN funding. That is, your own. Remember the code of ethics when soliciting contributions!

Voluntary Services

Question: A Navy employee was performing additional work at another Navy job after the conclusion of his normal 8-hour workday. This was at the employee's request as he found the additional type of work challenging and his expertise was extremely beneficial to his job. Can a Work Request be accepted by his second job to reimburse the employee in his paycheck? If not, can the employee volunteer his services?
Discussion: 5 U.S.C. 5533 which is promulgated in the FPM, Chapter 550, "Pay From More Than One Position," an individual may not receive pay from more than one civilian position for more than a total of 40 hours of work in any one week. An employee on leave without pay may accept and be paid for another Federal position without violating the restriction. However, an employee on paid leave would be subject to the restriction. The limitation does not apply to pay consisting of fees paid on other than a time basis. This means that an agency that needs to draw on the expertise of a regular employee of another agency to write a report or conduct a research project may pay the employee a lump sum for the service. As long as the lump sum is not based on the number of hours needed to complete the work.
Answer: Concerning volunteer work, the Anti-Deficiency Act (31 U.S.C. 1342) prohibits government acceptance of voluntary services unless they are gratuitous, and have been documented as such prior to work being performed. However, as a matter of administrative policy, the DoN strongly discourages the acceptance of voluntary services.

Crime Stoppers Program

Question: Similar to other communities, our area is experiencing a dramatic increase in the crime rate. Can we authorize the use of appropriated funds to be officially affiliated with the Crime Stoppers Organization?
Discussion: With fully funded membership, the Organization could pursue active efforts to seek information concerning criminal activity in the housing area. The Crime Stopper Organization provides a community service by receiving reports of crime from various callers, referring reports of crime to proper agencies, assuring the callers anonymity, and providing monetary awards when applicable.
Answer: The use of appropriated funds for membership fees is regulated by 5 U.S.C. 5946. The applicable rule is that membership must provide demonstrable

benefits to the agency before membership fees can be considered a necessary expense. A benefit to the community as a whole rather than the individual agency is not a sufficient justification. The proposal would provide a service (potential decrease of criminal activity in general) to the community with only indirect benefits to the agency. The initiative therefore falls short of the "necessary expense" requirement to support the agency's mission and dates not have Navy-wide application.

Calling Cards and Greeting Cards

Question: Business cards or calling cards are commonly used in the commercial world. Some of our people deal with contractors, the general public and other government officials. When is it appropriate to use appropriated funds for the purchase of such professional calling cards?

Discussion: Comp. Gen. Decision B-280759 of 5 Nov 98 has ruled that if the agency head determines that the appropriate use of business cards by agency employees who deal with outside organizations will further the agency's statutory mission, then it constitutes a proper expenditure from its general appropriations. The necessary expense analysis must be applied.

Answer: The DoD Comptroller's ruling is that APF may be used to procure card stock and *existing* government computers and printers may be used to print a *limited number* of business cards. The necessary expense consideration must be invoked. The authorization to do such printing must be made at the Flag/General Officer or SES level, and may not be delegated. Commercial printing of business cards is prohibited except if a lower price (compared to printing on government computers) can be obtained only from *the Lighthouse for the Blind*. Seasonal greeting cards or personalized stationary are a personal expense to be borne by the person(s) who ordered and sent them and may not be charged to public funds.

Music

Question: Our workload can be best described as repetitious and at times boring. Can we use appropriated funds to rent a MUZAK system?

Discussion: Many Government employees working in offices are engaged in routine accounting and clerical operations and that such work, although necessary to accomplish the objectives of the activity, can result in a certain amount of boredom. Many banks, life insurance companies and other business organizations use MUZAK because they have found that scientifically programmed music tends to raise the level of employee morale by creating a pleasantly stimulating and efficient atmosphere during the workday.

Answer: Comptroller General Decision B-86148 of 6 June 1972 has ruled that expenditures for incentive-type music, scientifically programmed, such as the MUZAK system, may be considered "necessary expenses" since the music tends to raise the employee morale and increase employee productivity that results in a savings to the Government.

Fees for Guest Speakers, Lecturers, and Panelists

<u>Question</u>: How much can I pay for honorariums or speaking fees at my local activity?
<u>Discussion</u>: There have been historical cases where relatively large honorariums were paid by DoD organizations for the services of guest speakers, lecturers, or panelists. Although such instances were usually isolated, they invoked criticism from the Congress, press, and public.
<u>Answer</u>: A Deputy Secretary of Defense memorandum dated 29 September 1982 allowed for modest honorariums or fees up to $250.00 to persons whose services have been acquired for these purposes. However, in those instances where fees or honorariums in excess of $250.00 are to be paid to guest speakers, lecturers, or panelists, prior approval must be obtained from the next higher organizational echelon of the individual who is proposing payment.

Registration Fees for Meetings and Conferences

<u>Question</u>: Under what conditions can I use appropriated funds to pay for registration fees for meetings and conferences that include refreshments?
<u>Discussion</u>: Federal military personnel and civilian employees may attend meetings and conferences at government expense when: it is either part of an authorized training program under 5 U.S.C. 4109; or it directly relates to the official duties of the attended under 5 U.S.C. 4110.
<u>Answer</u>: The following guidance sets forth the basic criteria regarding the use of registration fees that cover refreshments:

- A fee will not be levied to cover solely social amenities (such as coffee, donuts, soft drinks, light snacks, hors d'oeuvres, alcoholic beverages) associated with attendance at the meeting. Furthermore, these fees are not intended to cover mementos, souvenir gifts, etc. A registration fee that covers only meals or social amenities is not authorized and travel orders will not include such a fee.
- A proper registration fee can include luncheon or banquet meal charges and lodging if such a charge is an integral part of the registration fee (that is, inseparable from the fee). The government generally will not reimburse employees for meals consumed at their official duty stations (for exceptions, see Comptroller General B-200650, April 1986). In any event, a statement of the number of meals to be provided will be included in the travel orders and identified on the travel voucher (for example: "1 breakfast, 2 noon, and 1 evening meals and 2 nights of lodging are included in the registration fee").
- The person who approves the conference, workshop, training, etc., in which a registration fee is charged, is responsible to ensure that no unauthorized charges are included in the fee. This is accomplished by preparing a budget

that itemizes each of the costs to be included in the fee (such as meals, guest speakers, meeting rooms, set-up charges, and other similar items).

Fireworks Displays, Picnics, and Dances

Question: Can I use appropriated funds for fireworks displays, office picnics or dances that are held in conjunction with an officially recognized holiday?
Discussion: There are many instances where dances or combos created by members of military bands whose services are "hired" by Open Messes or Service Clubs for entertainment of members of these messes or clubs. These situations, as well as office picnics, are considered entertainment regardless of the event it is held to commemorate. While a fireworks display may be useful in establishing good community relation with the surrounding community, it is not a "necessary expense." (See Comptroller General B-205292, 2 June 1982)
Answer: Appropriated funds may not be used for any of the above events.

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Changes - Record of changes to this handbook

1st to 2nd edition: OPNAV reorganization added
2nd to 3rd edition: Personal Property changes; updated appropriations and working capital fund areas; minor corrections
3rd edition revision 1: Personal Property changes: minor property threshold changed from $2,500 to $5,000.
3rd edition revision 2: Typographical errors corrected
3rd edition revision 3: Updated appropriations, added forms for reimbursables
3rd edition revision 4: Changed the minor construction threshold for the use of O&M dollars from $500K to $750K per the 2002 Authorization Act
3rd edition revision 5: Changed the minor construction threshold from $100K-$500K to $100K-$750K for the definition of minor construction in the working capital fund.
4th edition: Restructured the presentation of the material to its current format. Changed PPBS to reflect concurrent program and budget reviews at OSD level. Incorporated minor corrections.
5th edition: Further restructured the presentation of the material. Included a financial management history of the United States to put the legislative portion in historical context. Updated the PPBS process to reflect Capability Plans, concurrent review, and revised calendars. Incorporated DoD organizational changes. Included the provisions of SECNAVINST 7000.27 (Comptroller Organizations). Included additional information on fiscal (appropriation) law. Corrected errors related to project orders, property accounting, and OMB guidance on apportionment. Expanded the overview of the ethics chapter to place OGE guidance in the framework of philosophical ethical thought. Updated references to funding levels to reflect the FY04 President's Budget. Included a list of useful websites. Eliminated copies of forms.
5th edition, revision 1: Typographical errors corrected.
5th edition, revision 2: Inserted a Table of Figures. Made minor changes to the history in Chapter 1. Included updates to Chapter 4 on the PPBE process, including information on MID-913, and the PR-05 and POM-06 processes. Updated organization charts in Chapter 5. Added information on the National Security Personnel System to Chapter 12.