Practical Financial Management:

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

Naval Postgraduate School
Monterey, California

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Editor: Commander Ted Hleba, USN

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The editor is solely responsible for the content of this handbook. The opinions expressed in this handbook do not necessarily reflect the view of the Naval Postgraduate School, the U.S. Navy or the Department of Defense.

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Chapter I: Introduction to Financial Management

Overview

In this chapter, we will review introductory topics such as an overview of the federal budget and budget functions; the DoD budget; major force programs; program elements; the Future Years Defense Program (FYDP); the financial management organization; appropriations; and general appropriation law.

The Federal Budget

The Department of Defense (DoD) budget is one portion of the federal budget. National Defense is one of twenty "budget functions" in the federal budget, which are simply breakdowns of how spending is categorized in the federal budget. We will discuss the federal budget, and the budget process in general terms, so you can see how DoD interfaces in the entire process.

Per the Budget and Accounting Act of 1921, by the first Monday in February, the President must submit to Congress his proposed Federal budget for the next *fiscal year*, which begins October 1. The White House Office of Management and Budget (OMB) prepares the budget proposal, after receiving direction from the President and consulting with his senior advisors and officials from Cabinet departments and other agencies. The President's budget—which typically includes a main book and several accompanying books — covers thousands of pages and provides reams of details. [1]

Budget Functions

First, let's look at the twenty budget functions in the federal budget.

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

[1] A Citizen's Guide to the Federal Budget.

Budget function 050, National Defense, has 3 budget sub-functions: 051 DoD: Military; 053 DOE Defense Activities; and 054 Defense Related Activities. As we progress, we will focus on the DoD Military budget.

Discretionary and Mandatory Spending

The twenty budget functions are categorized as either "discretionary" or "mandatory" spending.

Discretionary spending, which accounts for one-third of all Federal spending, is what the President and Congress must decide to spend for the next year through the 13 annual appropriations bills. It includes money for such activities as the FBI and the Coast Guard, for housing and education, for space exploration and highway construction, and for *defense* and foreign aid.

Mandatory spending, which accounts for two-thirds of all spending, is authorized by permanent laws, not by the 13 annual appropriations bills. It includes entitlements—such as Social Security, Medicare, veterans' benefits, and Food Stamps—through which individuals receive benefits because they are eligible based on their age, income, or other criteria. It also includes interest on the national debt, which the Government pays to individuals and institutions that hold Treasury bonds and other Government securities. The President and Congress can change the law in order to change the spending on entitlements and other mandatory programs—but they don't have to.

Think of it this way: For discretionary programs, Congress and the President *must* act each year to provide spending authority. For mandatory programs, they *may* act in order to change the spending that current laws require. Currently, the law (The Budget Enforcement Act of 1990 and Balanced Budget Act of 1997) imposes a limit, or "cap," through 2002 on total annual discretionary spending. Within the cap, however, the President and Congress can, and often do, change the spending levels from year to year for the thousands of individual Federal spending programs. In addition, the law requires that legislation that would raise mandatory spending or lower revenues—compared to existing law—be offset by spending cuts or revenue increases. This requirement, called "pay-as-you-go," is designed to prevent new legislation from increasing the deficit. [2]

Let's look at where the money is spent, by discretionary and mandatory programs, in the following figure.

[2] A Citizen's Guide to the Federal Budget.

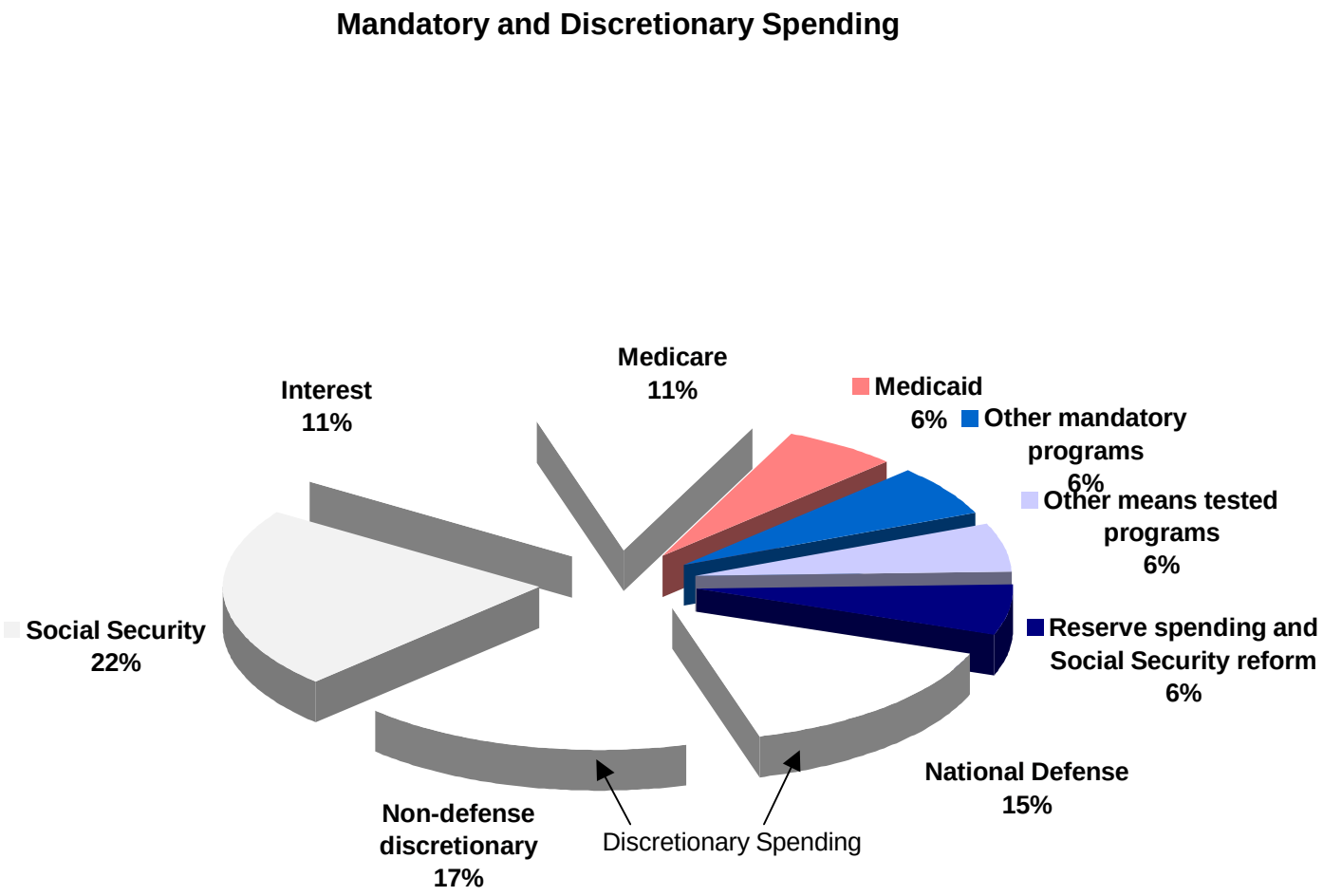

Figure 1 – Mandatory and Discretionary Spending

The largest Federal program is Social Security, which will provide monthly benefits to nearly 45 million retired and disabled workers, their dependents, and survivors. It accounts for 22 percent of your Federal dollar (or 23 percent of all Federal spending). Medicare, which will provide health care coverage for over 40 million elderly Americans and people with disabilities, consists of Part A (hospital insurance) and Part B (insurance for physician costs and other services). Since its birth in 1965, Medicare has accounted for an ever-growing share of spending. *National defense* discretionary spending will total an estimated $275 billion in 2000, comprising nearly 15 percent of your Federal dollar (and 16 percent of the

budget). *Non-defense discretionary* spending—a wide array of programs that includes education, training, science, technology, housing, transportation, and foreign aid—has shrunk as a share of the budget from 23 percent in 1966 to an estimated 18 percent in 2000 (or 17 percent of your Federal dollar).[3]

However, DoD's share of the federal budget has declined steadily, as illustrated in the following table. Net public spending is all public spending at the local, state and federal levels.

DOD'S SLICE OF THE DOLLAR

FISCAL YEAR	DEFENSE OUTLAYS AS A PERCENTAGE OF	
	FEDERAL OUTLAYS	NET PUBLIC SPENDING
2000	14.8	9.1
1999	15.3	9.4
1998	15.5	9.5
1997	16.1	9.9
1996	16.2	10.0
1995	17.2	10.7
1994	18.4	11.5
1993	19.8	12.4
1992	20.7	13.1
1991	19.8	12.6
1990	23.1	14.8
1989	25.8	16.5
1988	26.5	17.0
1987	27.3	17.6
1986	26.8	17.9
1985	25.9	17.6
1984	25.9	17.5
1983	25.4	17.3
1982	24.7	16.9
1981	23.0	15.8
1980	22.5	15.3
1975	25.5	16.5
1970	39.4	25.4
1965	38.8	25.2

Figure 2 – DoD's Share of the Dollar

Defense Almanac at Defenselink. http://www.defenselink.mil/pubs/almanac/almanac/money/

[3] A Citizen's Guide to the Federal Budget

The FYDP: DoD's Database of SECDEF Approved Programs

We will discuss how the DoD budget is broken down by categories of funding, i.e., Major Force Programs (MFPs). This information is contained in a dynamic database, called the FYDP. MFPs are further broken down into programs, and programs are further broken down into program elements (PEs).

The Future Years Defense Program (FYDP) is the official database that summarizes resources (TOA, personnel, and forces) associated, by fiscal year, with Department of Defense programs, as approved by the Secretary or the Deputy Secretary of Defense.

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* (enumerating dollars (in thousands) appropriated by Congress to DoD), *manpower* (enumerating military endstrength 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 (BYl and BY2) through BY2 + 4 years (BY2 +7 years for forces), and is usually updated three times per year.[4] *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.).

[4] Future Years Defense Program (FYDP) Structure Handbook, DoD 7045.7-H

Major Force Programs

The FYDP comprises the following eleven major programs:

Program 1 - Strategic Forces *
Program 2 - General Purpose Forces *
Program 3 - Command, Control, Communications, Intelligence and Space *
Program 4 - Mobility Forces *
Program 5 - Guard and Reserve Forces *
Program 6 - Research and Development
Program 7 - Central Supply and Maintenance
Program 8 - Training, Medical, and Other General Personnel Activities
Program 9 - Administration and Associated Activities
Program 10 - Support of Other Nations
Program 11 - Special Operations Forces *

*Combat Forces Program. The other five are support-related.

Major Force Program Definitions

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

Program 2 General Purpose Forces: 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.

Program 3 C^3IS: 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.

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

Program 5 Guard and Reserve Forces: The majority of Program 5 resources consist of Guard and Reserve training units in support of strategic offensive and defensive forces and general purpose forces.

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.[5]

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, 020122N 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.

Organizations: Major Players in Financial Management

As previously stated, DoD's budget is one part of the federal budget and is submitted to the President by the Secretary of Defense. We will review the DoD organization with regard to the major players in financial management.

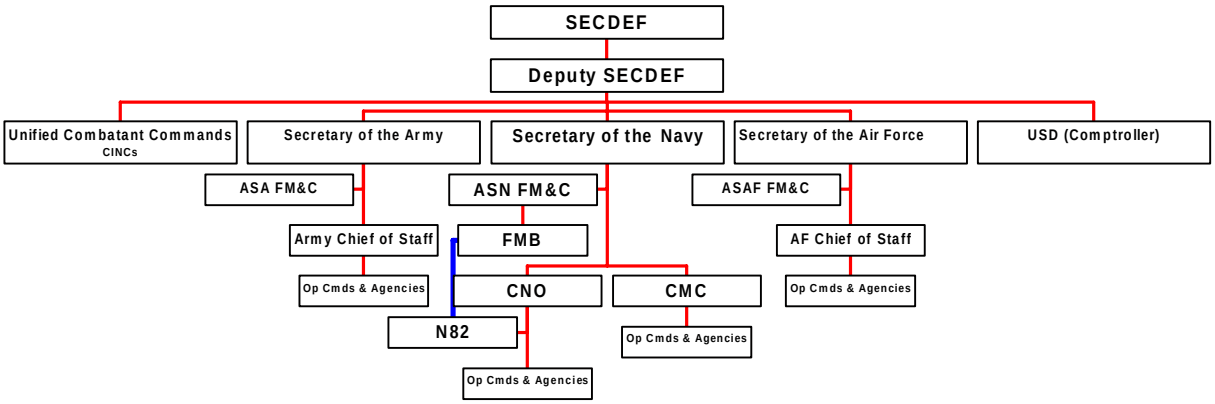

Figure 3 - SECDEF Organization

Secretary of Defense

The Secretary of Defense (SECDEF) is responsible for all of the armed forces, the defense agencies, and the Joint Chiefs of Staff. As a member of the President's Cabinet, the Secretary of Defense is responsible for gathering information, advising the President, outlining policy alternatives, negotiating with Congress, and executing laws and programs authorized by Congress. Within the Office of the Secretary of Defense (OSD), the Under Secretary of Defense

[5] Future Years Defense Program (FYDP) Structure Handbook, DoD 7045.7-H

(Comptroller) advises the Secretary on budgetary and fiscal matters. USD (C) provides instructions and guidance to the Navy Comptroller regarding budget preparation, and handles Navy requests for the **apportionment** of funds.

Unified Combatant Commanders (CINCs)

The Unified 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 are 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 CINCs more opportunities for direct input into the PPBS process. They submit issue papers (Integrated Priority Lists, or IPLs) during the programming phase along with the other major claimants. The information provided by CINCs and component commanders (such as CINCLANT, CINPAC, NAVCENT, etc.) are especially valuable because of their knowledge of the operating forces' needs.

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). In the Navy, this office 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" execution. The Programs and Resources (P&R) division 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 by supporting the needed staff. 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 (partial) is shown in the following figure.

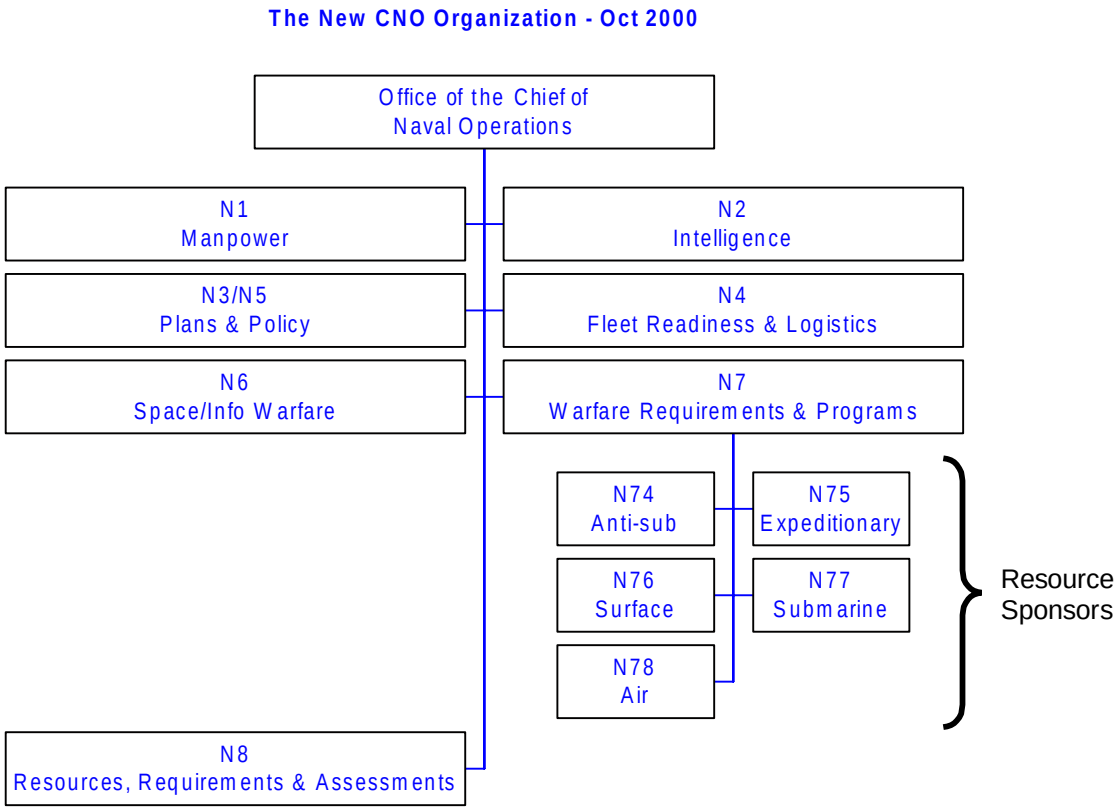

Figure 4 - CNO Organization

Many of the DCNOs in the CNO's organization are Appropriations Sponsors and Resource Sponsors. The responsibilities of sponsors will be discussed shortly.

N8 was formerly the DCNO for Resources, Warfare Requirements and Assessments, and N7 was formerly the Director of Naval Training. In October 2000, the N7 and N8 codes were reorganized to *separate the requirement generation process from the resource allocation process*. Under the pre-October 2000 organization, one three-star admiral -- N8, ultimately decided resource and

requirement decisions. Now, requirements are generated under the N7 organization and resource allocation decisions are decided under N8; dollars won't be the primary consideration for N7, but requirements will be the primary driver. This reorganization was accomplished to generate beneficial friction between the requirements and resources, and provide greater visibility of warfare programs. Simply stated, the *Resource Sponsors* (now coded N74, N75, N76, N77 and N78) were moved from N8 in to the newly created N7 organization called "Warfare Requirements and Programs" (see figures 4 and 5). Training (N79) has remained within the N7 organization.

Driven by the Planning, Programming and Budgeting System (PPBS), the financial management functions and assessments are carried out under the Deputy Chief of Naval Operations for Resources, Requirements and Assessments (N8), as shown in figures 4 and 5. The primary players are N80, N81 and N82. N83 assists in the POM development process, which will be discussed in a separate chapter. Lastly, the Resource Sponsors in the N7 organization will develop programs and submit sponsor program proposals to the N8 organization for POM development.

N80, Programming Division

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.

N81, Assessment Division

N81 performs assessments during the “program planning” phase of PPBS. They work closely with the assessment sponsors and the resource sponsors. N81 also performs the Navy's Integrated Warfare Architecture (IWAR) analysis process, which will be discussed in a separate chapter.

N82, Fiscal Management Division

As well as being dual-hatted as FMB, N82 develops, reviews, and executes the Navy budget; translates the program requirements into appropriation requirements; reports the results of budget execution to the DoD comptroller; and, justifies the budget request to the DoD comptroller.

Now we will look at the various sponsors, of which are from within the CNO’s organization. You will notice some overlap of the various types of sponsors. This will help you to understand the working relationships during the PPBS process.

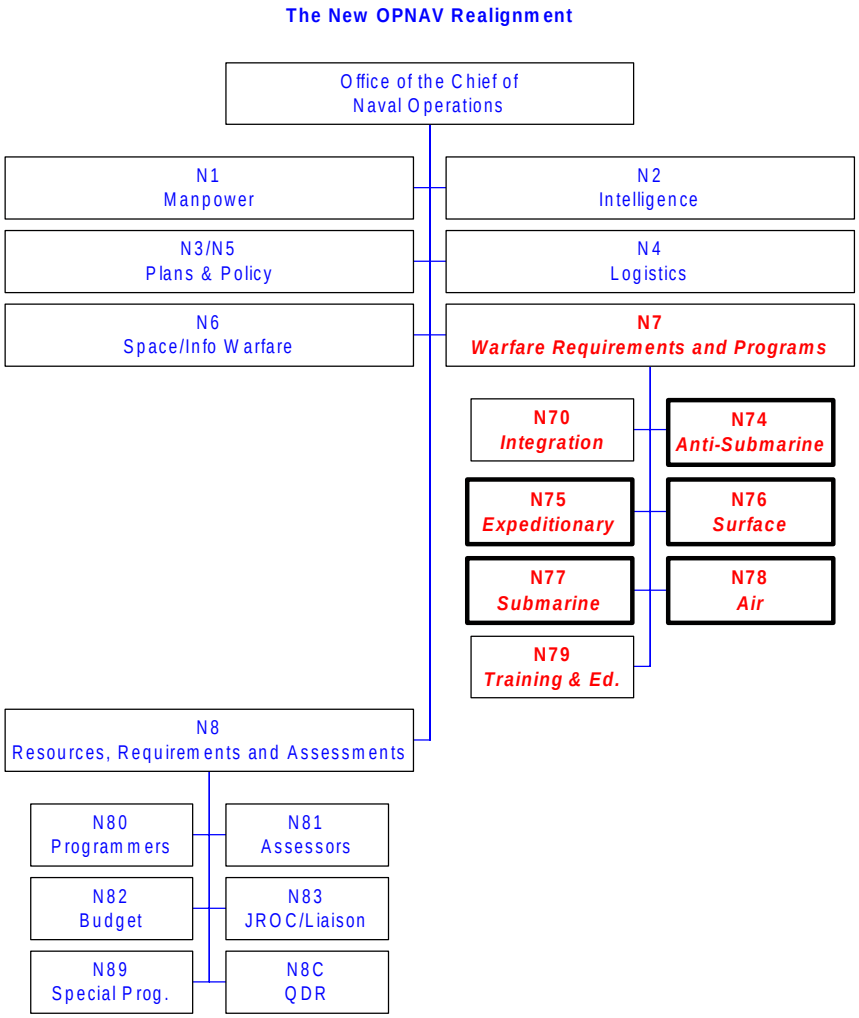

Figure 5 - N7 and N8 Organizations

Appropriation Sponsor

Appropriation Sponsors are charged with overall management control over an appropriation. They help to ensure that programs are properly structured, priced, supported and balanced within the assigned fiscal controls. They also advise the Resource Sponsors and N80 regarding the feasibility of programs. Keep in mind that various programs will require different appropriations (colors of money) for funding support; therefore, numerous programs are competing for limited appropriated funds. Examples of Appropriation Sponsors are listed in the following table.

Appropriation	Sponsor
MPN	N1
MILCON, NDSF, FHN	N4
OMN, OPN	N82
SCN, WPN, PANMC	N76
APN	N78
RDTE	N091
MCNR, RPN, OMNR	N095

Table 1 - Appropriation Sponsors

Resource Sponsor

Resource Sponsors are responsible for an identifiable aggregation of resources devoted to accomplishing an assigned task. Resource Sponsors participate in the IWAR process, participate in the Baseline Assessment Memorandum (BAM) process, and document major changes to the President's Budget (PB) in a Sponsor Program Proposal (SPP). They also interact with Program Executive Officers (PEOs) and system commands (SYSCOMS). Resource Sponsors must consider the component commander issues and CINC IPLs, and formulate requirements and develop program alternatives, as applicable. Examples of Resource Sponsors are listed in the following table.

Resource Area	Sponsor
Manpower	N1
Intelligence	N2
Logistics	N4
Family Housing	N4
BOS and MILCON	N4
Training	N79
Assessment Studies	N81
Surface Warfare	N76
Submarine Warfare	N77
Air Warfare	N78
Medical	N093

Table 2 - Resource Sponsors

Assessment Sponsors

Assessment Sponsors prepare the Baseline Assessment Memoranda (BAMs), and provide post-SPP assessments to N80, N81 and N82. A BAM is *an independent assessment of the absolute funding requirements*, as opposed to changing any baseline FYDP costs. The BAM's purpose is to aid resource sponsors in determining requirements and measuring the risk of funding to a lower level; assist in developing POM preliminary programming guidance; and, provide a benchmark for post-SPP assessments (of how SPP resource

allocations meet the requirements and programming guidance from N80). Examples of Assessment Sponsors are listed in the following table.

BAM Topic	Sponsor
Manpower/Personnel	N1
Force Protection	N4
Maintenance Functions	N4
Spares	N4
Infrastructure and Support	N4
Training	N79
Flying Hour Program	N78

Table 3 **- Assessment Sponsors for BAMs**

Program Sponsors

Program Sponsors are 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 spokesman on matters related to the requirement for the particular weapons system or program. In addition to helping justify programs during the budget process, program sponsors assist resource sponsors in resolving funding problems. Examples of Program Sponsors are listed in the following table.

Program	Sponsor
Amphibious Warfare	N753
Environmental Compliance	N45B2
Ship Depot Maintenance	N433B
AEGIS	N765G
DD-21	N764

Table 4 - Program Sponsors

Appropriations: Definitions and Categories

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, duration and amount***. The Department of the Navy receives appropriations via the Department of Defense Appropriation Act and in the Military Construction Appropriations Act. [6]

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, prescribes personnel end-strength numbers, and may also direct the submission of reports. *It is important to understand that without an appropriation act, the authority to incur obligations does NOT exist.*

Categories of Appropriations

Appropriations can be categorized as annual, multiple year or no-year (continuing) for *duration*. Annual appropriations can be used only for incurring obligations during the fiscal year specified in the appropriation 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 years' worth of operations. For the annual appropriations, the *bona fide needs* rule applies. Simply stated, the appropriation shall be used to fund only the needs of the current fiscal year – you should not procure stockpiles of supplies for next year.

Multiple-year appropriations are available for incurring obligations for a specified period of time in excess of one fiscal year. Examples include Other Procurement (3 years), Aircraft Procurement (3 years), Shipbuilding and Conversion (5 years), and Military Construction (5 years). These appropriations are fully funded (*amount*), but the apportionment process controls the release of funds.

Continuing, or no-year appropriations, includes working capital funds. Working capital funds are available for an indefinite period of time, and *do not* expire.

Annual appropriations are referred to as "expense" type appropriations, and multiple year appropriations are referred to as "investment" type appropriations. The current "expense/investment" threshold is $100,000. For items with a

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

system unit cost of less than $100,000, use the Operations and Maintenance appropriation. For items with a system unit cost of $100,000 or greater, use the applicable procurement appropriation (NOTE: The system unit cost does not include transportation or installation costs.). The expense/investment threshold relates to the "*purpose*" of an appropriation.

All appropriations not only specify the amounts available for obligation, but also the *purposes* for which they are intended. It is illegal to spend funds appropriated for normal operations on the acquisition of aircraft, for example.

Table 5 gives an overview of some appropriations used today.

Budget Activities

As shown in Table 5, budget activities provide more precise identification as to what is being funded by each appropriation. Every appropriation is first subdivided into a budget activity. *Budget activities identify the general function or purpose*.

Below the budget activity level, further subdivisions are used and the subdivisions depend on the category of appropriation (i.e., procurement appropriations are broken into budget line items, construction appropriations are broken into projects, research and development is broken into program elements, etc.).

The following figure will show the top-level subdivisions of the major appropriation types, and will help you to understand that these subdivisions relate to how budget exhibits are developed. Some of the major budget activities are discussed in Table 5.

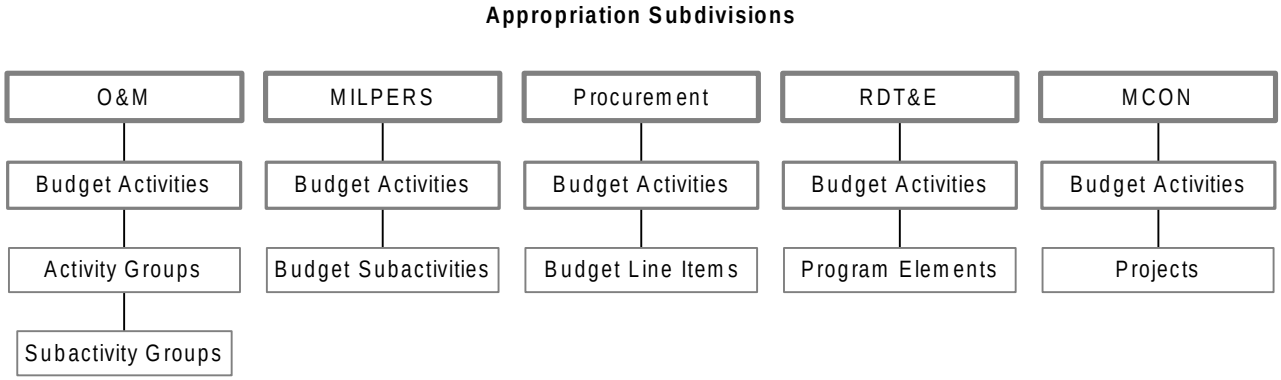

Figure 6 – Appropriation Subdivisions

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 $500K	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 Engineering	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 40 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

Table 5 - Appropriation Inventory

Appropriations: Legal Aspects

It is important to keep in mind that appropriations are laws, which are "acts of Congress." Congressional intent must be followed for the use of appropriations. Various component offices (e.g., Responsible Offices) and breakdowns of appropriations are used to ensure congressional intent is followed. Simply stated, as budget authority flows down the chain of command, the execution of appropriated funds is controlled by various mechanisms such as apportionment, allocation, suballocation and United States Code.

31 U.S. Code Section 1301(a)

31 U.S. Code Section 1301(a) is called the "color of money" statute. It requires that funds appropriated by Congress be used only for the *purposes* delineated by the appropriation. Funds for Operations and Maintenance expenses, such as utilities and trash removal, are not to be used for investments, such as procuring a local area network system (greater than $100,000) or a MRI machine for a hospital. The law states that "appropriations shall be applied only to the objects for which the appropriations were made, except as otherwise provided by law." Another review of the appropriation summary (Table 5) shows that each budget activity has a specific purpose or function within each appropriation. Further subdivisions below the budget activity give even more precise funding information and are used in budget formulation.[7]

31 U.S. Code Section 1517(a)

31 U.S. Code Section 1517(a) is the primary section dealing with the "Antideficiency Act." This act prohibits any officer or employee from making or authorizing an obligation in excess of the amount available in an appropriation or fund. Simply stated, you can't spend what you don't have. You can't overcommit, overobligate or overexpend in an appropriation or any subdivision of the appropriation. It is important to understand that this is a "real time" violation, and is not something that is monitored at the end of the month or quarter.

Before the Antideficiency Act is discussed, you must understand some terminology regarding appropriations.

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

Obligation availability period. The period in 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.

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 7 for an illustration of these terms.

A key point to remember is that when the appropriation lapses/closes (or cancels), 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 1995 Operations and Maintenance obligations can result in charges to your fiscal year 2002 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 $830,000,000. It adds up at the appropriation level where this is managed. If the Navy loses one percent, you may lose even more!

Transfer authority. The intent of Congress is stated in the Authorization and Appropriation 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. 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 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.

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. During the process of adjustment, sufficient funds did 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.

Common violations occur when:

- commitments or obligations exceed fund authorizations for appropriated funds
- when obligations exceed cost authority for working capital funds
- 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 $500,000 minor construction limit (can't build in several stages to circumvent the $500,000 limit)
- using family housing dollars for repairs in excess of the Congressionally established statutory limit without prior approval

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.

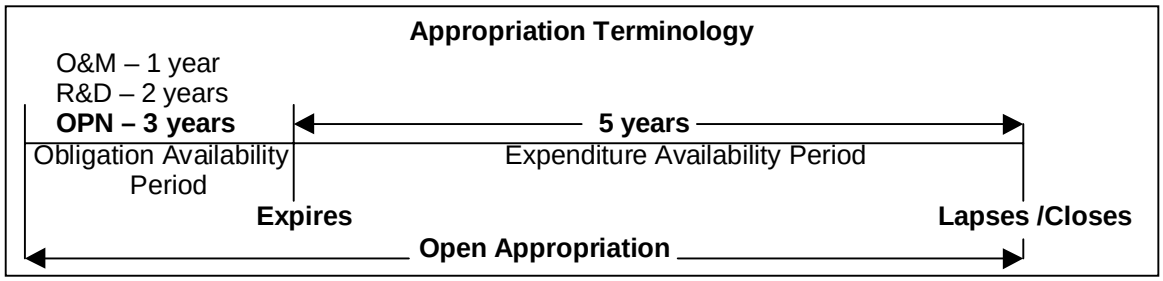

Figure 7 – Appropriation Terminology

Overobligating in Emergency Circumstances

In the event of an emergency, the Secretary of Defense is authorized by 41 U.S. Code section 3732 to incur obligations in excess of the existing appropriations. This is allowed for fuel, food, clothing, transportation, quarters, or medical supplies and is not to exceed the needs of the fiscal year. This is called the "*Feed and Forage Act*" and was last used in 1994 for the Army Personnel and O&M appropriations in Haiti.

Chapter II: The Planning, Programming and Budgeting System

Overview

In this chapter, we will review DoD's Planning, Programming and Budgeting System (PPBS). The PPBS produces a plan for our nation's defense, the programs to support the plan, and finally a budget. The DoD budget is the *final product* of the PPBS, and is eventually forwarded to the President for incorporation into the Federal Budget as budget function 050.

The Purpose of PPBS

The *purpose* of the PPBS is to provide a systematic and structured approach for developing a budget that supports the national security strategy of the United States. The *ultimate objective* of the PPBS is to provide the operational commanders (Unified Commanders, or CINCs) with the best mix of forces, manpower and equipment within resource constraints.

History of PPBS

Prior to 1962, the DoD did not have a coordinated approach for the development of a budget and the SECDEF had a limited role. Each component developed its own budget, and this decentralized approach created numerous problems. Defense Secretary Robert S. McNamara, with the assistance of his DoD Comptroller Charles Hitch, implemented the PPBS during the Kennedy administration. The PPBS instituted a *top-down* approach, driven by the SECDEF, and is used as the primary resource allocation mechanism in the DoD. It focuses on *long range planning*, and less on incremental adjustments.

The Future Years Defense Program (FYDP), as it is known today, was also created; it was then called the "Five Year Defense Plan." The FYDP is the SECDEF's dynamic repository of all approved programs. The FYDP now covers a span of six years as opposed to five. Essentially, it "mirrors" the Program Objectives Memoranda (POM), which will be discussed later.

The PPBS process has remained *relatively* stable over the years with a few important changes. In 1969, Secretary of Defense Melvin S. Laird directed that the components (i.e., the services) would develop detailed program proposals and alternatives, as opposed to the Office of the Secretary of Defense (OSD). OSD issued top-line budget control numbers and the components were required to operate within those fiscal constraints. In 1979, oversight for the entire PPBS process was given to high-level board called the Defense Resources Board (DRB). In 1984 the CINCs were given greater influence in the planning and

programming processes (by submitting Integrated Priority Lists (IPLs) during programming), and the Joint Chiefs of Staff (JCS) were also given a larger role along with the CINCs.

Major Players in the PPBS

Many of the major players and organizations in financial management (discussed in Chapter I) are major players in the PPBS. Only new players and organizations will be discussed in detail.

Defense Resources Board (DRB)

The DRB is referred to as "SECDEF's corporate board" and assists the SECDEF with major planning and programming issues. The DRB provides oversight for <u>all</u> three phases of PPBS. The Chairman is the Deputy Secretary of Defense (DEPSECDEF), and essentially runs the PPBS process for the SECDEF. Other members include the Chairman of the Joint Chiefs of Staff (CJCS); the Director of Planning, Analysis and Evaluation (PA&E); the service secretaries; DoD Comptroller (USD (C)); USD for Acquisition and Technology; USD for Policy; and, the USD for Personnel and Readiness. The CINCs can participate by invitation, as well as the service chiefs (e.g., the CNO, CMC, ACS, etc.). PA&E now has responsibility for the FYDP, where it used to be under the cognizance of the DoD Comptroller.

Program Review Group (PRG)

The PRG, a "working" group subordinate to the DRB, assists the DRB in the programming phase. The Director of PA&E is the chairman of PRG (note: he is also a member of the DRB). Members include senior personnel from OSD and the services.

The other major players in the PPBS are listed in the following table.

Player/Organization	Responsibilities	Timeframe
President	National Security Strategy (NSS)	Annual, with BES
SECDEF/DEPSECDEF	Quadrennial Defense Review (QDR) Defense Planning Guidance (DPG) Fiscal Guidance (via PA&E) Program Decision Memoranda (PDM) Program Budget Decisions (PBD) Future Years Defense Program (FYDP)	Every 4 years Annual, Mar/Apr Annual, March Annual, Aug/Sep Annual, Nov/Dec POM, BES, PresBud
CINCs	Integrated Priority Lists (IPLs)	Annual, Nov/Dec
CJCS	Chairman's Program Recommendation (CPR) Chairman's Program Assessment (CPA) National Military Strategy Document (NMSD)	Annual, March Annual, Sept As required
Resource Sponsors	Sponsor Program Proposals (SPP)	Annual, Mar/Apr
Components	Program Objective Memoranda (POM) Budget Estimate Submission (BES)	Annual, May June to Service FM, Sept to OSD

Table 6 – Major PPBS Players

Major Products of the PPBS

The following is a brief summary of the "products" of the PPBS, although some are inputs to the process, and some are outputs.

Quadrennial Defense Review (QDR)

The QDR came about in the Clinton administration, and was directed by Congress in the 1996 Defense Authorization Act. The QDR is a review conducted by OSD and the Joint Chiefs of Staff (JCS), considers global threats and our capabilities to meet those threats. The QDR may have an effect on future force levels and military capabilities, and affects POM development.

National Security Strategy (NSS)

The NSS is developed by the National Security Council and signed by the President. The NSS gives the nation's overall strategic plan to meet global threats, and guides the development of the military's NMSD.

National Military Strategy Document (NMSD)

The NMSD, signed by the Chairman of the Joints Chief of Staff (CJCS), contains the Joint Chiefs' advice regarding strategic planning to meet the direction given in the President's NSS. It "feeds" in to the development of the DPG, does *not* have fiscal constraints, and is one annex in the DPG.

Chairman's Program Recommendation (CPR)

The CPR is the CJCS's advice to the SECDEF regarding program recommendations, focusing on "joint" capabilities across the components. The CPR will aid the SECDEF in developing the Defense Planning Guidance.

CNO's Program Analysis Memorandum (CPAM)

The CPAM is the Chief of Naval Operations' guidance for Navy POM development, and the CPAM supplements the guidance contained in the DPG. The CPAM is the result of the Integrated Warfare Architecture (IWAR) analysis process, which looks for balance across multiple platforms at the best cost.

Defense Planning Guidance (DPG)

The DPG is *a fiscally constrained document* in the sense that fiscal guidance is issued with the DPG, giving top-line numbers to each component for the next six years. The DPG is SECDEF's guidance to each component for the development of their Program Objectives Memoranda (POM). *The DPG marks the end of the planning phase of PPBS*.

Integrated Priority Lists (IPLs)

The CINCs submit IPLs to the SECDEF and CJCS, and copies are submitted to each applicable component. These prioritized lists contain *fiscally unconstrained* programs and areas that require consideration during the components' POM development process.

Sponsor Program Proposals (SPPs)

SPPs are developed by Resource Sponsors and address Navy objectives, considering the desires of the CINCs and Navy claimants. SPPs are developed within the constraints of the Navy's Total Obligation Authority (TOA), and ultimately make up the Navy's Program Objectives Memorandum (POM).

Program Objective Memoranda (POM)

The POM is each component's *six-year plan* on how they will allocate their resources (dollars, manpower and forces). Each POM is developed within the guidance contained in the DPG, and must consider the CINC's IPLs. POM development operates under fiscal constraints, which are issued with the DPG. POMs are developed in *even-numbered years* (POM00 began in 1998) and

cover a period of six years. A **Program Review** (PR; often called a "POM Update") is conducted in *odd-numbered years* (PR01 began in 1999*)*, and covers a period of five years. This "pseudo biennial PPBS process" affects the budget estimate submission (BES) – see the "BES" section that follows.

Chairman's Program Assessment (CPA)

The CPA is the CJCS's views on each component's POM, assessing force levels, balance and capabilities. The CPA will influence the SECDEFs decisions delineated in the Program Decision Memoranda (PDM).

Program Decision Memoranda (PDM)

The DRB, with the assistance of the Program Review Group (PRG), resolves any program issues and makes recommendations to the SECDEF. The PDM is the SECDEF's final decision on each component's POM*. The PDM marks the end of the programming phase of PPBS*.

Budget Estimate Submissions (BES)

The BES is each component's budget submission. The BES, in even-numbered "POM years," is a *biennial (two year) submission* and is based on *the first two years of the POM* (as adjusted by the PDM). Congress directed biennial budget submissions in fiscal year 1988, although appropriations are still done on an annual basis. Therefore, an "off-year" update is required for the second year of the prior biennial budget submission. This submission is an amended budget submission, adjusted primarily from the applicable Program Review. For example, the FY00/01 biennial budget was submitted in calendar year 1998, based on the first two years of POM00. In 1999, PR01 was conducted and the FY01 budget (the second year of the FY00/01 submission) was submitted, as adjusted by the PR01 results.

Program Budget Decisions (PBDs)

DoD and the Office of Management and Budget (OMB) conduct a *joint review* of the DoD budget, and the SECDEF documents those decisions in the Program Budget Decision. *The PBD is the SECDEF's position on each component's BES, adjusting or approving each BES*. Technically, the PBD is a "mark." These adjustments are based on the review of <u>one</u> Department of Defense budget, prior to submission to the President for incorporation into the President's Budget (PB). Any adjustments (marks) will result in the component(s) revising its/their budget estimate before OSD's submission to the President. *The PBD marks the end of the budgeting phase*.

The Big Picture – Navy PPBS Overview

Now that we've looked at the major players and products, it is appropriate to review the "big picture" of the Navy's PPBS.

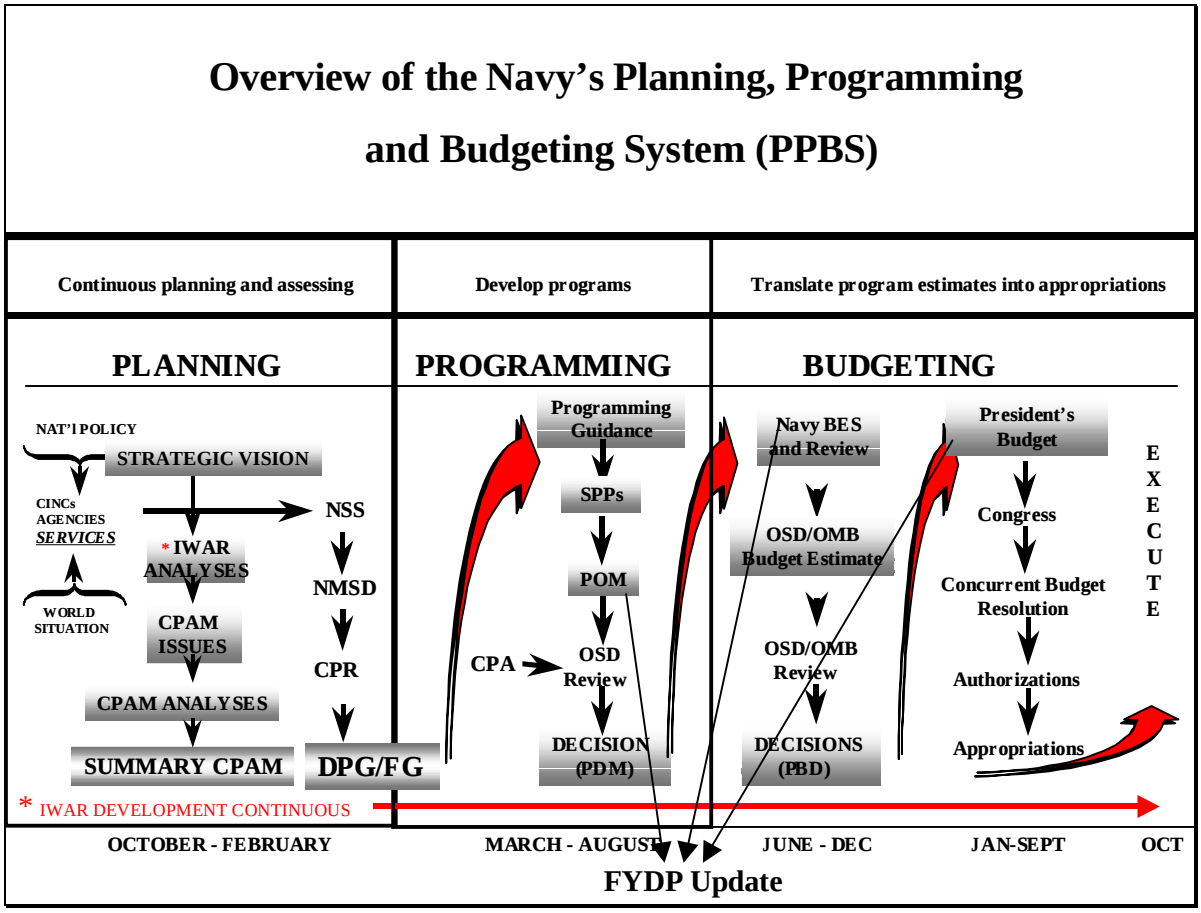

Figure 8 **– Overview of the Navy's PPBS process**

It is important to keep in mind that although the PPBS process has three distinct phases, each phase overlaps the other phases. Planning and assessing are continuous. Nothing is "done in a vacuum." All players, from the programmers to the budget analysts, to the planners and assessors, are aware of issues in their respective phase and the other phases. Decisions made in one phase will affect the other phases; therefore, the players are always one step ahead to ensure well-balanced and executable programs are developed and funded.

Planning Phase

The planning phase of the PPBS process is designed to integrate assessments of potential military threats facing the country, and the projected financial resources into an overall statement of policy. The planning phase is *continuous*, operating year round. The products of the planning phase are simply outputs (milestones) to reflect efforts to date.

Our planning begins at the Executive Branch level. The President's **National Security Strategy (NSS)** takes input from many federal agencies and departments to ascertain the threat to the United States, and then outlines the national defense strategy.

The JCS organization produces the **National Military Strategy Document (NMSD)**, a *fiscally unconstrained* document that defines national military objectives, establishes the strategy to accomplish these objectives, and addresses the military capabilities required to execute the strategy. The NMSD, along with the **Chairman's Program Recommendations (CPR)**, provides the Joint Chief's of Staff (JCS) guidance to the SECDEF for drafting the Defense Planning Guidance (DPG).

In parallel with the DoD planning cycle, the Navy is undertaking its own planning efforts to comply with and supplement our national security objectives. Led by the N81 Assessment Division and integrating an Integrated Product Team (IPT) approach, the Navy uses the **Integrated Warfare Architecture (IWAR)** process. *IWAR assesses end-to-end capabilities, and achieves integration across multiple platforms at the best cost*. It prioritizes warfare capability areas inside the Navy's total obligation authority (TOA) and links execution, programming, and budgeting. The IWAR is comprised of *five warfare areas with seven support pillars*. All five warfare areas and seven support pillars are assessed, individually and collectively. When the IWAR assessment process is complete, the **summary CNO's Program Analysis Memorandum (CPAM)** is issued. *The CPAM supplements the SECDEF's guidance contained in the DPG, and provides the CNO's guidance for the Navy's POM development*. The IWAR structure is shown in Figure 9.

The **Defense Planning Guidance (DPG)**, which is prepared by the Office of the Undersecretary of Defense for Policy (USD(P)), provides official guidance to the military services in preparing their POM. The military services and CINCs have input to the DPG, however, they do not have any approval authority on the final DPG – the final approval rests with the SECDEF. The DPG outlines force and *fiscal guidance* to the military services for their development of their respective Program Objectives Memorandum (POM). The fiscal guidance gives the Total

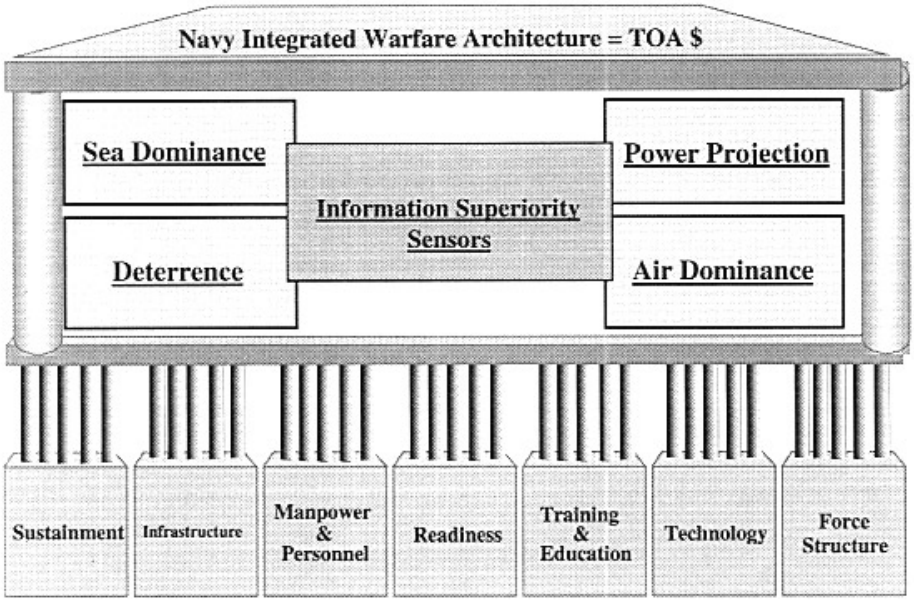

Figure 9 **– Integrated Warfare Architecture (IWAR) Assessment Model**

Obligation Authority (TOA), or "top line numbers" to the military services for their POM development and budget estimate submission (BES) formulation. The issuance of the final DPG *ends the planning phase*.

Programming Phase

The purpose of the programming phase is to produce a Program Objectives Memorandum (POM). *The POM is each component's plan on how they will allocate their resources (forces, manpower and dollars) over a six-year period*. We will discuss the POM Development phase (at the component level) and the POM Review phase (at the SECDEF level).

In the Navy, the programming phase begins with N80 issuing POM Serial One. POM Serials are a sequence of memoranda issued by the N80 organization, delineating schedules and responsibilities. For example, POM 02-1 was the first POM Serial for the POM02 cycle, which began in approximately calendar year 2000 and covered the years 2002 through 2007. In the odd numbered years, Program Review (PR) Serials will be issued. PR03-1 will be the first Serial for PR03, which will begin in approximately calendar year 2001 and will cover the years 2003 through 2007.

Table 7 gives an example of the years covered in a POM and PR. You can see that a POM covers a period of *six years*, while the PR covers only *five* years, as that is as far as the FYDP extends (additional outyears are not added in a PR). Also, you can see *that each subsequent POM uses the last four years of the prior*

POM (see the dashed lines). Therefore, in the POM years *two additional years* of programs are added, while in a PR the information is updated.

Lastly, in the POM years, a biennial budget submission is accomplished. In the spring of 1998 for POM00, we submitted a biennial submission covering fiscal years 2000 and 2001 and the outyears. In 1999, we submitted an "amended" budget for fiscal year 2001, and this submission was adjusted by the PR01 results conducted in 1999. In the spring of 2000, we submitted a biennial budget submission covering the fiscal years 2002 and 2003, as well as estimates for the outyears. As you can see, the next iteration will be a Program Review (PR) for 2003.

Year	**POM/PR**	**Fiscal Years Covered**									
1998	POM00	2000	2001	2002	2003	2004	2005				
1999	PR01		2001	2002	2003	2004	2005				
2000	POM02			2002	2003	2004	2005	2006	2007		
2001	PR03				2003	2004	2005	2006	2007		
2002	POM04					2004	2005	2006	2007	2008	2009

Table 7 **– Example of Years Covered by a POM and PR**

As mentioned earlier, the POM essentially "mirrors" the FYDP. However, the FYDP does contain an additional three years for forces, and contains the current year (CY) and prior year (PY) data. Hopefully you can see that the FYDP is comprised of POM submissions. Now we will discuss how a POM is developed and then reviewed.

POM Development

POM development takes place in the March to April timeframe, and the Navy POM is delivered to the SECDEF in the late May or early June timeframe.

Numerous issues must be considered during the POM Development phase. The Resource Sponsors must consider claimant and CINC input while developing their Sponsor Program Proposals (SPPs). CINCPAC, CINCLANT and NAVCENT submit their desires via *Component Commander Issue Papers (CIPs*). The CINCs submit their desires via *Integrated Priority Lists (IPLs*), and claimants participate via the BAM process discussed below.

The *Baseline Assessment Memorandum (BAM)* gives Resource Sponsors baseline costs associated with programs and resources that cut across numerous areas such as logistics, spare parts, manpower, security and training. BAMs are independent assessments developed by assigned Resource Sponsors, and provide information for the development of SPPs.

Therefore, Resource Sponsors must consider numerous issues when developing their Sponsor Program Proposals – the CNO's guidance contained in the CPAM, the guidance contained in the DPG, the CINC and claimant inputs, plus the assessment provided in the BAMs. All of this must be done while staying within the Navy's top-line (TOA). Figure 10 illustrates the Navy's POM development process.

The DPG, fiscal guidance and CPAM are issued in the February timeframe, with the actual SPPs being built in the March to April timeframe. The SPPs are completed and assessed by N80 to ensure fiscal guidance was followed and the CINCs/claimants inputs were considered.

Upon completion of the N80 assessments, N80 takes the Navy's and Marine Corps' POM, combines them into *one Navy POM*. Any issues will be resolved using a series of meetings by the Program Budget Coordination Group (PBCG). The PBCG is a two-star forum (N80, N81, N82 and Resource Sponsors) that will resolve programming and budget issues. At this point, the "end game" review begins. The T-POM, or tentative POM, results from the PBCG decisions and is then forwarded to the CNO and CMC for their decisions.

The Department of the Navy Program Strategy Review Board (DPSB) conducts a final review of the T-POM prior to the SECNAV's approval. DPSB membership includes the SECNAV (chair), the CNO, the CMC, and the Assistant Secretaries of the Navy. Upon approval of the Navy's POM by the SECNAV, it is delivered to the SECDEF in late May or early June. The FYDP is updated at this time.

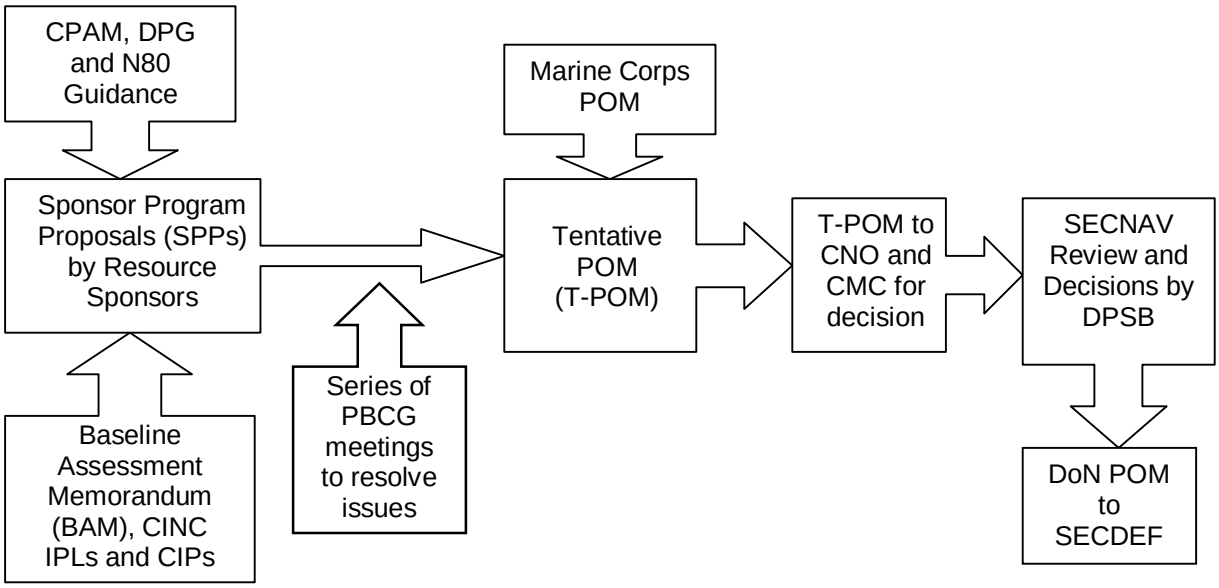

Figure 10 – Navy POM Development Overview

POM Review

Based on the results of a JCS-led review of each POM to ensure compliance with the NMSD and DPG, the Chairman of the Joint Chiefs of Staff issues his Chairman's Program Assessment (CPA). The Secretary of Defense organization now reviews each component's POM during the summer. Numerous OSD analysts and the Program Review Group (PRG) review each POM, and develop Major Issues Lists. The CINCs have another chance to provide their input, and they may also meet with the DRB to discuss the POMs. All of these decisions are documented, and any changes are documented in the Program Decision Memoranda (PDM) issued by DEPSECDEF in the August timeframe. The POM review and PDM ensure that the components followed OSD's guidance delineated in the Defense Planning Guidance.

Actually two PDMs are issued, PDM I and PDM II. PDM I is issued in the August timeframe before the Navy BES is due to OSD (late September), and documents issues or changes that are easily resolved. PDM II is normally issued later during the fall OSD/OMB budget review process, and documents issues that are more complex. For simplicity, we will say that the PDM is issued in August and is the *final document of the programming phase*. *The PDM approves or adjusts programs in each POM*. The POM that has been amended by the PDM provides an approved baseline for the components' Budget Estimate Submission (BES) input, and updates the FYDP.

Budgeting Phase

The budgeting phase is the last phase in the PPBS. Budgeting simply takes the approved programs in each Program Objectives Memoranda (POM), and *converts the gross numbers into more precise budget exhibits*. Since we receive the majority of our funding via appropriations from Congress, we convert the programs into *appropriation format*. Again, in a POM year we will do a biennial budget estimate submission, and in a PR year, we will do an amended BES covering only one year. When the BES is submitted, the FYDP is updated for the second time.

Each BES goes through a rigorous component-level review, then a joint OSD/OMB review, and finally a Congressional review. Each level of review will be discussed in subsequent chapters.

After the component review, each component's BES is submitted to OSD and OMB for a joint review. The joint review ensures compliance with the DPG, the PDM and the President's National Security Strategy (NSS). OSD makes changes and provides the rationale for the changes in the form of the *Program Budget Decisions (PBD),* approved by the SECDEF/DEPSECDEF.

Initially, a “draft” or “courtesy” PBD is issued to allow the services to respond with reclamas. Based on the DRB’s review decisions, OSD will either modify the PBD or the components will modify their BES’s to support the decisions in the PBD. Often not all issues are solved to the satisfaction of the components, and *a Major Budget Issues (MBI)* meeting is held between the service secretary and the SECDEF.

Issuance of the final PBD signals the end of the budgeting phase. Once the *final* PBD’s have been issued, OSD submits all of the services BES’s, corrected for the PBDs, as <u>one DoD budget submission</u> to be included in the President’s Budget (PB). The FYDP is updated the third time with the PB submit.

Per the Budget and Accounting Act of 1921, the President must submit his budget to the Congress not later than the first Monday in February. Congress then takes the President’s Budget and develops the Concurrent Budget Resolution (CBR). Eventually, authorization and appropriation bills are drafted and passed by both Houses.

Chapter III: Overview of the Congressional Budget Process

Overview

In this chapter, we will briefly review the congressional budget process. We will discuss the roles of both Houses of the Congress, and the major DoD budget subcommittees. First, it is appropriate to discuss some significant legislation that affects the budget process.

The Budget and Accounting Act of 1921

The Constitution does not require the President to submit a budget. The requirement for the President to submit a budget, or statement of his priorities, came about under the direction of the Congress.

Realizing a more centralized approach for budget formulation was required, Congress codified the submission of the President's Budget (PB) not later than the first Monday in February. The Act also established the Bureau of Budget (now called the Office of Management and Budget (OMB)) and the General Accounting Office (GAO). One role of the OMB is to assist the President with the preparation of the federal budget. The GAO is the government's auditor, responsible only to the Congress.

Budget and Impoundment Control Act of 1974

The congressional budget process is driven by *the Budget and Impoundment Control Act of 1974 (BICA*). Prior to passing the BICA, Congress struggled with how to control the increasing amount of expenditures from the Treasury. A process was needed, and in 1974 the Congress enacted the Budget and Impoundment Control Act to coordinate and control the legislative branch's budget activities, and to curb the President's impoundment powers.[8] Impoundment means to hold back approved obligation authority or budget authority against the intent of Congress.

In 1974 Congress enacted Budget and Impoundment Control Act to establish procedures for developing an annual congressional budget plan and achieving a system of impoundment control. The Budget Act also created, for the first time, congressional standing committees (the House and Senate Budget Committees) devoted solely to the budget. It also created the Congressional Budget Office (CBO) to serve as the "scorekeeper" for Congress. The fiscal year was changed from 1 July through 30 June, to 1 October through 30 September. Additionally, the reconciliation process was placed into effect. Reconciliation is a process by which Congress includes in a budget resolution "reconciliation instructions" to

[8] The Congressional Budget Process – An Explanation

specific committees, directing them to report legislation which changes *existing* laws, usually for the purpose of decreasing spending or increasing revenues by a specified amount by a certain date.[9]

Gramm-Rudman-Hollings I of 1985 and II of 1987 (GRH I&II)

GRH I&II is also called the Balanced Budget Emergency Deficit Control Act (BBEDCA). GRH established "*maximum deficit amounts*". If the deficit exceeded these statutory limits, the President was required to issue a sequester order that would reduce all non-exempt spending by a uniform percentage. GRH also made a number of changes to the congressional budget process to enforce maximum deficit amounts and to strengthen congressional budget enforcement procedures.[10] In 1987, GRH II was passed to change the sequester orders from being initiated in the Congress (legislative branch) to the executive branch, as per a 1986 Supreme Court ruling.

Budget Enforcement Act of 1990 (BEA of 1990)

Despite the implementation of GRH 1&II, the deficit continued to increase. In the spring of 1990, it became clear that the deficit was going to exceed the maximum deficit limit by nearly $100 billion. Later that year, OMB estimated that a sequester of $85 billion would be necessary to eliminate this excess deficit amount. Because Congress had exempted most of the budget from the sequester process, such a sequester order was going to require a 32 percent reduction in defense programs and a 35 percent reduction in non-defense programs. To respond to growing deficits, President Bush and the congressional leadership agreed to convene negotiations on the budget. The Budget Enforcement Act was passed and effectively replaced the Gramm-Rudman-Hollings system of deficit limits with two independent enforcement regimens: *caps on discretionary spending* and *a pay-as-you-go (PAYGO) requirement for direct (mandatory) spending* and revenue legislation. The spending disciplines (spending caps and PAYGO) of the BEA were extended by through the year 2002 by the Balanced Budget Act of 1997.[11]

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[9] The Congressional Budget Process – An Explanation
[10] The Congressional Budget Process – An Explanation
[11] The Congressional Budget Process – An Explanation

The following is a timetable for completion of the budget.

Dates	Action
1 April	Budget Committees complete the Concurrent Budget Resolution (CBR)
15 April	Deadline to pass the CBR through both Houses in Congress
15 June	Complete reconciliation bill
30 June	House completes action on annual Appropriations bills
1 October	Appropriations bills enacted into law or Continuing Resolution Authority (CRA) is enacted

Table 8 - Congressional Timetable

Congressional Budget Process Overview

Upon receipt of the President's Budget (PB), the House and Senate Budget Committees draft the Concurrent Budget Resolution (CBR), which simply uses the PB as a framework. It develops allocation plans for the numerous subcommittees and establishes amounts for revenues and outlays. Since the CBR is a resolution, it is not a law and does not require the President's signature.

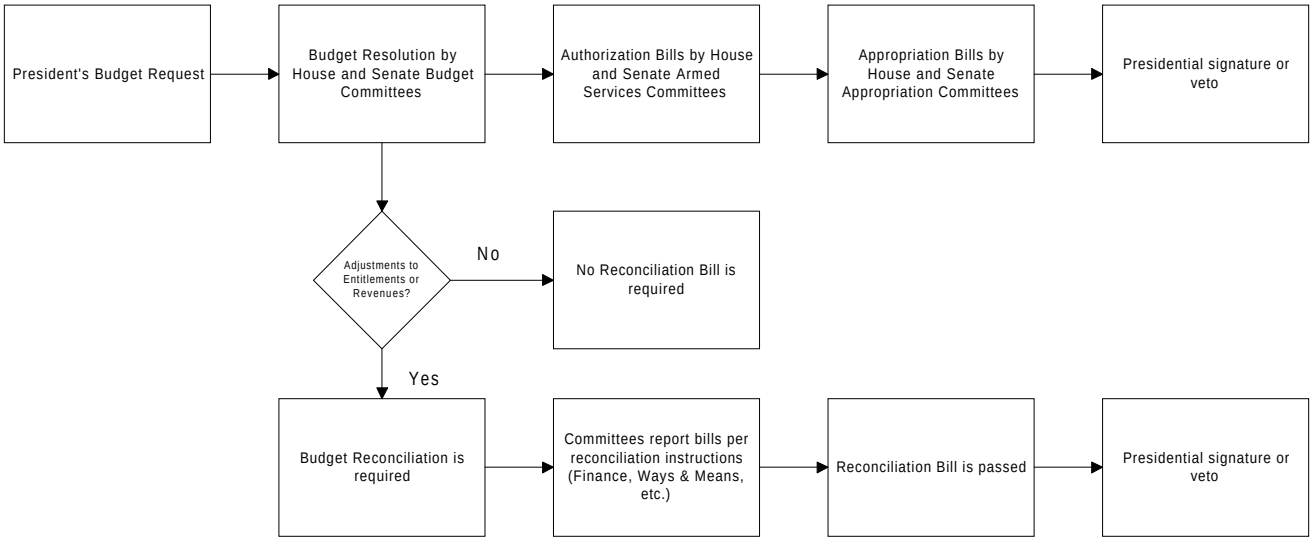
The House Armed Services Committee (HASC) and the Senate Armed Services Committee (SASC) draft the *Defense Authorization Act*. Authorization provides the authority for the programs to exist, but does not provide any budget authority.

The House Appropriations Committee (HAC) and the Senate Appropriations Committee (SAC) draft the *Defense Appropriations Act*. Appropriations provide the budget authority so we may incur obligations and expenditures. Without an appropriations act or CRA, we do not have budget authority. Upon completion of approval by both committees and both Houses of the Congress, the bills are forwarded to the President for his signature or veto. See the following figure for an overview of the Congressional budget process.

Sequestration occurs if caps are exceeded in the discretionary portion of the budget, or if mandatory (entitlement) spending exceeds the baseline without any offsetting changes to the deficit. Simply stated, sequestration is an across-the-board cut. This process came from the Gramm-Rudman-Hollings (GRH) and Budget Enforcement Act of 1990 legislation.

Reconciliation is required in the event the funding for an appropriations bill exceeds the amounts specified in the CBR or there is an adjustment to revenues or entitlements. If a reconciliation bill is required, it will be forwarded for the President's signature.

Lastly, *Continuing Resolution Authority (CRA)* is a stopgap measure by Congress to provide budget authority until the 13 regular appropriations bills are passed. The CRA does not provide an amount of funds, but rather gives spending at a rate based on prior year spending. CRAs are laws, signed by the President, and usually have numerous restrictions attached (i.e., no new starts to avoid the intent of Congress, etc.). Again, if a regular appropriation bill or CRA is not passed on or before 1 October, activities (other than working capital fund activities) *do not have any budget authority* and must cease operations.



Chapter IV: Budget Formulation

Overview

In this chapter will discuss the fundamentals of a budget and the budget formulation process.

What is a Budget?

A budget is a plan of action, a statement of priorities, a technique for financial planning, and a combination of administrative and legislative processes. The requirement of developing a federal budget rests with the Executive Branch, and the review and approval of the federal budget rests with the Legislative Branch.[12]

Development of an effective budget depends on all personnel in the activity. Whether a zero-based approach is taken, or using a historical approach within control numbers, 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 can't be funded. As a plan, the budget must be flexible and be able to accommodate change.

Budget Formulation Overview

We will discuss budget formulation as it relates to developing the component-level budget; however, all activities will have budgetary requirements and input into the process. *Formulation involves translating the approved programs in the POM into detailed budget exhibits by appropriation*. Budget formulation begins with the budget call. We will first discuss the organizations and terminology.

Organizations in the Budgeting Process

We should first review the various organizations and the terminology related to budgeting.

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

[12] Financial Guidebook for Commanding Officers, Department of the Navy, Washington DC, NAVSO P-3582, October 1998, p. III-1.

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

Of course, you must first understand your mission. And before actually compiling figures and exhibits, you must understand some elements of costs and terminology. You must understand, categorize and prioritize your requirements within your assigned control numbers. Lastly, you must also consider Total Ownership Costs (TOC), i.e., costs from "cradle to grave" for the major acquisition category programs.

Fixed Costs. 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. 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 equipment used to load cargo ships.

Controllable Costs. Controllable costs are often called discretionary costs. If the cost can be significantly influenced by actions at the activity, it is controllable. *Most costs are non-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 budget for pay raises and increases to fringe benefits. During the budget process, control numbers are often revised and the activity must absorb the increases to pay and benefits, further cutting into discretionary funds.

Full Funding. Full funding is required when Congress directs, if using a procurement appropriation, the effort is not severable or a usable 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 is required when the effort is severable, you are funding research and development, operating accounts are being used, or the funds will provide for services over a period of time.

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
FY 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.

Advance Procurement. This is another exception to DoD's full funding policy. Advance procurement is 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. 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 leadtime of the major end item.

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

QOL Projects. Forthcoming Quality-of-Life projects, such as the construction of a new child development center, can impact your budget. Although the military

construction appropriation will finance the construction costs, operations and maintenance dollars will eventually be required to support the continuing functions such as salaries and operating expenses. A new gymnasium or baseball field can result in unexpected costs, as well.

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, and 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.

Budget Formulation Scenario

We will use the Naval Postgraduate School (NPS) as an example. NPS is an academic institution whose emphasis is on study and research programs relevant to the Navy's interests, as well as to the interests of the Department of Defense. CNO N09 (Director, Field Support Activity, or FSA) is NPS's major claimant (FSA is also a BSO, and is an Administering Office for its assigned portion of O&MN.). NPS is funded *primarily* by the Operations and Maintenance appropriation and receives reimbursable research funding, as well. The following figure is a simplified illustration of NPS's financial chain. "Levels" will be discussed in a later chapter, and pertain to the flow of funding.

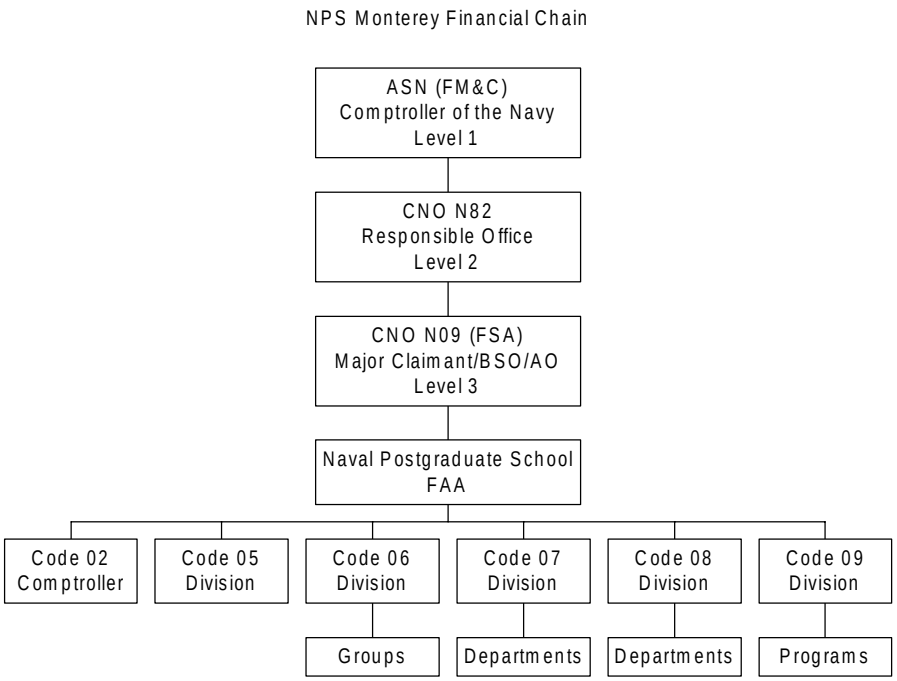


Figure 11 - NPS Financial Chain

Because NPS is an academic institution funded primarily by the Operations and Maintenance appropriation, we will review the structure of the O&MN appropriation. Recall that the first subdivision of <u>all</u> appropriations is the Budget Activity (BA). *BAs provide more precise identification as to what is being funded by each appropriation*. O&MN is further broken down into Activity Groups (AG) and Subactivity Groups (SAG). These breakdowns simply provide *further detail* as to the *purpose* of the funding.

We will ratchet down to the **3B3K SAG** level under AG 3B, which is under BA3, Training and Recruiting. You can see that the mission and functions of the activity will drive what budget exhibits are submitted – NPS will not submit budget exhibits for the operating forces or mobilization.

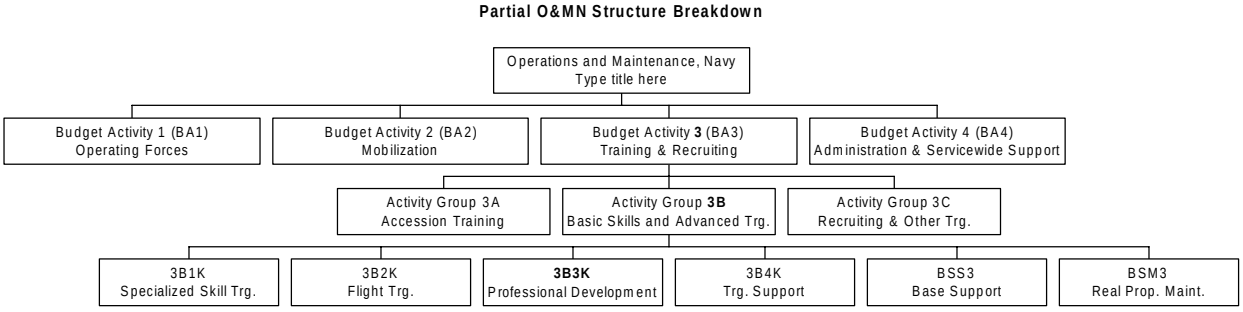


Figure 12 **- Partial O&MN Structure Breakdown**

The two most important budget exhibits for the O&M appropriation are the OP-5 and OP-32. *The OP-5 is the Detail by Activity Group/Subactivity Group* and the OP-32 is the *Summary of Price and Program Growth*. An OP-5 and OP-32 will be prepared for each SAG (e.g., 3B3K as previously mentioned), as applicable, at each command or activity. The totals on the OP-5 financial summary and the OP-32 totals must match. Lastly, the sum of the OP-32s can't exceed the assigned control numbers.

The OP-5 contains six sections and provides detailed information for each Budget Activity, Activity Group and Subactivity Group. The purpose of the OP-5 is to provide a summary of and justification for changes in the level of resources required for each SAG. The figures contained on the exhibits represent planned *obligations*.

The OP-32 tells how you plan on using your resources by type of purchase, i.e., via the *object classification code*. Object classification codes are standard codes from OMB Circular A-11, and simply tell the *type of purchase*, i.e., civilian labor (e.g., 11.11, 11.31), benefits (e.g., 12.11, 11.51), fuel (e.g., 26.01), contracts (e.g., 25.03), travel (e.g., 21.01), supplies (e.g., 26.01), utilities (e.g., 23.31), and purchases from the working capital fund, etc. The OP-32 has three sections: compares the prior year to the current year; compares the current year to the budget year; and, compares budget year 1 to budget year 2. The "price growth" columns represent the effect of changes in pricing assumptions on the prior year's program (i.e., projected inflationary rates). The "program growth" columns will reflect any increases (a functional transfer from another activity) or decreases (such as a budget cut) in funding for programs.

Based on its assigned mission, NPS submits three OP-5 and three OP-32 budget exhibits for the following SAGs: 3B3K, Professional Development; BSS1, Base Support; and, BSSM, Real Property Maintenance. Other exhibits will be submitted, as required. Recall that reimbursable funding is a part of TOA, therefore, you must prepare budget exhibits for reimbursable funding. NPS will normally prepare exhibits for Other Procurement, Navy (OPN) funding, as well. Recall that OPN funding will procure investment items greater than $100,000 per system or unit cost.

The Budget Call

Because the President must submit an annual budget to the Congress, the budget call begins at the OMB level by 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 calls will 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,

and other administrative guidance. Control numbers are issued by appropriation to each BSO, and are derived from the FYDP as well as the prior President's Budget.

Of course, USD(C) and ASN(FM&C) will issue budget calls as well, and 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. Therefore, it is important to be prepared and also have prior year appropriations properly executed, i.e., *obligations are being liquidated by matching expenditures*. An aggressive account reconciliation program is essential and should be an integral part of your management control program. Your past will certainly play a key role in what you receive in the future. 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).

NPS will receive its guidance from CNO N09, but will already have begun issuing guidance and calls to its departments. NPS will be issued control numbers by CNO N09, by appropriation, and must remain within those controls. Any valid requirements above the control numbers are unfunded requirements, and are documented on an OM-6 exhibit (a Navy exhibit, addressed in the Navy BGM).

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., BG00-1, BG00-1A, BG00-2, etc., for the FY2002/03 budget estimate submission). In addition, the Navy's Budget Guidance Manual and DoD Financial Management Regulation (FMR) 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 input from all departments and divisions, while others may elect for the comptroller to prepare the budget in its entirety.

Budget Formulation – Putting it Together

The NPS comptroller will begin accumulating estimates from the various divisions and will categorize the costs according to budget activity group (function) and the types of expenses (object classifications). Elements of expense such as civilian labor, benefits, VSIP and VERA (if applicable), per diem, travel, fuel, supplies, printing, reprographics, utilities, transportation, maintenance, QOL support, child development center support, DFAS financial processing support, rent, disability compensation, and contracts must be accurately estimated. Pricing adjustments are applied (inflationary factors) and any program increases or decreases will be identified, as well. Other factors such as Commercial Activities (CA) studies,

Defense Reform Initiative Directives (DRIDs) and QDR decisions must be factored in, as well.

Normally the OP-32 exhibit is completed first, and the figures are then cross-walked to the OP-5 exhibit. The comptroller will ensure that the figures on the OP-5 financial summary section and the OP-32 totals are in agreement, and the sum of all of the OP-32 totals does not exceed the controls. The exhibits will be reviewed, then submitted up the chain to CNO N09, who will review NPS's budget estimate submission along with numerous other activities' estimates. Eventually, NPS's BES will be rolled into the Navy's BES after an extensive review process at the component level.

Other Budget Exhibits

We focused on the OP-5 and OP-32 exhibits, as they are the most common budget exhibits. However, numerous other exhibits must be prepared depending on the activity's mission. Obligation and expenditure plans are required, as well, and will aid in the preparation of apportionment requests. See figure 13 for an abbreviated listing.

Exhibit	Purpose
Operations and Maintenance	
OP-5 Attachment 4	Real Property Maintenance/Minor Construction
OP-8	Civilian Personnel Costs
OP-20	Analysis of Navy Flying Hour Program
OP-26	POL Consumption and Costs
OP-28	Summary of Major Repair Projects
OP-34	Appropriated Fund Support for MWR Activities
OP-40	Ship Fuel and Operating Tempo Data
Procurement	
P-1	Procurement Program
P-5	Cost Analysis
P-10	Advanced Procurement Analysis
P-29	SCN Outfitting Costs
P-36	Depot Level Ship Maintenance Schedule
P-45	Summary of Reimbursables
Research and Development	
R-1	RDT&E Programs
R-32	RDT&E Purchases from DWCF
Military Construction and Family Housing	
DD 1390	Military Construction Program
FH-2	Family Housing Operation and Maintenance
FH-3	Furnishings Summary
DWCF Supply Management	
SM-3a	Operating Budget
SM-5a	Surcharge Computation
SM-16	Total Cost per Out Summary
Fund-1	Summary of Price, Program and Other Changes
Fund-9a	Capital Investment Summary
DWCF Non-Supply (Depots)	
Fund-3	Labor Cost Breakdown
Fund-4	Summary of G&A Costs
Fund-7b	Customer Rate Computations
Fund-10	Price Changes

Figure 13 - Listing of Budget Exhibits

Important Budget Legislation

It is appropriate to discuss some other important legislation that guides us in budget formulation and execution.

Federal Manager's Financial Improvement Act (FMFIA) of 1982

The FMFIA of 1982 was enacted as Public Law 97-255. The FMFIA was intended to amend United States Code Title 31 laws on federal accounting, specifically, the Budget and Accounting Act of 1921 and the Accounting and Auditing Act of 1950.

The focus of the FMFIA is to implement procedures specifying how executive agencies submit formal reports to the President and Congress on the effectiveness of agencies' accountability and oversight of fiscal resources and assets. Consequently, it created a formal reporting process for identifying accountability problems within each agency.

Each agency is to provide *reasonable assurance* towards the safeguarding of funds and assets under the control of the United States. Agencies are to identify strengths and weaknesses, and problems with accountability and control system of the agency. Problems identified must include a plan of action for resolution. *DoD Procedures for Management of Information Requirements*, DoD 8910.1-M, provides guidance for the preparation of reports.

The Navy has implemented its Management Control Program as a result of the FMFIA. SECNAVINST 5200.35D pertains.

Chief Financial Officer's Act of 1990 (CFO Act)

The CFO Act of 1990 was enacted as Public Law 101-576. The CFO Act requires the DoD and other federal agencies to improve financial reporting by integrating accounting systems, improving internal control procedures, achieving compliance with federal accounting principles and preparing audited financial statements.

The CFO Act states that federal agencies do the following:

- Use an integrated accounting and financial management system, including financial reporting and internal controls;
- Comply with applicable federal accounting principles and standards;
- Provide information that is responsive to management needs; and
- Prepare financial statements for its revolving funds, trust funds and commercial activities

Government agencies are required to submit annual management reports to Congress no later than 180 days after the end of the fiscal year. The management reports required by the Act are:

- A statement of financial position;
- A statement of operations;
- A statement of cash flow;
- A reconciliation to the budget report, if applicable;
- A statement on internal accounting and administrative control systems by the head of federal agencies, consistent with the requirements the Federal Managers' Financial Integrity Act (FMFIA) of 1982 (Public Law 97-255); and
- Any other comments and information necessary to inform Congress about the operations and financial condition of the corporation.

The Comptroller General of the United States can request that a federal agency provide him/her with all books, accounts, financial records, reports, files, working papers, and property belonging to or in use by that agency. Upon the completion of Comptroller General's evaluation of an agency's financial documentation, he/she will determine if an audit or review should be performed.

All agencies are to designate a Chief Financial Officer (CFO). The DoD CFO is the Under Secretary of Defense (Comptroller) (USD(C). The CFO is responsible for overseeing all financial activities and implemented CFO compliant systems.

DoD established the Defense Accounting and Finance Service (DFAS) to comply with the CFO Act. Established in January 1991, DFAS was charged with eliminating redundancy and reducing the cost of accounting and financial activities. Since 1991, accounting and finance systems have been reduced from 324 to 109, with a goal of 32 by the year 2003.

Government Performance and Results Act of 1993 (GPRA)

The GPRA was enacted in 1993 as Public Law 103-62. GPRA's thrust was to reform the federal government by requiring federal agencies to develop five-year strategic plans. In addition, federal agencies are required to submit annual performance reports outlining their success in meeting the standards and measures outlined in their annual performance plans.

Since 1998, agencies are now required to have five-year strategic plans for their respective organizations. Each plan must include a mission statement, general goals and objectives, and a description of how these goals and objectives are to be achieved, evaluated, and revised. Agencies are also required to submit annual performance plans to the OMB beginning in fiscal year 1999. These plans are intended to supplement the general guidelines of the strategic planning documents.

The focus of GPRA is to be on outcomes vice inputs. GPRA requires that agencies analyze how they spent their resources, not if they spent their resources in a fiscal year. This shift in focus is expected to yield more results-oriented approaches and instill confidence in the government. Competition amongst agencies will evolve, and those that are efficient will retain the support of the Congress.

Government Management Reform Act of 1994 (GMRA)

The GMRA of 1994 was enacted as Public Law 103-356 and was implemented to gain control of federal finances. The GMRA expanded the CFO Act and requires all 24 agencies to prepare annual audited financial statements. Moreover, the GMRA was created to provide a more effective and responsive government.

Highlights of the GMRA include the requirement for all federal wage, retirement and salary payments to be made by electronic funds transfer (EFT); and, the head of each agency is to submit an audited financial statement covering the prior year to the Director of OMB.

Federal Financial Management Improvement Act of 1996 (FFMIA)

The FFMIA of 1996 was enacted as Public Law 104-208, and its purpose is to improve federal accounting practices and enhance the government's ability to provide more reliable, useful financial information. It builds upon the CFO Act, GPRA and GMRA.

FFMIA mandated that each of the 24 major federal agencies and departments must report whether their agencies' financial management systems are in compliance with the Federal Financial Management Systems Requirements (FFMSR), Federal Accounting Standards (FAS), and the Standard General Ledger (SGL) at the transaction level.

As a result of the FFMIA, the Joint Financial Management Improvement Program (JFMIP) group authored the *Core Financial System Requirements* (JFMIP-SR-99-4 of February 1999). The emphasis of the JFMIP is on agencies complying

with the use of the SGL; that SGL usage is in accordance with the Federal Accounting Standards Advisory Board (FASAB) guidelines; budget reporting is in compliance with OMB A-11; and, all financial systems are maintained, have adequate security control and applicable system users are properly trained.

The United States Government Standard General Ledger (SGL)

The SGL will be used for all DoD accounting systems for all appropriations and funds. OMB Circular A-127 and the FFMIA of 1996 require the implementation of the SGL at the transaction level.

The SGL integrates budgetary (appropriated funds) and proprietary (financial) accounting systems. Budgetary accounts will cover the appropriation, apportionment, allocation, commitment, obligation and expenditure processes. The proprietary asset and liability accounts will cover the receipt of funds in the Treasury general fund, classification of assets (accounts receivable, inventory, fixed assets, etc.), and the recognition of liabilities. All resources acquired and used are to be recorded on the basis of financial transactions. Control over property through accounting records will enhance stewardship over government resources.

The SGL uses a 4 digit numbering system. The basic structure of the SGL follows:

1000 Assets
2000 Liabilities
3000 Equity
4000 Budgetary Accounts
5000 Revenues and Financing Sources
6000 Expense
7000 Gains, losses, extraordinary items
8000 Memorandum

The SGL is intended to be the minimum structure. Subsidiary accounts may be established to meet specific requirements and will be used as general ledger control accounts, containing the same structure (i.e., more or less detailed systems are not authorized). Single general ledger control will provide managers with reliable information and consistent accounting data.

OMB Circular A-76 Performance of Commercial Activities

OMB A-76 was implemented as administrative guidance to determine whether commercial activities (CA) should be performed under contract with commercial sources, or kept in-house using government facilities and personnel. It is based on the principle that the government should not compete with its citizens.

CA studies are done to determine whether some government functions should be outsourced or privatized. *Outsource* means to transfer the function from in-house to a commercial entity while the government still maintains oversight. *Privatization* means to fully transfer the functions and assets to the commercial entity, and the government does not maintain oversight.

Government functions that are deemed to be commercial in nature are considered for outsourcing. Functions that are deemed to be essential for proper functioning of the government and must be performed by government employees are considered to be "inherently governmental," or IG. IG functions may include the act of governing or approving monetary transactions. One example is that while a welder may be considered a commercial activity, a nuclear welder in a shipyard would be considered inherently governmental. Determining billets that are IG or non-IG is a difficult undertaking.

Prior to determining if a function should be outsourced, a comparison study must be initiated. It involves (brief overview):

1. Developing a Performance Work Statement (PWS)
2. Conducting a study to determine the government's Most Efficient Organization (MEO)
3. Developing an in-house government cost estimate
4. Issuing a Request for Proposal (RFP) or Invitation for Bid (IFB) to the private sector
5. Comparing the in-house cost estimate against the RFP or IFB
6. If the contractor's proposal is 10% lower than the government's estimate or $10M over the period of performance, the contractor will win the bid; if not, the MEO will perform the function
7. An administrative appeal process can occur

Chapter V: Budget Review

Overview

In this chapter, we will discuss the 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 in the following September 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 FMB review schedule follows.

Apr-May	Budget Guidance is issued
May-Jul	Exhibits are prepared and submitted
Jul-Aug	Exhibits are reviewed and analyzed
Jul-Aug	Hearings are conducted
Jul-Aug	Marks (adjustments) are recommended
Jul-Aug	Reclamas (appeals) are submitted and reviewed
Aug	Decisions are made
Aug	SECNAV presentation of the budget
Sep	DoN budget submitted to OSD/OMB

Figure 14 - FMB Review Schedule

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 proper pricing and executability of programs.

During this review, the Director of the Office of Budget (FMB) in the ASN(FM&C) office 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

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 the BSOs and Resource Sponsors. 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 or fund.[13]

Marks

After completing the review and analysis of the budget estimates contained in the submission, an Office of Budget (FMB) *mark* is prepared (if required) for each appropriation/fund or major sub-division thereof. The mark contains recommended adjustments to the budget estimates and the rationale for these adjustments. Marks will be prepared by the cognizant FMB budget analysts, issued by the appropriate division director, and posted to the web site for viewing and/or downloading electronically. Because of the schedule of events during the DoD Program/Budget review process, the decisions of the Secretary of Defense on the programs included in the DoN's POM are usually received while the DoN budget review is being conducted. Accordingly, these PDM decisions are addressed as part of the basic FMB mark review or by a subsequent mark review if the PDM is not received in time. Unless a reclama to the mark is submitted, these adjustments become final decisions.[14]

All changes made to the budget estimates are documented in marks. A markup package may be prepared for each appropriation/fund or major subdivision thereof in late July or early August. A specific schedule for mark distribution is published each year in a Budget Guidance (BG series) Memorandum. To reduce the number of marks, adjustments will generally be limited to issues of $1 million or more. Budget Analysts may include recommendations to make adjustments of less than $1 million when critical to correct justification material or address policy issues. After the markup packages are approved for release, they are posted to

[13] Budget Guidance Manual, April 1999 p.31
[14] Budget Guidance Manual, April 1999 p.31

the NHBS web site for viewing by all cognizant offices. Supplemental marks may be issued to cover PDM adjustments, Congressional actions, CNO/CMC/SECNAV directed changes, new pricing guidance, or any other action that occurred too late to be included in the initial mark.[15]

Review Criteria

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. What is seen as a "cushion" by the activity or program manager is seen by the DoN analyst 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.

Reclama Process

The *reclama* is the forum to address marks. If a reclama is submitted in response to a mark, the mark is considered tentative. If a reclama is not

[15] Budget Guidance Manual, April 1999 p.34

submitted, then the mark is final. BSOs are responsible for coordinating reclama responses.

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 mark, and correct any erroneous assumptions or errors. Issues outside of the mark should not be addressed, and only factual disagreements should be addressed. In other words*, emotions should remain off of the reclama*.

The issuing analyst resolves most marks. If required, the branch head or division head will resolve the issue. However, not all marks 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, Warfare Requirements and Assessments. The SECNAV has the final say on all marks 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. [16] 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, we no longer have a Navy budget, Air Force or Army budget – they are now *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).* The OSD/OMB review schedule follows.

[16] Budget Guidance Manual, April 1999 p. 37

Aug	Budget Guidance is issued
Sep	Exhibits are prepared
Sep-Oct	Exhibits are reviewed and analyzed
Sep-Oct	Hearings are conducted
Oct-Dec	Program Budget Decisions (PBD) are recommended
Oct-Dec	Reclamas (appeals) are submitted and reviewed
Nov-Dec	Decisions are made
Nov-Dec	Major Budget Issues (MBI) meetings are held to resolve outstanding issues
Dec	SECDEF discussion with President
Feb	President's budget submitted to Congress

Figure 15 - OSD/OMB Review Schedule

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., marks) 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.[17]

Reclamas will be drafted by the respective BSO and will be reviewed by FMB. The lead analyst will present the PBD reclama to FMB and it will then be forwarded to OSD/OMB. 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.

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

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 PresBud) submission to the Congress.[18]

Congressional Review Process

Per the Budget and Accounting Act of 1921, the President must submit his budget to the Congress not later than the first Monday in February. The Congressional review will occur from February through late September, or even into October.

The review of the President's budget by Congress is the process by which the legislators make decisions concerning the allocation of resources. During this process Congress may increase funding or decrease funding for many programs. The end results of the Congressional Review are the *Defense Authorizations Bill* and the *Defense Appropriations Bills*. The Defense Authorization Bill provides the legislative *authority* to establish or maintain programs. The Defense Appropriations Bills actually provide the *budget authority* to fund the defense programs. The appropriation bills, once approved by the House and Senate and signed by the President, give the DoD the authority to execute the budget.[19]

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

Chapter VI: Budget Execution

Overview

In this chapter, we will discuss various aspects of budget execution including property accounting and prompt payment requirements. What is execution? It is simply accomplishing the plan, i.e., properly spending the funds authorized by the Congress and accounting for those funds. When Congress enacts the appropriations, we are issued our budget authority via the chain of command. We will focus on how we are to properly execute our budget authority.

Major Players and Responsibilities

First, how do we get our budget authority after Congress passes the appropriations and the President signs them into law? Before it arrives at the Fund Administering Activity (FAA) level, the budget authority will flow down the chain of command where it will be apportioned and allocated. Multiple organizations are charged with proper fund control, therefore it is appropriate that we discuss the major players and their responsibilities.

Per 31 U.S. Code Section 1512, the Director of the Office of Management and Budget (OMB) is required to *apportion* funds to prevent obligations or expenditures. *Apportionment* begins at the Executive Branch (OMB), controlling the "flow (or release) of funds" and is designed to minimize deficiency or supplemental appropriations. Apportionment can be by time, activity or project. Hence, apportionment controls the amount of funds that can be obligated or expended at any time. An apportionment can be modified and is said to be a *reapportionment*. Annual appropriations are normally apportioned on a *quarterly basis*, and multiple year appropriations are normally apportioned on an *annual basis.*

The Secretary of Defense, per the National Security Act Amendment of 1949, is required to control the rate of obligations and prevent a deficiency situation. All requests for apportionment and reapportionment requests are to be submitted to the Undersecretary of Defense (Comptroller). Normally, apportionment requests from the components are submitted to USD(C) within 5 days after passage of the annual appropriations acts, or by mid-August (prior to 1 October) for multiple year appropriations with balances available for obligation.

In the Department of the Navy, the Comptroller of the Navy (ASN(FM&C)) is responsible for *allocating* funds to the Chief of Naval Operations and the Commandant of the Marine Corps. Other guidance on the apportionment process and budget execution is contained in *OMB Circular A-34* and the *DoD Directive 7200.1*.

Flow of Funds Overview

Let's walk through the flow of funds process beginning with passage of the budget legislation. Per the Budget and Impoundment Control Act of 1974, Congress is to pass 13 annual appropriations bills by 1 October. When signed by the President and passed into law, the Treasury issues an *appropriation warrant* to the Office of Management and Budget. An appropriation warrant is a document that establishes the amount of funds authorized to be withdrawn from the Treasury central accounts.

OMB apportions the appropriated funds to USD(C). USD(C) receives the apportionment and in turn *allocates* funds to each component. Upon receipt of the allocation (which is simply a "piece" of the appropriation), the component further allocates the funds to the Responsible Offices. *Allocation* is the mechanism by which funds are controlled below the appropriation level to ensure the intent of Congress is met. (Note: for PEOs/DRPMs the funds are allocated to AA(USN) then to the PEOs/DRPMs).

The Responsible Offices then allocate these funds to the Administering Offices, as applicable, and the Major Claimants. The Major Claimants receive their funding in the form of an Operating Budget or Allotment.

At this point Operating Budgets (OB) or Allotments (for procurement appropriations) are issued to subordinate commands. Operating Budgets and Allotments are *normally* levied with 31 U.S. Code 1517 (and section 1512) responsibility. Further subdivisions below the Operating Budget level such as an Operating Target, Allowance or Expense Limitation, are planning estimates; therefore, the grantor retains the 31 U.S. Code 1517 responsibility.

Antideficiency Act responsibility goes from the appropriation level down to the OB/Allotment level, *including apportionments and allocations*. The grantor of the fund authorization will determine if 31 U.S. Code 1517 responsibility will be levied and will specify such on the funding authorization document.

In the event the 31 U.S. Code 1517-responsibility "chain" is broken, it can't be resumed at a lower level of responsibility. For example, if CINCLANTFLT issued an Operating Budget to COMNAVSURFLANT (a subordinate activity or subclaimant) *without* 31 U.S. Code 1517 responsibility, COMNAVSURFLANT could <u>not</u> levy 1517 authority to a subordinate activity.

Flow of Funds – Program Budget Accounting System (PBAS)

Funds are distributed and controlled via the Program Budget and Accounting System (PBAS), which delivers Fund Authorization Documents (FADs) to activities' desktop computers. PBAS is an initiative under the Joint Financial

Management Improvement Program (JFMIP). In conjunction with DFAS, components are deploying a three-level standard funds control and distribution system from the Department level (Level 1), to the Headquarters level (Level 2), to the Major Claimant level (Level 3).

The PBAS will provide one fund-control system under general ledger control, interfacing with the Navy's Standard Accounting and Reporting System (STARS) and the Marine Corps' Standard Accounting and Budgeting Reporting System (SABRS). Beginning on 1 October 1998, funding allocations in the Navy were issued from PBAS from Level 1 to Level 2. Level 3 implementation occurred in the March 1999 timeframe. The following diagram is an example of the funding flow process discussed earlier.

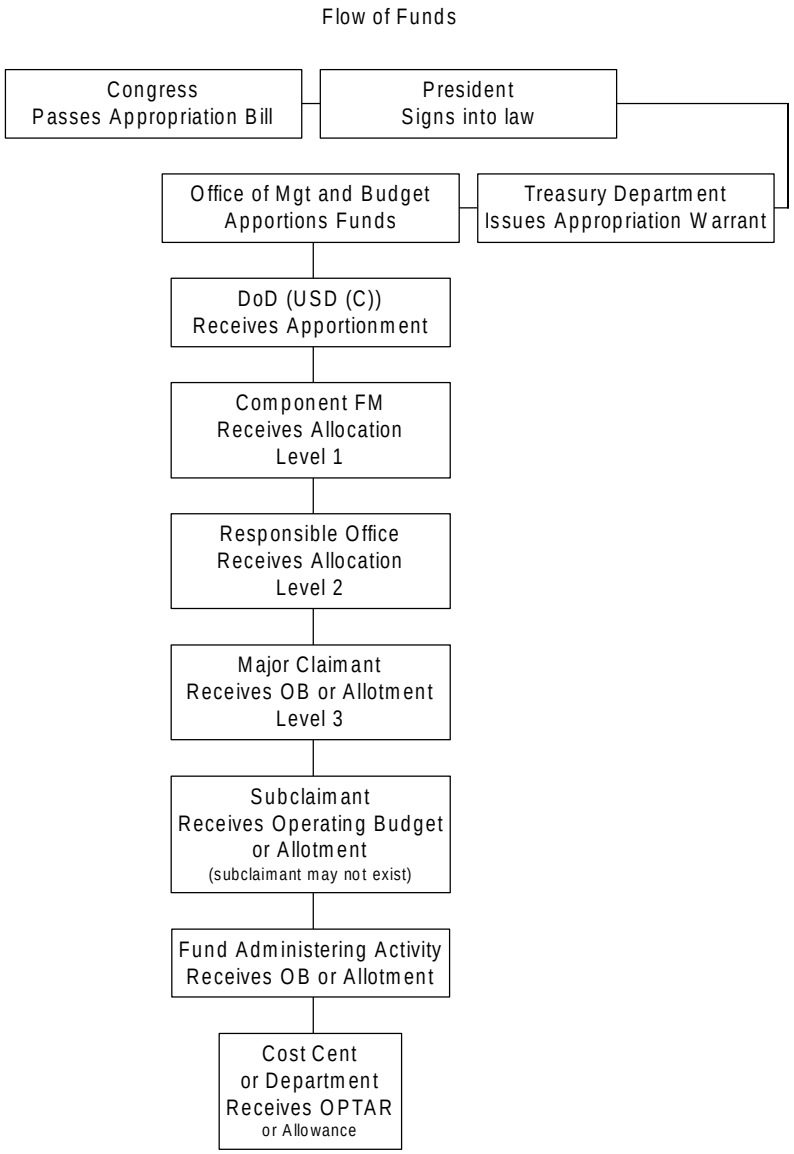


Figure 16 - Flow of Funds Example

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 in 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, and 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 CRA has not been enacted, the authority to incur obligations does <u>not</u> exist for appropriated fund activities!

Total Obligation Authority (TOA)

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 (pronounced "TOW-ah"). The third component of TOA is *reimbursable authority*. Reimbursables will be discussed in a later chapter, and are simply a lateral transfer of budget authority from one activity to another.

Budget Authority Limitations

In addition to the statutory requirements imposed by 31 U.S. Code sections 1517 and 1512 (Antideficiency Act), and section 31 U.S. Code 1301 (color of money), other limitations may be imposed. These are often in the forms of floors, ceilings or fences.

A floor is a minimum amount that must be spent, and is often imposed on the Operations and Maintenance appropriation for the maintenance of real property (MRP or RPM).

A ceiling is a maximum amount that can be spent, and is often imposed on travel and other expenses which are to be limited.

A fence is a protected amount of budget authority, and those funds can't be diverted from that program to another program. Examples of fenced funding are funding for child development centers and many quality of life programs.

Lastly, the DoD prohibits the expenditure of funds for entertainment. Unless the law specifically authorizes such expenditures, funds may not be used for any entertainment purposes.

Accounting Systems – General

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.[20] Congress delineates objectives for the DoD accounting systems, and core financial system requirements have been developed by the JFMIP (see JFMIP-SR-99-4 of February 1999 at the JFMIP web site). 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.

What is accounting? Accounting is the process of capturing, classifying and reporting financial transactions. The DoD has many different funding methodologies in the DoD 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

Let's step back prior to the establishment of the Defense Finance and Accounting Service (DFAS) in 1991. Each service and other defense agencies had their own unique accounting and finance (payroll) systems. The systems did not "talk" to each other, 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. Due to the plethora of nonstandard procedures and high costs, the DoD was directed to consolidate its accounting and finance operations.

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

What is the function of the Defense Finance and Accounting Service (DFAS)? The DFAS acts as a “clearinghouse” where expenditures (disbursements) are made and matched to liquidate outstanding obligations. The DFAS performs payroll functions, processes invoices, liquidates travel settlements, pays transportation bills of lading, and issues savings bonds. The DFAS operating locations (OPLOCs) maintain the official accounting records for the DoD.

In fiscal year 1992, the DFAS took over functions of 338 individual finance and accounting offices that belonged to the services and defense agencies. Now, the DoD accounting network exists of a headquarters, five service centers and twenty operating locations (OPLOCs). DFAS will be discussed in more detail in a subsequent section.

Accounting Terminology

Before we look at the accounting cycle and some of the DoD accounting systems, we will discuss some important accounting terminology.

Commitment: A firm **administrative reservation 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 is to reserve funds for future obligations.

Obligation: A **legal reservation of funds** or 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. *Obligations also include* outlays for which an obligation had not been previously recorded (unrecorded), and adjustments for the difference between a previously recorded obligation and the outlay that liquidated that obligation (an obligation adjustment).

Liquidated Obligation: An obligation that is matched with a matching expenditure. Matching expenditures liquidate obligations.

Unliquidated Obligations: Outstanding obligations without matching expenditures.

Gross Adjusted Obligations (GAO): The sum of all liquidated and unliquidated obligations. Subtracting the GAO from the funds authorized will provide an accurate balance of funds available for obligation.

Deobligation: A downward adjustment of previously recorded obligations. This may be attributable to cancellation of a project or contract, price revisions or corrections of amounts previously recorded as obligations.

Undelivered Orders: An undelivered order is any document, meeting the criteria of an obligation, issued for material or services *that has not been received* by the activity that ordered it. It is important to closely monitor undelivered orders as they represent a future expenditure (payment) of your funds. Outstanding obligation reviews are required on a regular basis.

An obligation can be both an outstanding obligation and an undelivered order when the order has been placed, but the material/service has not been received or paid for. When the material/service is received, it is still an outstanding obligation as it has not yet been liquidated by a matching expenditure.

The undelivered order (UDO) account in the budgetary accounting system is an important link between the budgetary and proprietary accounts.

Expense: An accounting transaction meeting the criteria of an obligation (liquidated or unliquidated), issued for material or services *that have been received*.

Expenses: The costs of operation and maintenance of activities on the accrual accounting basis. Expenses include, but are not limited to, the cost of: (1) civilian personnel services; (2) supplies and material consumed or applied; (3) travel and transportation of personnel; (4) rental of facilities and equipment; (5) equipment *(having a value of less than $100,000)* and (6) services received (purchased utilities, leased communications, printing and reproduction, and other). The cost of a minor construction project (APF) with a value of $500,000 or less is an expense.

Expenditure: An accounting term used to describe the liquidation of an obligation; either through the transfer of funds (i.e., O&M,N to DWCF) or the disbursement of funds from the U.S. Treasury.

Disbursement: A term used to describe the actual payment. This is often used interchangeably with expenditure.

Unmatched Disbursements: Disbursements that cannot be matched to existing obligations. Often called “UMDs” these fall within the big realm of Problem Disbursements.

Outlays: The amount of checks issued or other payments made, net of refunds and reimbursements. Outlay, expenditure and net disbursement are often used interchangeably. The Congress closely watches outlays, as they affect the debt or surplus.

Accounts Payable: Amounts due the public or other U.S. Government agencies for material and service received, wages earned, and fringe benefits unpaid.

Accounts Receivable: Amounts due from debtors on open accounts. Under appropriated funds, the amounts due from debtors for reimbursements earned or for appropriation refunds due.

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.

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.

The DoD Accounting Cycle

Let's look at some of the accounting terms in use. In the next table, we will look at a scenario of having a requirement through the receipt of the material/service, and eventually making the payment for such.

Event	Corresponding Terms
1. Requirement for material or service identified and purchase request is made	Commitment
2. Material ordered (contract signed)	Obligation, outstanding obligation, unliquidated obligation, undelivered order (no longer a commitment)
3. Material or service is received	Expense, accounts payable (no longer an undelivered order)
4. Pay for material or service, and match obligation and expenditure in the accounting system	Expenditure, outlay, disbursement (no longer an accounts payable or outstanding obligation)

Table 9 **- Accounting Cycle and Related Terminology**

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.

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. At this point is it also an outstanding obligation and an undelivered order as the obligation is not liquidated, nor has the material or service been received.

When the material or services are received, it is no longer an undelivered order but is still an outstanding obligation. Upon receipt an accounts payable (or expense) is posted.

Finally, when the invoice and purchase order are matched at the paying office (OPLOC), a disbursement of funds is made. Since payment was made, it is no longer an account payable and is no longer an outstanding obligation, as the *matching expenditure* has *liquidated* the obligation.

Let's look further and compare transaction postings between the budgetary and proprietary accounting systems. See table 10 for an overview. You can see that entries are not made in the proprietary accounts for commitments or obligations, but are made in the budgetary accounts. In the budgetary accounts, consumption is assumed upon receipt and entries are made to expense the funds regardless of when they are used or paid for. However, in the proprietary accounts the assets are normally capitalized and expensed when consumed, regardless of when they were acquired.

DoD Accounting Systems

Table 11 lists the DoD accounting systems in use today. The DoD accounting systems are classified as business fund, general fund, foreign military sales (FMS), nonappropriated fund (NAF), trust fund, departmental reporting or cash accountability.

Only the business and general fund systems will be listed in table 11 – the others are still under evaluation and development. The business fund systems support the Defense Working Capital Fund (DWCF) and are focused towards cost accounting, inventory management and billing. The general fund systems support the management of appropriated funds.

DFAS – DoD's Accounting and Finance Service

The Defense Finance and Accounting Service (DFAS) is the Defense Department's accounting and finance service. The DFAS was established 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:

- 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.

Transaction	When Order is Placed	When Material is Received	When Material is Consumed	When Bill is Paid
Order for materials is placed	Obligation is recorded as an undelivered order and a decrease to unobligated resources in the budgetary accounts			
Materials are received		Accounts payable and increase to inventory accounts are posted to the proprietary accounts. It is a decrease to undelivered orders and an increase to accrued expenditures unpaid in the budgetary accounts.		
Material is consumed			The cost is recorded as a decrease in inventory and a charge to an expense account for the proprietary accounts.	
Payment is made				Disbursement is recorded as a reduction to accounts payable and reduction of cash in proprietary accounts. In budgetary accounts it is a decrease to accrued expenditures unpaid and an increase to accrued expenditures paid.

Table 10 **- Overview of Postings for Budgetary and Proprietary Accounting Systems**[21]

[21] DoD FMR, Volume 4 Chapter 19 p. 423

System	Miscellaneous Information
Defense Industrial Financial Management System (DIFMS)	Aviation depot and one R&D lab accounting. Interfaces with DCPS.
Material Financial Control System (MFCS)	Navy wholesale supply management; provides accounting and logistics support.
Industrial Fund Accounting System (IFAS)	Information processing activity group accounting
Commercial Off the Shelf Software (COTS)	Purchased by DFAS for use at Public Works Centers and Defense Automated Printing Service (DAPS)
Base Operation Supply System (BOSS)	Contract, supply and accounting for the DLA
Defense Business Management System (DBMS)	Accounting, payroll and personnel support for DWCF activities including NAVSUP, DeCA, AFLC, DCAA, DLA and DFAS
Defense Integrated Subsistence Management System (DISMS)	DLA wholesale supply support for subsistence
Standard Automated Material Management System (SAMMS)	Supports the DLA wholesale supply activity group for construction, electronics, medical, clothing and textile
Fuel Accounting System (FAS)	COTS program to replace DFAMS, supporting the DLA fuels supply management
Financial Inventory Accounting & Billing System (FIABS)	Supports AF wholesale supply management, eventual support for USMC wholesale and retail requirements
Standard Material Accounting System (SMAS)	Supports AF retail supply management for troop support, medical, fuel and base retail sales; AF WCF support
Depot Maintenance System	AF depot management system under development
Standard Industrial Fund System (SIFS)	USA depot maintenance accounting support, component of USA AMCIS
Commodity Command Standard System (CCSS)	USA wholesale supply management and ammunition working capital fund
Standard Army Financial Inventory Accounting and Reporting System Modernization (STARFIARS-MOD)	USA retail supply management
Standard Accounting and Reporting System (STARS)	**DoN** general fund accounting and bill payment support; field level, headquarters, one bill pay, funds distribution and departmental reporting subsystems
Standard Accounting Budgeting and Reporting System (SABRS)	**USMC** field level accounting; travel, labor, reimbursable, plant property, execution
Corps of Engineers Financial Management System (CEFMS)	USA Corps of Engineers for military and civil-funded business practices

Table 11 **- Business and General Fund Accounting Systems**[22]

[22] DFAS Accounting Systems Strategic Plan, <http://www.dfas.mil>

In December 1992, DFAS took over responsibility for 338-installation 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 operating locations (OPLOCs). The five centers are former accounting and finance activities that are *organized along service (component) lines*. Personnel have also been reduced from 31,000 in 1992 to the current level of 20,000. The current DFAS organization is shown below.

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

DFAS has consolidated and standardized finance and accounting systems from 324 in fiscal 1991 to 109 in fiscal 1998. By fiscal 2003, DFAS will further reduce the number of DoD finance and accounting systems to 9 and 23, respectively.

DFAS assumed responsibility for 324 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 policy which varied amongst 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 established a plan for each of the finance functions in fiscal year 1992. This plan identified a single migration system by functional area to perform pay and entitlement applications. During the first phase of consolidation, DFAS began, and has now almost completed, implementation of standard systems for military retiree and annuitant pay; military active duty, guard and reserve pay; civilian pay; and out-of-service debt. *Sixty systems (47 percent) have been eliminated with plans to reduce to only nine finance applications in the near future.* Some examples of migratory systems in use today include Defense Civilian Payroll System (DCPS); Defense Joint Military Pay System (DJMS) and Marine Corps Total Forces System (MCTFS); Defense Retiree and Annuitant Pay System (DRAS); Defense Transportation Payment System (DTRS); Defense

Debt Management System (DDMS); and the Mechanization of Contract Administration Services (MOCAS), soon to be replaced by the Defense Procurement Payment System (DPPS) and the Standard Procurement System (SPS).

DFAS accounting systems impact over 100,000 on-line users and every financial manager and decision-maker in the DoD. Accounting systems were customized by the military departments and defense agencies to support the unique business philosophy and practices existent at thousands of sites. The primary purpose of the accounting systems developed by the military departments and defense agencies was to support fund control of appropriated funds, budget execution and reporting requirements. The size and diversity of the population supported made the user community "buy in" difficult and controversial. Many of the older systems did not have standard general ledgers, and consequently none of the systems had the capacity to prepare financial statements that can receive an *unqualified opinion* from an independent audit organization. Hence, DFAS took charge and used selective migratory systems that are listed in Table 11.

DFAS does big business. On the business end for the FY ending 1998, DFAS processes a **monthly average** of 9.8 million payments to DoD personnel; 1.2 million commercial invoices; 450,000 travel vouchers/settlements; 500,000 savings bonds issuances; and 122,000 transportation bills of lading. The agency's monthly disbursements total approximately $24 billion.[23]

The Line of Accounting

Now that we've talked about some of the accounting terminology, 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 code is preceded by the Accounting Classification Reference Number (ACRN). The following is an example of a Navy line of accounting:

AA 1711804 0000 026 63400 3 063340 1D 000151 63580470500E

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

[23] DFAS Overview, <http://www.dfas.mil>

Department Code	**17**	**2 or 4 digit code identifying the military department or agency receiving the appropriation. 17 is Navy, 21 is Army. Also called Department/Agency Code.**
Fiscal Year	**1**	1 position code that designated 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.

Table 12 - Line of Accounting Breakdown

The first seven positions (1711804) comprise the appropriation; it is not only made of the appropriation symbol but requires the fiscal year and department.

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

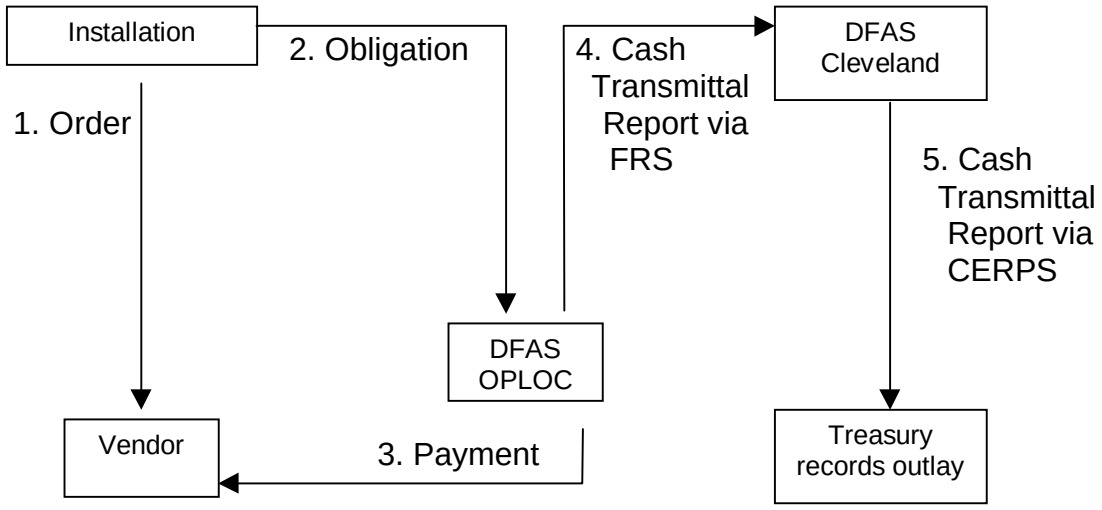
Element Definitions." For guidance on Standard Document Numbers, see DFAS-CL instruction 7200.1 of 14 July 1997, available at the FMO web site.

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.

Financial Reporting of Transactions

We will now walk through an abbreviated scenario from the inception of the requirement, through the accounting system, and see how the eventual disbursement is recorded against the Treasury general fund as an outlay.



When the order is placed with the vendor, the obligation (using the SDN and line of accounting) is transmitted to the servicing OPLOC. Upon completion of the receipt and acceptance process at the installation, the dealer's invoice and purchase order will be forwarded to the OPLOC, and the OPLOC will make payment to the vendor. The OPLOC will transmit the disbursement amount to the applicable DFAS Center (in this example, DFAS-CL) via the Financial Reporting System (FRS). The DFAS Center will then report the disbursement to

the Treasury via the Centralized Expenditure and Reimbursement Processing System (CERPS).

The servicing OPLOC will send execution reports to the installation as well as the installation's major claimant and ASN(FM&C). These reports will aid in monitoring the status of funds at the appropriation level.

When the Accounting Cycle Goes Awry

Occasionally obligations can't be matched with expenditures, or may be only partially matched. These conditions contribute to what are called Problem Disbursements (PDs). Within the realm of PDs, we will discuss 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 OPLOC). Account reconciliation should be conducted continuously, and DoD/DoN policy is to research and correct any potential transaction errors.

<u>For Current and Expired Accounts</u>. 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 window is considered to 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 shall 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!

Legislation Changes Affecting Accounting

Congress realized that the DoD had billions in unmatched disbursements and has made some changes to laws that impact how the DoD does business. The "M" Account was eliminated, the CFO Act was enacted (discussed earlier) and prevalidation requirements were set.

"M" Account. Effective in fiscal year 1993 per Public Law 101-510, the "M" (or Merged) Account was eliminated, and the expenditure period was changed from two years to five years for all appropriations. After the expenditure period, any remaining balances would be canceled.

What is the "M" Account? The DoD "M" Account was a large pot of merged appropriations made up of unliquidated balances, and when merged lost their fiscal year identity.

How did the "M" account come about? It happened due to a lack of aggressive account reconciliation efforts and failure to properly liquidate outstanding

obligations. From 1972 to 1988, the “M” account had accumulated over $15 billion and was used as a clearinghouse for liquidating obligations. However, when the Congress canceled the “M” account, it revealed that numerous appropriation accounts were overexpended and the DoD required better methods of matching expenditures to obligations.

Prevalidation. The DoD Appropriations Act of 1995 required the DoD to validate that an obligation existed prior to making 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.

Important Budget Execution Pulse Points

Throughout the year of execution, it is important to monitor important pulse points such as the obligation and expenditure rates. By doing this, you are gauging your actual performance against your plan, i.e., the budget.

You should always be performing an outstanding obligation validation, ensuring that all outstanding obligations are in fact valid. Transactions such as cancellations in a obligation status should be corrected. Overaged commitments should be researched and a determination made if they should be obligations or the commitment should be cancelled. Receipts should not be shown as still in an obligation status.

The obligation rate is determined by dividing the obligations by the funds authorized. Your obligation rate, expressed as a percentage, should be tracking with the goals set by USD(C). The DoD Comptroller is required to set obligation rules per 10 U.S. Code section 2204. If you are under-executing, it appears that you are over-funded or are not properly managing your funds.

The expenditure rate is determined by dividing the expenditures by the funds authorized. Your 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.

At the midpoint of the fiscal year (i.e., in the February to April timeframe), a midyear review is conducted to ensure current funding levels are adequate. If you are underexecuting, you face the possibility of losing some funding. Perhaps you may receive some funding for your unfunded requirements, or you may receive any funds that may be held in reserve. All appropriations and the working capital funds have a midyear review.

The following table shows a few appropriations and their respective obligation and expenditure rates. These rates apply for FY99, but remain relatively constant from year-to-year. The first line lists the obligation rates and the second line lists the expenditure rates. You can see that the annual appropriations have much faster outlay rates than the investment appropriations.

Appropriation	**BY**	**BY+1**	**BY+2**	**BY+3**	**BY+4**	**BY+5**
O&MN	100%					
	81.6%	13.9%	3.3%	.6%	.3%	.2%
MPN	100%					
	96%	3.4%	.3%	.1%	.1%	
R&D	94%	6%				
	60.6%	32.9%	4.5%	.1%	.3%	.2%
APN	78%	15%	7%			
	16%	38.5%	31.8%	6.4%	3.7%	2%
SCN	63%	14%	9%	9%	5%	
	7.1%	17%	21.3%	18.7%	10.8%	5.1%

Table 13 **- Obligation and Expenditure Rates**

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 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.

Prompt Payment Act (PPA)

The Prompt Payment Act (Public Law 97-177) was signed into law by Ronald Reagan 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

Let's look closer at the requirements above. Normally an invoice is attached to the goods or it may be mailed. We have 7 days to contact the contractor in the event we do not receive an invoice 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, we 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 (OPLOC). 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.

Let's look at some examples of when the interest payment date commences.

- 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 we 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, we must add 7 days to the receipt of the goods date and use the constructive acceptance date.

Property Accounting

We are not only charged with safeguarding funds, but are charged with accountability over the assets procured with the taxpayers' dollars. As delineated by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, Title 10 U.S. Code section 2721, and the Federal Accounting Standards Advisory Board, federal agencies are 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 disposition.

In this section we will discuss plant property and minor property. We will not discuss military hardware, ships or weapons – those are classified separately. Plant property and minor property require controls, but the application and extent of the controls are different for each classification. You may have guessed that the expense/investment threshold determines whether an item is classified as plant property or minor property; that is one factor. The other factor is a useful life of two years or greater, and along with the $100,000 expense/investment threshold will determine if an item is classified as plant or minor property.

Plant Property

Plant Property. Plant property has four classes and is known as *real* or *personal* property. Real property pertains to land and buildings (classes 1 and 2) and personal property pertains to equipment (classes 3 and 4).

To be classified as plant property, the acquisition value must equal or exceed the current investment threshold ($100,000) and have a useful life of 2 years or greater. Therefore, items bought when the investment threshold was $50,000 in 1994 will be reverted to minor property. Also, if an item such as a sonobuoy was acquired at a cost of $125,000 but has a useful life of only 8 months, it would be classified as minor property. Let's review the four classes of plant property.

Class 1 plant property is comprised of DoD-owned land exclusive of improvements, and land acquired for water rights. Class 1 plant property will be inventoried at least every 5 years, and is non-depreciable.

Class 2 plant property is comprised of real property improvements such as buildings, construction-in-progress, utilities, fences, roadways, sidewalks and bridges. It also includes items that would otherwise be classified as equipment (classes 3 or 4) but are an integral part of the structure. Class 2 plant property will be inventoried at least every 5 years.

The Navy accounts for both Class 1 and Class 2 plant property using the Navy Facilities Asset Data Base (NFADB). Engineering Field Divisions (EFDs) normally account for these classes.

Class 3 plant property is comprised of equipment other than industrial plant equipment (IPE, or Class 4 plant property). The equipment must have an acquisition value of $100,000 or greater and a useful life of 2 years or more. Examples would include a local area network and a magnetic resonance imager (MRI). Class 3 plant property must be inventoried at least every 3 years and is reconciled against the records held by the servicing OPLOC.

Class 4 plant property is comprised of industrial plant equipment (IPE). Generally, all items in Federal Supply Group 34 are included, and special tooling and testing equipment are included, as well. The Defense Supply Center (DSC) Richmond centrally controls class 4 plant property acquisitions and disposition. Class 4 plant property must be inventoried at least every 3 years and is reconciled against the records held by the servicing OPLOC. Lastly, a perpetual inventory option exists for both Class 3 and 4 equipment, where a certain number of items are inventoried every month over the course of a 3 year period.

Minor Property

Minor Property. Minor property is defined as personal property acquired for immediate use and having a unit cost of less than the current investment threshold of $100,000. Minor property also includes those personal property items having an acquisition cost equal to or greater than the investment threshold, but with a useful life of *less than* two years. Minor property is normally classified into classified equipment, sensitive equipment, pilferable equipment, or furniture and fixtures.

A formal control system (such as the controls for plant property) is not designated for minor property; however, adequate controls and reasonable assurance towards safeguarding these assets must be in place. Navy activities designate *a minor property administrator* at the activity level, and *responsible officers* who maintain the custody and control of the minor property. A database of the minor property must be maintained, and should contain the following:

- Pilferable items costing $100 to $100,000
- All classified or sensitive items costing less than $100,000
- All minor property items costing $2,500 to $100,000 including furniture, fixtures and office equipment
- Items designated by the commanding officer or commander.

Minor property items are to be tagged and identified with a unique control number. Minor property must be inventoried at least every 3 years and reconciled with the local minor property administrator. Inventories are also required when responsible officers change.

Defense Property Accountability System (DPAS)

In 1993, DoD property accounting was identified as one of DoD's five high-risk areas. The 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, barcode inventory capabilities and warranty information. Information may be obtained at the following web site: http://www.dpasweb1.day.disa.mil/webdpas/dphome2.htm.

Chapter VII: Civilian Personnel: From a Cost Perspective

Overview

In this section we will discuss the categories of civil service personnel and cost drivers, i.e., retirement benefits, leave, disability payments and health care benefits. Labor is typically the largest cost in any activity and the financial manager must understand these costs.

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). We will discuss the key points of each in general terms.

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 conducting trials 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 (nonsupervisory 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.[24]

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

We will discuss 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 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.

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.

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

Holiday Pay. 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. Additional, optional insurance may be purchased by employees, 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. We will focus on overtime pay in our discussion.

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 work week. 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.[25] Simply stated, if the employee's basic pay exceeds that of a GS-10 step 1, then he/she will be paid 150% of the GS-10 step 1 basic pay as opposed to 150% of his/her own pay.

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

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.[26]

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.

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

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

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. VSIP costs are paid for by the separating activity.

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 age 50 with 20 years of service, or 25 years of service without any age restriction.

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 <u>not</u> include overtime, compensatory time or leave without pay.

This is a simple 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, but 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.[27] 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 OPM.

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

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

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 we will discuss each one below.

Reduction-in-Force (RIF). 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, this process will result in increased costs to the activity in the near term. 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.

Lump Sum Leave Payments. 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.
- When establishing a grade level for a position, grade to the work not the person.
- 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 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 saving 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 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.
- Cancel career promotions. Under extreme situations the Commanding Officer could seek to cancel career promotions. However, this could have a significant effect on morale and retention. The monetary gains should be closely weighed against the problems this may create.

Chapter VIII: Reimbursables and Interservice Support Agreements

Overview

In this section we will discuss reimbursable support agreements, and the two major types of reimbursable documents: the Project Order and the Economy Act Order.

Reimbursable Situations – What are They?

What is a reimbursable situation? It is when an activity requires support from another activity, and the activity does not have the in-house expertise or assets to provide itself with the goods or services that it requires (e.g., utilities, janitorial services, communications, or specialized technical work). One simple example of a reimbursable situation is an activity renting vehicles from a Public Works Center. Revolving funds or Working Capital Funds, is another example of reimbursable situations.

A reimbursable situation has a customer – provider relationship. The *provider* must determine if the reimbursable request is acceptable, will compute the basis for support, and will ascertain whether the support requested is within its capabilities. The "51% rule" applies; meaning that the majority of the work will be performed in-house using in-house resources.

The requiring activity (customer) may issue a reimbursable work order to another activity *outside of its claimancy* (provider) for the desired goods or services. Note that reimbursable funding documents are <u>not</u> to be issued to activities within the same claimancy – the major claimant should adjust the activities' budgets accordingly.

So when is it appropriate to enter into a reimbursable situation? 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.[28] Indirect costs are <u>not</u> 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.

[28] <u>DoDI 4000.19</u> 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 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. First we will discuss the types of support documents and the Support Agreement.

Interservice Support. Interservice support is support within the Department of Defense. The head of the supplying activity will make the determination of acceptability for entering into an interservice reimbursable situation.

Intragovernmental Support. Intragovernmental support is support 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.

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.[29]

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.[30]

Broad areas of recurring interservice and intragovernmental *support not requiring reimbursement* should be documented with a MOA or MOU, as applicable. *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.[31]

[29] DoDI 4000.19 of August 1995
[30] DoDI 4000.19 of August 1995
[31] DoDI 4000.19 of August 1995

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.

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).

We will now discuss the Project Order and Economy Act Order. The Project Order is similar to a contract, and the Economy Act Order is used for routine, recurring services. The documents to execute the reimbursable order will follow the discussion of these orders.

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 and if work begins in the year of issuance. RDT&EN funds can not be used to fund a Project Order (this is unique to the Navy).

Project Orders may be issued under a fixed price or cost reimbursement basis. Work should commence within a "reasonable" amount of time upon acceptance of the order, and that is normally within 90 days. *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 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.[32] *Severable* tasks would include custodial services, trash removal, routine maintenance, training, or a level of effort contract (i.e., 100 hours).

[32] DoDI 4000.19 of August 1995

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.

EAOs are issued each year, as the funds expire with the appropriation (remember, the same rules apply as the appropriation funding the EAO). The 51% rule applies for Economy Act Orders, as well.

Request for Contractual Procurement (RCP)

A Request for Contractual Procurement (RCP) is <u>not</u> a reimbursable, as it is not incorporated into the accounting records of the contracting or performing activity. A RCP is simply a direct cite of the customer's accounting data. 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). We will now discuss the funding documents used in reimbursable situations.

NAVCOMPT Form 2275

The NAVCOMPT Form 2275 may be used as either a Project Order or Economy Act Order, and is used amongst Navy activities (i.e., Navy to Navy, or 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, Economy Act Order, Request for Contractual Procurement or a combination of the three. Again, a RCP is not a reimbursable. For this discussion, the NAVCOMPT Form 2276A will not be discussed.

Overview of the Reimbursable Accounting Cycle

The requesting activity initiates the process by submitting a reimbursable work order. Depending on the nature of the work to be performed and the parties involved, the reimbursable order may be issued as a Project Order (PO) or an Economy Act Order (EAO).

An Order for Work or Services (NAVCOMPT Form 2275) is used to issue POs and EAOs within the Navy, and a Military Interdepartmental Purchase Request (MIPR) (DD Form 448) is used between Services. 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. That is, the performing activity cannot simply contract out the work requested.

If the supplier determines that it can perform the work requested without degrading its own mission accomplishment in accordance with the conditions above, it accepts the reimbursable order and forwards the acceptance to the requester within five days after the receipt of the order. *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. OPLOC) 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 a job order number and a reimbursable account. As work is performed, the performing activity consumes its own resources then seeks reimbursement from the receiver. The performing activity charges these costs against the appropriate Job Order Number 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. The following illustrates the reimbursable accounting cycle.

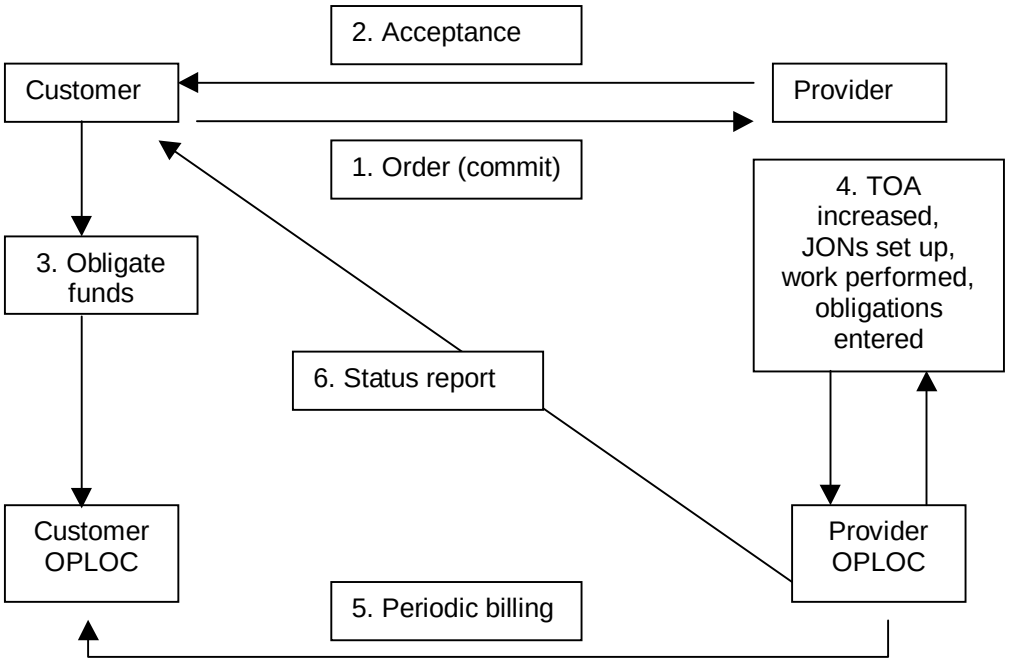


Figure 17 - Reimbursable Accounting Cycle

Chapter IX: Unit Cost and the Working Capital Fund

Overview

In this chapter we will discuss the concept of unit cost, as all activities in the Working Capital Fund (WCF) operate under the unit cost concept. We will also discuss the history of the Working Capital Fund, the former Defense Business Operations Fund (DBOF) and the relationships between the WCF and appropriated funded customers (APF).

Unit Cost

Before we discuss Working Capital Funds, we must understand the concept of unit cost. What is unit cost? The concept of unit cost is simply 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. As we later discuss the WCF, you will see that the providing activity influences the numerator (costs) while the customer influences the denominator (output, or demand). Because both costs and output (demand) can vary, the dynamics of the WCF are complex.

Unit cost is a tool to provide visibility of all costs. Both the customer and provider are aware of all cost elements, including overhead. All costs are identified for an output and by allocating the costs over that output, the budget execution portion can be tied to a mission. This contrasts with appropriated fund execution, where the focus is on fully obligating (spending) and expending the funds.

For unit cost, the *output* must be identified. It must be measurable and able to be separated from other outputs so costs are easily allocated. Outputs can be a product or a service, such as a direct labor hour. The majority of outputs in the WCF are services as opposed to a manufactured product. Some other output examples are passengers transported, pay records processed or CPU hours used.

Cost Elements

We will discuss the cost elements, keeping in mind that all costs are visible in the Working Capital Fund. This includes direct costs, indirect costs, and general and administrative (G&A) costs.

Direct costs are directly attributable to the end product or output. An example would be direct labor used to overhaul an aircraft engine. Direct costs are allocated over all 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 multiple product lines is an indirect labor cost. Indirect material would be material of minimal cost, is a part of the end product, but is not economical to account for on an individual basis. Indirect costs are referred to as overhead costs.

General and administrative (G&A) 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, salaries of staff personnel (comptroller, purchasing, etc.).

Variable costs are direct and indirect costs that vary with the workload. Labor and material costs would normally change with a change in workload; a 20% increase in workload would normally increase variable costs by the same amount.

Fixed costs are costs that remain the same and are not affected by variations in workload. An example of a fixed cost is rent. G&A costs may be categorized as either fixed or variable costs. Some may argue that labor costs are fixed; if the workload decreases, invoice-processing personnel would still be paid. However, these labor costs are fixed in the short term.

Caution must be used in categorizing costs as either fixed or variable. The tendency is to treat many costs as variable. Over the long haul costs are considered variable – LWOP can be imposed, or activities can be closed. But in the short run (i.e., a fiscal year) some costs are fixed in nature. These costs must be incurred regardless of the workload; therefore, as workload fluctuates downward the activity may not be able to cover its fixed costs.

By understand the costs, or cost drivers, managers can determine and understand the unit cost of an output, such as the cost per direct labor hour to overhaul a motor. Decisions can be made regarding labor and material costs, resulting in better products and services at competitive prices.

Unit Cost Goal

The unit cost goal (UCG) is used in the DoD to evaluate and monitor WCF activities' performance. The UCG is on a "per unit" output, such as a direct labor hour or a per unit shipped basis. UCGs are issued in the Annual Operating Budget (AOB) and are to be used to monitor costs.

WORKING CAPITAL FUNDS Air Force Depot Maintenance Fiscal Year 2001 Cost Authority			
BUSINESS AREA **Output Measure**	**OPERATING BUDGET**		
	Unit Cost ($)	Number of Units (000)	Total Cost Approved (in Millions)
OPERATING BUDGET			
ORGANIC Maintenance Cost Per Direct Labor Hour	$111.00	29,657	$3,291.9
CONTRACT Maintenance			$1,187.5
Direct Reimburables/Other:	N/A	N/A	$0.0
Total Operating Cost: 2/ 3/			$4,479.4
CAPITAL OBLIGATION AUTHORITY: 4/			
FY 1998 (AFMC)			$0.4
FY 1999 (AFMC)			$0.1
FY 2000 (AFMC)			$1.6
FY 2001 (AFMC)			$40.3
NET OPERATING RESULT: (NOR GOAL) 5/			-$93.9
Authorization Number: AFDM-01-2	Date:	Approved:	

The estimated level of workload will drive the unit cost goal. The UCG is the *maximum allowable cost* that can be incurred; it is a target or goal. Total output times the unit cost goal equals the total costs allowed; conversely, total costs allowed divided by the total output equals the unit cost goal. The unit cost goal is oriented towards the *total output*, since an individual product or service could

exceed the unit cost goal --- a special requirement may be encountered for a job and result in a unique, one-time increase in cost.

When we later discuss the activity groups (how different business functions are categorized), you will see how the UCG is used to monitor the overall performance of all of the activities within each activity group. The activity group's achievement of the goal is measured based on *total costs compared to the total output*.

The unit cost goal and the unit cost are not the same. The unit cost is the *actual costs divided by the actual output*; the unit cost goal is the target issued in the AOB, is different for each activity group within each component, and is used to monitor costs. And, the unit cost goal and rates are not the same. The rates include adjustments for prior year losses or gains.

Let's look at the Defense Logistics Agency (DLA) distribution depots and the unit cost goal. They receive, store and issue over 30 million items ranging in size and quantity. Some items require specialized shipping, security or containers. The cost of handling each of these varies, of course. But with a huge workload, trying to ratchet down a unit cost for each item would be impossible. So for budgeting purposes, a unit cost goal of $28 could be established for each item received and issued, and this is the *target* for the amount of costs to be incurred for receiving or issuing an item. This unit cost goal would be a *composite* of approximately 40 separate processing and storage costs that are actually incurred.[33] At any point in time, DLA could take their actual costs incurred for distribution and divide those costs by the number of items received and issued, coming up with an average unit cost. They could then compare the average unit cost to the unit cost goal and see how they are tracking, ultimately identifying any events that may have increased the overall cost.

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 (i.e., DLA for distribution depots, NAVSEA for shipyards, NAVSUP for inventory control points, NAVAIR for aviation depots, etc.)

[33] Unit Cost Basic Course, Defense Finance and Accounting Service, October 1997

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.

The Defense Business Operations Fund (DBOF)

Before we talk about the existing Working Capital Funds, it is appropriate that we discuss the Defense Business Operations Fund (DBOF), the predecessor of the WCF.

The DBOF and the WCF are *revolving funds*. 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 the establishment of the DBOF in fiscal year 1992, each component had its own stock fund and industrial fund. Stock funds finance supplies, subsistence items, fuel, clothing and repair parts. Industrial funds finance the costs of services for shipyards, research and development activities, public works centers, depot maintenance activities and printing services. DoD consolidated all of the individual stock and industrial funds into the DBOF, which was created to foster a more business-like environment and focus on controlling costs.

When the DBOF was created, the DoD Comptroller (USD(C)) was responsible for its policies and procedures, as well as centralized cash management. Due to

Congressional interest and oversight, plus some misconceptions (i.e., “business” meant profit-oriented, leading some to believe that DoD could operate like a private entity) the OSD Comptroller abolished the DBOF and created the Defense Working Capital Fund in fiscal year 1997. Four defense working capital funds were created:

- Army Working Capital Fund
- Navy Working Capital Fund
- Air Force Working Capital Fund
- Defense-wide Working Capital Fund (in FY99, the Defense Commissary Agency (DeCA) was put into its own working capital fund and removed from this fund)

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

The DWCF (a.k.a. WCF) is a funding mechanism to control the costs of goods and services. It is designed to furnish service providers with proper management tools to manage costs, and provide cost visibility to customers. As opposed to fully obligating appropriated funds before they expire, WCF activities operate under the premise of controlling costs and balancing costs with revenues.

The WCF encourages management to coordinate labor and inventories with workload, budget and cost control. It encourages cross-service support amongst the components and will aid in getting the most "bang for the buck."

The WCF forces providers to look forward and accurately estimate their financial requirements, knowing they are dependent upon reimbursements from customers. Accurate predictions of workload will ultimately affect the rate determination process.

Annual stabilized rates provide customers the ability to accurately forecast their budgets. Rates remain stable upon acceptance of the order and remain the same, regardless of when the work is actually performed. In theory, revenues and expenses are to equal during execution, yielding the Net Operating Result (NOR). We are not to make a profit or loss; however, the dynamics of the process make attaining a NOR of zero virtually impossible.

Lastly, the customer drives the requirements and workload, ultimately determining the prices that will be charged. Competition and a sense of responsibility are instilled.

Requirements for the Defense Working Capital Funds

Before we discuss the WCF and the different activity groups, we will look at some of its requirements and general policies.

What are the requirements to be in the Working Capital Funds? First, you must have an identifiable product or service; second, you must have customers that will buy your product or service; lastly, you must have a cost accounting system to provide total cost visibility. One of the key tenets of the WCF is the *customer – provider relationship*.

The DWCF consists of activity groups managed by the DoD components, of which many activity groups cut across the various components. WCF activities provide goods and services on a reimbursable basis (customer – provider relationship). The DWCF treasury symbol for the fund is 97X4930, with "X" meaning "no-year" funds, i.e., no fiscal year limitation.

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.

For the purpose of rate setting, two business areas exist: the *Supply Management* business area and the *Non-Supply Management* business area. You probably guessed that the "Non-Supply" area is comprised of the industrial activities. The Supply Management business area receives *contract authority*, which permits obligations to be incurred in advance of appropriations or in advance of customer orders. Contract authority is required so assets are "on the shelves" and held in inventory until issued to customers.

All other WCF obligations (i.e., for the Non-Supply Management business area) must be supported by budgetary resources that are immediately available for outlay even though the outlay may not occur until a future date.[34] In other words, the vast majority of the WCF Non-Supply business area customers are appropriated fund customers who will place orders with the WCF activities via reimbursable documents. (Remember: the receipt and acceptance of customer orders provides the cost authority, i.e., the authority to incur cost in the performance of work.) Federal government customers will *obligate* funds to provide the required budgetary resources. For non-federal customers, cash advances must be provided.

The Supply Management business area recovers its costs through a "cost recovery factor" which is often called a "surcharge." Non-Supply Management business areas recover their costs on unit cost rates, i.e., often the cost per direct labor hour. We will discuss the rate setting processes shortly.

All WCF activities operate to break even over the long term and budget to an Accumulated Operating Result (AOR) of zero. The AOR is the sum of the NORs. WCF activities, *with the exception of aviation depot and shipyards*, charge *annual, stabilized rates*. Rates are to be established on the basis of the *output* rather than on the basis of the processes or inputs used to achieve the desired output. *Rates will cover the full cost of the products or services, including any prior year losses or gains*. The budget process is the mechanism used to ensure that adequate resources are budgeted in the customer accounts.[35] Recall that appropriated fund customers budget for WCF goods and services, identifying those costs by using the applicable elements of expense on the OP-32.

[34] FMR, Volume 11B Chapter 50, p. 50-1
[35] FMR, Volume 11B Chapter 50, p. 50-2

Activities are to have 7 to 10 days of operating cash and 4 to 6 months of capital outlays. Solvency must be maintained, and overall cash management is maintained at the component level.

The same statutory restrictions and limitations imposed on appropriated funds apply when dealing with the WCF. In other words, it is **illegal** for an appropriated fund customer to attempt to extend the availability of an appropriation by placing an order with a WCF activity; the funds cited on the reimbursable document are available only for the *bona fide needs* of that appropriation and for that time.

Structure of the Working Capital Funds

In this section we will discuss the structure of the WCF and how it is organized into activity groups. Approximately 18% of DoD direct appropriations are financially managed through the use of working capital funds. Roughly 200,000 personnel are employed in the WCF.

The Defense Working Capital Funds are composed of the following activity groups, with Supply Management being the largest:

- Supply Management
- Depot Maintenance
- R&D Activities
- Transportation
- Information Services
- Public Works
- Financial Operations
- Distribution Depots
- Other (Reutilization, Ordnance, Printing and Publications)
- Defense Commissary Agency

Some of the above activity groups are unique to each service while the others may cross all services and into the defense-wide category. The Defense Reutilization and Marketing Service (DRMS), DFAS (financial operations), and printing and pubs (Defense Automated Printing Service (DAPS)) are unique to the Defense-wide category. Research and Development centers are unique to the Navy Working Capital Fund, while all services and the Defense-wide area have information services. All components have Supply Management and Depot Maintenance activity groups.

WCF Budget Formulation

In this section we will discuss how WCF activities formulate their budgets and how rates (prices) are established. Each WCF activity is issued an Annual Operating Budget (for operating expenses) and a Capital Budget (for capital investments).

All costs, with the exception of Military Construction, are recovered in the customers' stabilized rates. A separate Capital Budget ensures that capital investments are kept to a minimum as these purchases are reflected in customers' rates.

Recall one of the tenets of the WCF: the customer – provider relationship. Customers will discuss their projected workload with providers, and the providers will project *estimated rates based on the projected workload*. Budget formulation in the WCF begins approximately two years in advance, similar to the appropriated fund budget formulation process. Because the WCF budgets are based on estimated costs and estimated workloads, estimated almost two years in advance, error is injected into the process. In addition, because the WCF activity groups are managed at the component level, each activity group's projected revenues and expenses must be looked at 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.

Operating Budget Formulation

Let's discuss the formulation of the Operating Budget. All costs are aggregated from the bottom up, at each cost center or department. The Operating Budget represents the annual operating costs of civilian and 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 expense/investment 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.[36]

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 $500,000*. 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):

- 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 $500,000 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.

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

Now that we have seen what is included in the Operating and Capital budgets for activities, we will discuss how rates (prices) are formulated.

Rate Formulation

Annual stabilized rates (with the exception of depots) will be charged for all work accepted, *regardless of when the work is actually performed*. The rates are developed in the annual budget process, and are eventually determined and approved by USD(C) in the issuance of PBD 426. Again, the AOB and unit cost goals are <u>not</u> the same as the stabilized rates. The AOB accounts for *costs* based on workload, while PBD 426 rates *balance revenues, expenses and the Accumulated Operating Result (AOR), accounting for prior years' losses and gains.* PBD 426 accounts for the timing difference between revenues and expenses.

Rate Formulation: General Overview

Upon compilation of the activities' budgets within the activity groups by the activity group manager (i.e., 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).

Rate Formulation for the Non-Supply Management Activity Group

We will discuss an overview of the rate formulation process for the Non-Supply Management Activity Group (industrial). We will use an aviation depot for this overview. The Fund-7B (Customer Rate Computations) exhibit is used for this process.

First, the total number of direct labor hours (DLH) to accomplish the work 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 are called 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 any prior year losses or gains. If a prior year loss were incurred, then the adjustment would result in an *increase* to the program cost. If a prior year gain were incurred, then the adjustment would result in a *decrease* to the program cost. (Note: 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.) These adjustments within the activity groups are done to achieve an Accumulated Operating Result (AOR) of zero.

The adjusted CoGS is then divided by the total DLHs and 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.

As previously mentioned, depots (Navy and Air Force depots only) do not fall under the annual stabilized rate tenet of working capital funds. 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."

Rate Formulation for the Supply Management Activity Group

The SM-5a exhibit is used first to formulate the cost recovery factor (a.k.a. “surcharge”) 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.

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.), financial operations costs, depreciation expense, material inflation adjustments, material loss and obsolescence costs, transportation costs, a capital surcharge amount (to help finance capital acquisitions beyond those financed by the depreciation expense), and an AOR recovery amount. These are totaled and become the total “surcharge” amount, or costs that must be recovered in charges to customers.

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, such as 26%. Hence 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 hopes to recover its costs of operations. In these two examples, $26,026 would be recovered.

Execution and Performance: The "Surcharge"

Let's look at the Supply Management business area and see the dynamics of the numerator and denominator in a unit cost situation. Let's say that the cost of operations for the prior year was $700M and the sales were $2,300M, yielding a cost recovery factor of 30%. The *overall total cost* equals $3,000M ($700M for the cost of operations plus the cost of the goods sold is $2,300M). Remember, the costs of the goods are not free --- they were bought with contract authority and the customer reimburses the WCF for those costs. A cost is a cost…

In the next budget year, let's say that we want to reduce the cost of operations by 10% for a cost of $630M, and reduce the cost of the goods sold by 10% for a cost of $2,070M. Again, our cost recovery factor will be 30% ($630M divided by $2,070 equals 30%). Although the cost recovery factor remains at 30%, overall savings to the DoD equals $300M ($70M + $230M)! The customer still sees a 30% "surcharge" yet does not see the overall savings to the DoD.

Let's look at another example. If the cost of operations remained at $700M and the material costs of the goods sold were reduced by 20% for a cost of $1,840M, the cost recovery would be 38% ($700M divided by $1,840M). However, the savings to DoD would be $460M, even greater than the savings illustrated before.

Execution and Performance: Changes in Workload and Cost

We have seen the dynamics in the Supply Management activity group. Now let's look at some dynamics in the Non-Supply Management activity group. We will look at a fictitious activity to *keep it simple*, one of many in a depot maintenance activity group. For the purposes of this example, we will assume that this activity's operations began this year; no carry-over of prior year work exists; and, it has not incurred any prior year losses or gains.

1. It has an estimated workload of 208,000 hours and estimated costs of $11,440,000. Based on its workload estimate and resultant cost estimate, it will be issued a UCG 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). While this would not happen in the "real world," $55* will be its annual rate per direct labor hour; again, the UCG and rate are <u>not</u> the same. We will see this later.

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. Let's look at the first quarter results, at 25% of the fiscal year. In theory we might expect 25% of the labor hours to be expended and hence, 25% of the costs to be expended. However, that is not always the case.

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

You can see that the labor hours expended equals 25% of the total amount estimated; however, we have exceeded our cost authority by $208,000 and can also see that our average unit cost exceeds our target UCG by $4 per hour. Management would look into this, and could possibly be facing an Antideficiency Act violation (we will assume that sufficient cash is on hand at the component level).

3. We'll go to the second quarter, at 50% into the fiscal year. The numbers provided are cumulative, as you would expect.

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

You can see that things are a little better. Workload is picking up and is at 55% of the total estimated labor hours, while costs are at 57%. Our average unit cost has dropped by $2 per DLH, and the NOR is still negative but has not increased markedly. Management should be looking into efficiency (labor) variance.

4. Now let's skip the third quarter and jump 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

Our activity incurred a loss in its first year of operations. For some reason, our revenues did not match our expenses. Why? We need to understand why, and now we must recover this loss in the next budget cycle. We were at 95% of our estimated labor hour output, but did not exceed our cost authority --- our costs were exactly as planned (this doesn't happen in the real world, either!).

It looks like we did not use the total number of labor hours that we estimated, falling short by 10,400 direct labor hours. Our customer demand must have dropped, or it was initially overestimated. But our costs remained the same --- it looks like we weren't as efficient as we had planned. Now we have a NOR of minus $532,000 and have to pass this off to our customers in the form of higher rates (and remember, we're projecting costs for two years down the road). We'll do the recovery in only one year as opposed to spreading it over two years.

We talk to our customers, and 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. This sounds reasonable.

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

Let's look at this. In the AOB we are issued a unit cost goal of $58 per DLH and are not to exceed $11,600,000 in costs. Since we lost $532,000 in the last year, we must recover this in the form of higher rates. The rate includes adjustments for prior year losses or gains; in this case, it was adjusted for the loss.

Recall that we charged $55 per DLH last year. However, we must obtain $12,132,000 in revenue to cover our costs and the prior year loss. This equates to a rate of $60.66 per DLH. Our rates are increasing, and this could put us into a "death spiral." A death spiral is a situation where our rates increase, our demand drops as a result and we have less output to allocate our costs. Gulp.

Now, let's jump to the execution results from this budget cycle and see how things turned out.

Actual execution results – subsequent year	
Actual workload (output) in hours	205,000
Actual costs to date	$11,890,000
Average unit cost	$58
Revenue (output x rate charged)	$12,435,300
NOR (revenues minus expenses)	$545,300
AOR (NOR + NOR, or total revenues – total expenses)	+$13,300

We exceeded our workload estimate and cost estimate, so for this example we will assume *prior approval* was obtained from USD(C). Our actual unit cost per DLH equaled our unit cost goal. Revenue generated from the increased demand totaled $12,435,300 and exceeded our projected revenue of $12,132,000. This increase in revenue exceeded our NOR of +$532,000 provided in the AOB --- we made $13,300 in "profit." However, we in DoD are not to make a profit or incur losses.

So what happens next? We again discuss workload requirements with our customers and base our costs on our measure of output. We will factor in our gain of +$13,300 and this will be subtracted from our total costs, resulting in lower customer rates assuming demand remains constant.

In reality, multiple subsidiary rates are used and "roll up" to the composite rate. In reality, gains and losses are spread amongst the multiple activities within each activity group. Gains and losses must remain within the applicable activity group, i.e., gains from supply management can't be taken to cover losses in depot maintenance. Balance is maintained at the component level, as the components manage their respective working capital funds and activity groups.

Hopefully you can now understand the dynamics between the working capital fund and appropriated fund customers. Workload estimates generated by the customer will ultimately drive the rates charged to the customer by the working capital fund provider. If workload estimates were 100% accurate and costing estimates were 100% accurate, then a perfect world would exist --- revenues would cover expenses, and rates would remain constant. But that's not the case.

Chapter X: Morale, Welfare and Recreation (MWR)

Overview

In this chapter we will discuss 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 1015.10 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
    - Snackbars
- Unofficial lodging program
    - Recreational lodging (cabins, cottages, trailers, RV parks)
    - PCS lodging facilities (not 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 XI: Ethics in Government Service

Overview

In this chapter we will discuss the code of ethics for government personnel. This information is from the Office of Government Ethics (OGE).

Code of Ethics for Government Service (passed July 11, 1958)

Any person in Government service should:

1. Put loyalty to the highest moral principals and to country above loyalty to Government persons, party, or department.

2. Uphold the Constitution, laws, and legal regulations of the United States and of all governments therein and never be a party to their evasion.

3. Give a full day's labor for a full day's pay; giving to the performance of his duties his earnest effort and best thought.

4. Seek to find and employ more efficient and economical ways of getting tasks accomplished.

5. Never discriminate unfairly by the dispensing of special favors or privileges to anyone, whether for remuneration or not; and never accept for himself or his family, favors or benefits under circumstances which might be construed by reasonable persons as influencing the performance of his governmental duties.

6. Make no private promises of any kind binding upon the duties of office, since a Government employee has no private word which can be binding on public duty.

7. Engage in no business with the Government, either directly or indirectly which is inconsistent with the conscientious performance of his governmental duties.

8. Never use any information coming to him confidentially in the performance of governmental duties as a means for making private profit.

9. Expose corruption wherever discovered.

10. Uphold these principles, ever conscious that public office is a public trust. [37]

[37] Ethics Manual Code, http://www.house.gov/ethics/Appendix_Code_of_Ethics.html

Principles of Ethical Conduct for Government Officers and Employees

President George Bush modified the original code of ethics via issuance of Executive Order 12731 of October 17, 1990. It is similar to the original code of ethics with some modifications:

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.

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.[38]

Ethics Examples

These ethics examples are from the Office of Government web site at http://www.usoge.gov.

Gifts

Executive branch employees are generally restricted as to the acceptance of gifts from outside sources and are given to them as a result of their position. Prohibited sources include:

- Persons or organizations who are seeking employment with the activity, or are facing action from the activity
- Persons or organizations who are regulated by the agency
- Persons who have interests that can be affected by decisions within the agency

Some gifts are acceptable, and they include:

- The value of the gift is $20 or less
- The gift is a result of a family or personal relationship
- The gift is based on an outside business or employment relationship
- The gift is in connection with certain political activities
- Modest refreshments, plaques, greeting cards, prizes open to the general public and items of little intrinsic value may be accepted

Gifts to Other Employees

Executive branch employees may not make a gift to an official superior nor can an employee accept a gift from another employee who receives less pay except in certain circumstances or on certain occasions.

[38] Executive Order 12731 of October 17, 1990

On an occasional basis, including occasions when gifts are traditionally given or exchanged, the following individual gifts to a supervisor are permitted:

- gifts other than cash that are valued at no more than $10
- food and refreshments shared in the office among employees
- personal hospitality in the employee's home that is the same as that customarily provided to personal friends
- gifts given in connection with the receipt of personal hospitality that is customary to the occasion, and transferred leave provided that it is not to an immediate superior.

On certain special infrequent occasions a gift may be given that is appropriate to that occasion. These occasions include :

- events of personal significance such as marriage, illness or the birth or adoption of a child, or occasions that terminate the subordinate-official superior relationship such as retirement, resignation or transfer.

Employees may solicit or contribute, on a strictly voluntary basis, nominal amounts for a group gift to an official superior on special infrequent occasions and occasionally for items such as food and refreshments to be shared among employees at the office.

Honoraria

Executive branch employees are no longer subject to the prohibitions on the acceptance of honoraria contained in the Ethics Reform Act of 1989. The 1989 Act had banned the receipt of any honoraria for an appearance, speech or article whether or not there was any connection to the employee's official duties. A later amendment to the 1989 Act had the effect of allowing payment for a series of such activities provided that the activity did not relate to the employee's official duties.

This provision of the 1989 Act was challenged in court and eventually found by the Supreme Court to be an unconstitutional infringement of the First Amendment. Subsequently, the Department of Justice, in an opinion issued on February 26, 1996, determined that the law was "effectively eviscerated" by the Supreme Court's decision and that there were no remaining applications of the law.

The result is that executive branch employees generally may accept honoraria for an appearance, speech or article, provided that the activity does not relate to the employee's official duties. Any employee who had kept honoraria in an escrow account during the litigation is now free to receive those funds. Employees are still subject to other restrictions on the receipt of honoraria in certain circumstances, including the prohibition on receiving compensation for teaching, speaking and writing that relates to their official duties (subject to an exception for teaching certain courses).

Conflicting Financial Interests

Executive branch employees are prohibited by a Federal criminal statute from participating personally and substantially in a particular matter that will affect certain financial interests. Those include the financial interests of:

- the employee
- the employee's spouse or minor child
- the employee's general partner
- an organization in which the employee serves as an officer, director, trustee, general partner or employee, and a person with whom the employee is negotiating for or has an arrangement concerning prospective employment.

There are a number of ways in which an employee may deal with a potential conflict of interest. The employee may simply not participate in the matter that would pose the conflict. This is called "recusal."

The employee may also obtain a waiver from the agency, sell off or "divest" the conflicting interest, or resign from the conflicting position. Which remedy is appropriate will depend upon the particular circumstances.

Agencies, may by supplemental regulation, prohibit or restrict the holding of certain financial interests by all agency employees or a group of employees, and a few extend such restrictions to the employee's spouse and minor children.

Implementing Ethics in the Workplace

Use the code of ethics as a checklist and see how you hold up to these standards. Performance goes beyond some established level of skill. It requires leadership, integrity, honesty and values.

If we continue to relax the standards that we established as the basis for our values, then we will eventually have no values.

Chapter XII: Management Controls and the Audit Function

Overview

In this chapter we will discuss the DoD Management Control (MC) program and the audit function. It is important that we have adequate controls established, up-front, so we ensure consistently outstanding performance.

Introduction to Management Controls

Management controls are how we control and safeguard our resources, which include manpower, dollars and property. 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 controls to provide *reasonable assurance* that programs achieve the 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 controls that use a feed-forward mechanism. The controls are in place before the action occurs. Some examples include employee safety programs and inventory control.

Reactive, or detective controls are controls that use a feedback mechanism. The controls function after the action occurs. Examples include travel claim audits, execution documents and test samples to ensure quality.

Balance of Controls

We must ensure a careful balance of controls is maintained. Too much control can stifle initiative, dampen morale and be labor intensive. We don't want to spend $100 to save $10, either. Too little control gives an opportunity for fraud, can result in the violation of statutes and regulations, and often results in adverse publicity.

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 a positive and supportive environment throughout the organization.
2. **Risk assessment**: The internal controls should provide for an assessment of the risks from internal and external sources.
3. **Control activities**: The internal control activities should be effective and efficient, ensuring management's directives are carried out.
4. **Information and communications**: For efficient and effective operations, an organization needs timely information that is relevant and reliable, and is communicated to the entire organization.
5. **Monitoring**: The internal control monitoring should assess the performance over time and occur over the course of normal operations without requiring undue difficulty.

Material Weaknesses

We are required to identify, report and correct material weaknesses. If the event is significant and should be reported to the next level in the chain of command, it is a material weakness.

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.

We are to report our material weaknesses on the annual FMFIA Statement of Assurance. This is required to be to the President by 31 December of each year.

The agency head's statement must address a statement of assurance, a qualified statement of assurance, or a statement of no assurance.

Assessable Units

Areas of internal controls should be broken into assessable units. Some assessable units for the comptroller function would be unmatched disbursements, financial accounting, property accounting, voucher payment and fund accounting. An inventory of assessable units should be maintained and managed under the local management control program.

DoN's Management Control Program

The DoN's management control program is delineated in SECNAVINST 5200.35D of 10 December 1997. It is similar to previous editions; therefore, only highlights will be discussed.

Per the DoN instruction, vulnerability and risk assessments are now optional tools, not requirements.). The identification of high-risk areas has been eliminated.

The five-year schedule/cycle requirement has been eliminated. Assessable units are to be established and maintained, and controls are to be evaluated via *continuous monitoring* (vice a schedule).

Actions are to be documented, but are no longer forwarded up the chain --- the documentation is maintained locally. Minimum reporting requirements exist: report material weaknesses and the annual Statement of Assurance.

Benefits of Management Controls and Internal Controls

Benefits from a solid management control program will include resource savings in the form of cost avoidance and gains in efficiency.

An improvement in management functions will help to produce more reliable financial statements and address any potential areas of fraud or waste.

Lastly, the DoD will have an improved image in the public eye. It will show that we care about the environment, regulations, laws and statutes. We will reinforce our role as stewards of the public's finances.

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 judgement 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

We will list and briefly discuss the four major types of audits.

Financial Audits

- Has 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
- Determines 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
- Looks 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 why an overall statement of opinion can't be given

Chapter XIII: Overview of the Acquisition Process

Overview

The purpose of this chapter is to give the financial manager an overview of the DoD acquisition process. It is important to understand how programs are developed through the acquisition process and how they interface with the PPBS. The acquisition cycle is event driven, while the PPBS cycle is calendar driven and that presents a challenge. We will briefly discuss the acquisition process, milestones and some of the major players.

Requirements Generation

First, we have a need. We want something, and that something has to be defined. A DoD component will first conduct a Mission Needs Analysis, which is developed in four phases.

Mission Need Analysis

The four phases of the Mission Needs Analysis are definition, documentation, validation and approval.

Definition Phase

In the definition phase, we define the need as non-material (tactics, organizations, doctrine) or as material (a new or modified system). If it is for a non-material need then the user is notified for further action. If it is for a material need then a Mission Needs Statement (MNS) is developed.

Documentation Phase

The DoD component normally prepares a draft Mission Needs Statement (MNS), which is developed without regard to any material solution. The development of the MNS draft must be coordinated with the “warfighters,” (i.e., the CINCS), the combat developers, the user representatives, etc.

The combat developer or user representative will conduct an Analysis of Alternatives (AoA) to identify the most cost-effective material alternatives to satisfy the MNS. During this time, Cost as an Independent Variable (CAIV) will be introduced to provide balanced life-cycle cost solutions. CAIV ensures that life-cycle cost considerations have equal footing with all other system considerations such as technical performance.

After AoA completion, the combat developer produces the Operational Requirements Document (ORD). The ORD specifies system capabilities, characteristics, minimum operational values, and key performance parameters (KPP) from the minimum (threshold) to the objective (desired) performance levels.

The MNS, AoA and ORD will be provided to the material developer for a Performance Specification development. Performance Specifications tell what the system must do, how well it should perform and any constraints --- it does not tell *how* to achieve the intended results. The Performance Specifications are part of the Request for Proposal (RFP) and contract.

Validation Phase

Next the mission needs requires validation. The validation phases is a formal review by the Joint Requirements Oversight Council (JROC) for joint programs and DoD components. The MNS may be approved or disapproved. If it is for an Acquisition Category (ACAT) I program, then the final validation is done by USD(A&T). ACAT I programs are defined as requiring the expenditure of $355M in RDT&E funds or procurement of more than $2.1B (constant year 96 dollars).

Approval Phase – Getting into the POM

The validated ACAT I MNS is sent to the Defense Acquisition Board (DAB) for Milestone O initiation. If it is for an ACAT II or III program, the lead component will make the approval for the Milestone (MS) 0 initiation. The DAB issues a MS 0 Acquisition Decision Memorandum (ADM) for ACAT I programs.

The lead Component Acquisition Executive (CAE – for the Navy, it is the SECNAV; the Service Acquisition Executive (SAE) is the ASN(RD&A)) will then fund Concept Exploration and prepares a Program Objectives Memorandum (POM) submission in anticipation of program initiation at Milestone I (MS I).

Milestones and Phases

We will briefly discuss the four milestones (0 through III) and the four phases (o through III).

Milestone 0 - Concept Studies Approval

MS 0 is initiated with a validated Mission Needs Statement MNS) and is approval to conduct Concept Exploration, which is Phase 0. The Milestone Decision Authority (MDA) will specify minimum set of alternatives to be examined, the lead organization, exit criteria for Milestone I, and the funding for the study effort.

Phase 0 - Concept Exploration

Phase 0, Concept Exploration, is where material alternatives are explored to satisfy the mission need. CAIV objectives and life-cycle cost, schedule and performance objectives are established. FYDP funding is identified, a draft system specification prepared, exit criteria for Phase 1 are proposed, and preparation of the contract package for the next phase is completed.

Milestone I - Approval to begin a new acquisition program

MS I is approval for a new program and authorizes entry into Program Definition and Risk Reduction (PDRR), which is Phase I. Programs do not officially exist until MS I. At this point, the acquisition strategy, concept baseline, and CAIV objectives are approved.

Phase I - Program Definition and Risk Reduction

Phase I, Program Definition and Risk Reduction (PDRR) is where expected system capabilities are defined, and an initial risk assessment plan is initiated. It also consists of steps necessary to resolve or minimize logistics problems identified during concept exploration, verify preliminary design and engineering, build prototypes, accomplish necessary planning and fully analyze trade off proposals. The use of Modeling and Simulation (M&S) will begin, and the early prototyping of Advanced Technology Demonstrations (ATD) or Advanced Concept Technology Demonstrations (ACTD) may occur. The bottom line: is this the system we want to mature to production?

Milestone II - Approval to enter Engineering and Manufacturing Development

MS II is approval for entry into Engineering and Manufacturing Development (EMD), which is Phase II. Low rate initial procurement (LRIP) quantities are identified.

Phase II - Engineering and Manufacturing Development

Phase II, Engineering and Manufacturing Development (EMD) is where the selected system design is made into a cost effective, supportable and interoperable system. Demonstration testing will occur, and Low Rate Initial Production (LRIP) is initiated. Logistics planning begins, Engineering Change Proposals (ECPs) are submitted and technical manual validation and verification occurs. The bottom line: is the system ready for production?

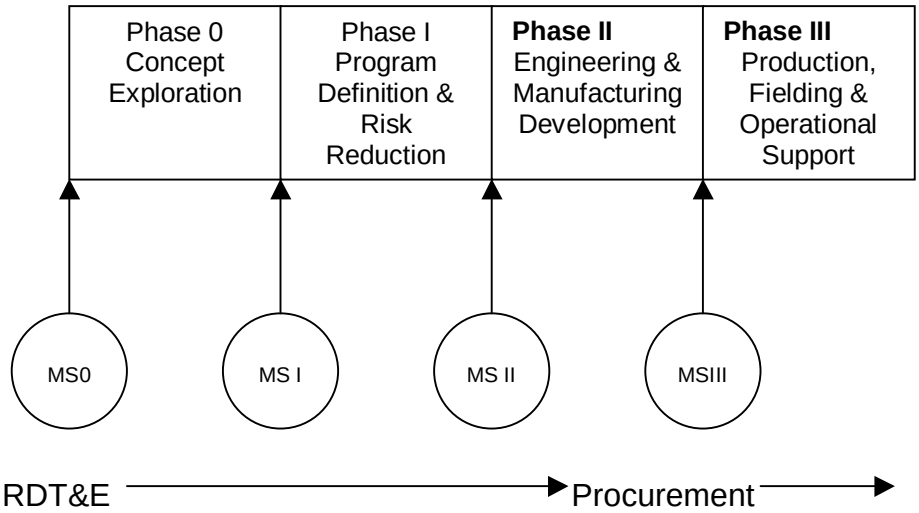
Milestone III - Production or Fielding/ Deployment Approval

MS III is approval for Full Rate Production, Deployment and Operational Support, which is Phase III. This milestone will be addressed in the SECDEF's Program Decision Memorandum (PDM).

Phase III - PF/DOS

Phase III, Production, Fielding/Deployment and Operational Support (PF/DOS) is where stable production occurs and a support base is established. Test and evaluation continues, performance is monitored, follow-on operational test and evaluation occurs, and the initial logistics support items are provisioned. The bottom line: is an affordable, supportable, operationally effective and suitable system provided to the warfighter, when needed for as long as needed?

The following is an illustration of the DoD Acquisition Life Cycle:



RDT&E funding will normally be used for all activities required for the development of a new system, up to LRIP (for testing). Procurement funding (shipbuilding, aircraft procurement, etc.) will be used for acquisitions approved for production. This includes support equipment, manuals and initial spares. Facility construction could occur, as well.

Follow-on Test and Evaluation (FOTE) can require either O&M or RDT&E funding:

- If the system/component was not developed using RDT&E funds, then it is a non-developmental program and O&M funds will be used for FOTE.
- If the system/component was developed using RDT&E funds and a decision for full rate production is either anticipated or in effect, O&M funds will be used for FOTE.
- If the system/component was developed using RDT&E funds and has approval for low rate initial production (LRIP), and the full rate production decision depends on successful evaluation of the components not accomplished during Initial Operational Test and Evaluation (IOT&E), then RDT&E funds will be used.

Chapter XIV: Contracting Overview

Overview

In this chapter we will do a broad overview of the contracting function, and discuss contracting terms in a general nature. The 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 objective of the contracting process is to acquire the needed systems, supplies and services at the best value; delivered on time; are within an acceptable level of quality; support socioeconomic policies; and, 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 to 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*. See the following figure for a graphic on contract types.

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.

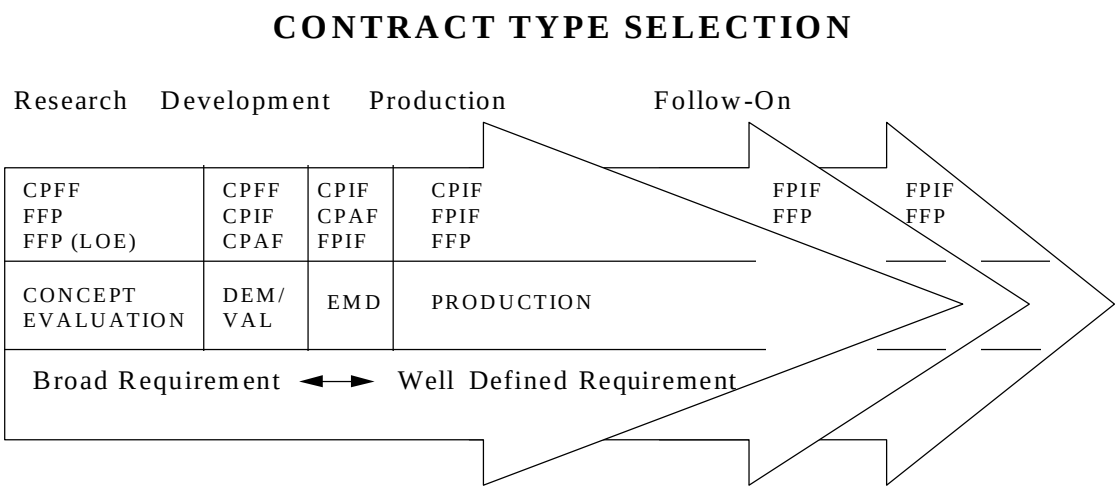


Figure 18 - Contract Type Selection

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.

Appendix 1 - Use of Appropriated Funds

This appendix covers common questions regarding the appropriate use of appropriated funds. The general rule of thumb is that if the funds will be for personal use or entertainment purposes, then their use is prohibited.

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. Weekly staff meetings do not qualify for this.

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 decision 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 gov't 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

Question: How much can I pay for honorariums or speaking fees at my local activity?
Discussion: 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.
Answer: 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

Question: Under what conditions can I use appropriated funds to pay for registration fees for meetings and conferences that include refreshments?
Discussion: 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.
Answer: 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.

Appendix B: 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 responsibility is assigned by the "Responsible Office."

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 appropriation 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.

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

APPROPRIATION LIMITATION--A statutory limitation within an appropriation which 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 known as an Operating Location, or OPLOC.

BALANCED BUDGET -A budget in which receipts are equal to or greater than 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. Primarily, deficits are 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 2000, the budget year would be Fiscal Year 2001.

CEILING--A maximum amount of an appropriation imposed by Congress which is designated for a specific purpose, (i.e., 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 space is used concurrently by both supplier and receiver.

CONCURRENT BUDGET RESOLUTION --A resolution passed by both Houses of Congress but not requiring the signature of the President, setting forth, reaffirming or revising specified congressional budget totals for the federal government for a fiscal year.

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--Congressional action to provide budget authority for specific ongoing activities when the regular fiscal year Appropriation 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 Secretary of Defense staff 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 disbursing 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 $500,000 (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 2000 began on 1 October 1999 and ends 30 September 2000.

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, (i.e., Maintenance of Real Property).

FRINGE BENEFITS (FRINGE)--The cost of the government's share of a civilian employee's: 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 (i.e., 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 which 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, when at least one of the participating agencies or subdivisions is the Department of Defense or a DoD component.

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.

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 which 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 which establishes the maximum amount which 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.

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 $500,000 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. Projects costing $1 to $500,000 may be funded by the Navy appropriation for Operations and Maintenance.

MINOR PROPERTY--Navy personal property acquired for immediate use and having a unit cost of 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)--The former meaning of 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 (i.e., 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 be 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 of funds from Congress 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 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: that is, operating a rifle range, communications centers, motor pool, etc.; versus the cost of "things"; that is, supplies, equipment, personnel services, etc.

PERFORMING ACTIVITY--An activity that is responsible for performing work or service, 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 (PPBS)--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 which, 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 which, 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 upwards or downwards.

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 which 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 to the requester 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 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&MN) 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 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--Money 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 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--Rate stabilization is the development and utilization of predetermined rates for billing customers for work to be accomplished by WCF activities.

STANDARD DOCUMENT NUMBER--A 15-character number 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 alpha-numeric 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 has 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 which 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 C: 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 Memoranda
BCN	Bureau Control Number
BEA	Budget Enforcement Act
BES	Budget Estimate Submission
BMAR	Backlog of Maintenance & Repair
BOP	Balance of Payments
BOR	Budget OPTAR Report
BOS	Base Operating Support
BP	Budget Project
BPA	Blanket Purchase Agreement
BRAC	Base Closure and Realignment
BSO	Budget Submitting Office
BUPERS	Bureau of Naval 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
CINCs	Commanders-in-Chief
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
COG	Cognizance Symbol
CONUS	Continental United States
CPA	Chairman's Program Assessment
CPAM	CNO's Program Analysis Memorandum
CPFG	Consolidated Program & Fiscal Guidance
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 Repairables
DMRD	Defense Management Report Decision
DO	Disbursing Office
DoD	Department of Defense

DODAAC	DOD Activity Address Code
DODADD	DOD Activity Address Directory
DODIG	DOD Inspector General
DODINST	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
DTPS	Defense Travel Pay System
DTRS	Defense Transportation Payment System
EAP	Expenditure Availability Period
EE	Expense Element
EFD	Engineering Field Division
EOB	Expense Operating Budget
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	Gross Adjusted Obligations/General Accounting Office
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
JIRSG	Joint Interservice Resource Study Group
JLRSA	Joint Long-range Strategic Appraisal
JPAM	Joint Program Assessment Memorandum
JSPD	Joint Strategic Planning Document
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
MILSTRAP	Military Standard Reporting and Accounting Procedures
MILSTRIP	Military Standard/Requisitioning and Issue Procedures
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
NAFCPS Non-appropriated Fund Central Payroll System
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)
NECA Navy Environmental Compliance Account
NEXCOM Navy Exchange Command
NFADB Navy Facilities Assets Data Base
NHFS Navy Headquarters Financial System
NMSD National Military Strategy Document
NOA New Obligation Authority
NPFC National Publications and Forms Center
NSA Navy Stock Account (old)
NSN National Stock Number
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
PBD Program Budget Decision
PCO Procurement Contracting Officer
PDM Program Decision Memorandum
PDRC Program Development Review Committee
PE Program Element
PMC Procurement, Marine Corps
PMRS Performance Management and Recognition System (old)

POM	Program Objectives Memorandum
POS	Peacetime Operating Stocks
PPB	Program Policy Board
PPBS	Planning Programming Budgeting System
PPC	Proposed Program Change
PR	Purchase Request
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
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
SBR	Summary Billing Record
SCE	Staff Civil Engineer
SCN	Shipbuilding & Conversion, Navy
SECDEF	Secretary of Defense
SECNAV	Secretary of the Navy
SES	Senior Executive Service
SFOEDL	Summary Filled Order/Expenditure Difference Listing
SGL	Standard General Ledger
SOP	Standard Operating Procedures
SOW	Statement of Work
SPP	Sponsor Program Proposal
STARS	Standard Accounting & Reporting System
STARS-FL	Standard Accounting & Reporting System, Field Level
SYSCOM	Systems Command
TAC	Type of Address Code/Transportation Account Code
TCO	Termination Contracting Officer
TFO	Transaction for Others
TIR	Transaction Item Report
TOA	Total Obligation Authority

TQM	Total Quality Management
TSP	Thrift Savings Plan
UADPS	Uniform Automated Data Processing System
UCA	Uniform Chart of Accounts
UDO	Undelivered Order
UFR	Unfunded Requirement
UIC	Unit Identification Code
UMR	Uniform Management Report
USC	United States Code
USD	Under Secretary of Defense
USGSGL	United States Government Standard General Ledger
WIP	Work in Progress
WPN	Weapons Procurement, Navy
YTD	Year to Date

Appendix D: Financial Management Checklist for Activity Comptrollers

The following checklist was provided by CINCLANTFLT.

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 by only 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? Is 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 we 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 advances' 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 exceptions' 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 OPLOC 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))

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