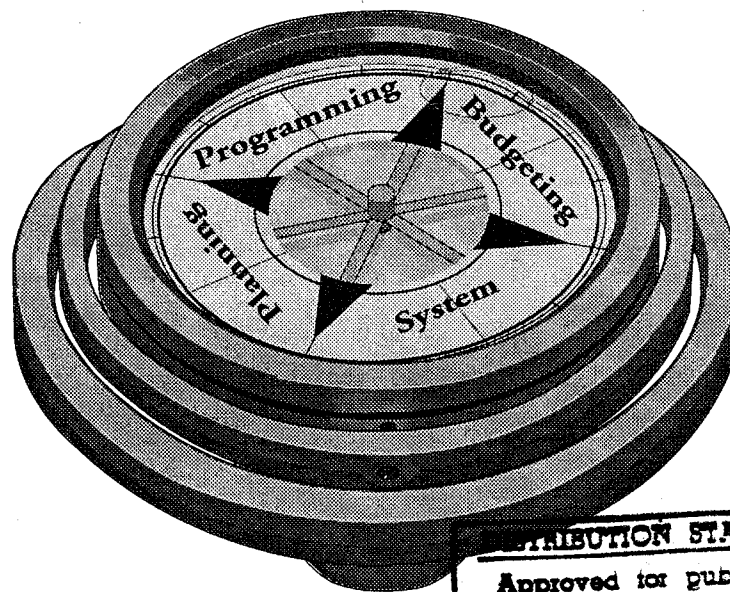




Financial Management Guidebook for Commanding Officers

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OCT 12 1995

FINANCIAL MANAGEMENT GUIDEBOOK
FOR COMMANDING OFFICERS

NAVSO P-3582

As the Assistant Secretary of the Navy for Financial Management and Comptroller, one of my primary responsibilities is to ensure the quality and integrity of financial management operations throughout the Department of the Navy. Effective financial management is achieved through the diligent and informed efforts of resource managers at every level of command. As a Commanding Officer or activity commander, you are responsible for the resources entrusted to your care. The Navy's stewardship of the taxpayers' dollar begins with you.

The financial landscape for the Navy has changed dramatically over recent years with new laws which demand greater attention to timely and accurate budget execution. This will require that you and your acquisition/logistics management team work closely with your Comptroller to maximize the use of current funds while ensuring that previous years accounts are properly reconciled and balanced before they close. The price for errors made yesterday--what we refer to as problem disbursements-- must unfortunately be paid in today's even more limited funds.

Your command and legal responsibilities make you an integral part of your activity's financial management team. To assist you, this publication acquaints you with basic financial management policies and procedures. It also provides numerous references and additional resources to assist you in your understanding of complex financial management issues. I thank you for your support in this most important area and wish you every success during your tour of Duty as the Commanding Officer.

Deborah P. Christie
DEBORAH P. CHRISTIE

Financial Management Guidebook for Commanding Officers

October 1995

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Executive Brief

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CO Responsibilities

The Bottom Line

You must monitor both the progress of your organization in attaining its goals and the rate at which you are consuming resources. At the moment you assume command, you take over the full financial responsibility of your predecessor, including the full financial responsibility for all prior fiscal years plus the current fiscal year, including the result of orders in effect at the time of the change of command.

If you hold an allotment, operating budget (OB), or, under certain conditions, reimbursable orders, you are legally bound not to incur obligations or commitments and expenditures in excess of available funds in accordance with the provisions of 31 U.S. Code Section 1517(a).

If you hold an operating target, you are held administratively accountable to your superiors in the chain of command if you overcommit, overobligate, or overexpend; but you will not have violated the law. You are legally bound to use funds authorized only for the purpose intended by law or the grantor of funds in accordance with the provisions of 31 U.S. Code Section 1301(a).

Cradle to Grave Funds Management

The role of the Commanding Officer has become even more important in managing the funds entrusted to your command throughout the life of the appropriation.

With the passage of Public Law 101-510, the old "M" account has been eliminated. Appropriations now remain in an "expired" status for five years beyond their initial period of availability. Expired appropriations are available only for payments and other valid adjustments to existing obligations. After the five years, the expired appropriation is closed and no further adjustments to it are possible.

Under certain circumstances and specific limitations, payments of liabilities against closed accounts that

otherwise would have been proper both as to purpose and amount can be made; however, they must be charged to your current appropriations available for the same purpose.

With the support of your fiscal staff, you are responsible for the proper financial management of your activity funds from receipt to closeout.

This includes ensuring, in conjunction with your supporting Defense Finance and Accounting Service Operating Location (DFAS OPLOC), that all disbursements against your funds are properly matched to valid obligations. Unmatched Disbursements (UMDs) and Negative Unliquidated Obligations (NULOs) must be researched and resolved before the appropriation closes.

In addition, the provisions of the *Anti-Deficiency Act* apply throughout the life of each appropriation account until closed.

PPBS and Sources of Funds

Resource requirements in DoD are determined through the Planning, Programming, and Budgeting System (PPBS) and are summarized in the DoD Defense Program. The President and the Congress must annually review and approve all budget requests (FYDP) for resources.

Your budget at the activity level must be approved by a chain of command which ultimately extends to the President. It contains legal and administrative restrictions which greatly affect the manner in which you may accomplish your mission.

Congress provides funds through the appropriation process and budgeting, accounting, and reporting is accomplished within the rules and regulations established for each appropriation. A commitment reserves funds for future use and is subject to cancellation provided it has not been obligated.

An obligation is incurred when an order is placed, a contract is awarded, a service is received, orders are issued directing travel, and similar transactions are

entered into during a given period requiring future payment of money of an agreed amount. An expenditure is an actual payment from available funds.

In addition to limitations on spending, your operating budget under the operation and maintenance appropriations may stipulate that a certain amount of money must be utilized for certain purposes or the unused portion returned to the grantor of the funds.

Activity Level Budgeting

An operating budget is designed to provide a plan against which performance can be measured, variances analyzed, and adjustments made to permit effective management of resources at all echelons. The development of an operating budget is a process of determining valid requirements at the lowest echelon and summarizing these requirements with those of other cost centers for the total activity.

Budget formulation at operating activities is based on program planning and policy guidance received via command channels from the cognizant departmental component.

The guidance reflects the management policies of the commanding officer who is responsible for the assignment of local budget responsibilities and has final responsibility for the completed estimate.

You must assure yourself that the budget recognizes all known requirements, that the workload planning is valid, and that the estimated costs are fully supportable to higher review authorities. You may approve, disapprove, or modify a cost center budget request based on your own evaluation of program, workload, and priorities.

Because programs are as varied as they are numerous, there is no single form in which a proposal for funding can be described and justified. The justification process requires written and may require oral and graphic material to support requests for funds. You should realize that you may not receive 100% of the funds requested in your budget.

Funding is obtained through two media—an operating budget/allotment or reimbursable orders, providing obligation/expense authority for accomplishment of the mission and budget execution. The amount of new obligational authority is a legal limitation imposed initially by the Congress and transmitted through various Executive Branch organizations to the

activity fund authorization level. An allotment holder may create commitments, obligations, and expenditures against the appropriation within the scope of the allotment.

Under O&M appropriations, the operating budget may create obligations and expenditures. Commanding officers of activities may issue operating targets (OPTARs) for funds that are planned for utilization by a subordinate command or OPTAR holder.

Legal Aspects of Fund Management

As stipulated in 31 U.S. Code Section 1301(a), Appropriated Funds may only be used for programs and purposes for which the appropriation is made. Currently, while a record of the circumstances should be maintained within your command, there are no reporting requirements associated with violations of this statute.

When a violation has been determined, accounting adjustments must be recorded to correct the misuse of funds. If the adjustment results in an overobligation or overexpenditure of the appropriation or fund charged, a violation of 31 U.S. Code Section 1517(a) has occurred and a report of violation must be prepared.

In most instances, the test to see if a violation has occurred is at the level of the performing activity. Thus, it is important that a local determination be made of the appropriateness of the dollars provided for the task at hand.

31 U.S. Code Section 1517(a), prohibits officers or employees from authorizing an obligation in excess of the amount available in an apportionment (operating budget/allotment) or in excess of the amount permitted by agency regulations.

31 U.S. Code Section 1341(a) prohibits any officer or employee from making or authorizing funds in excess of the appropriation or committing the government to pay funds prior to appropriation and authorization.

31 U.S. Code Section 1342 prohibits any officer or employee from accepting voluntary services or employing personal services exceeding that authorized by law except for emergencies involving the safety of human life or the protection of property. The person(s) who caused or contributed to a violation may be subjected to discipline which may include suspension without pay or removal from office. If action is done knowingly and willfully, that person may be subject to criminal penal-

ties of a fine up to \$5,000 or imprisonment for not more than two years, or both.

Activity Level Accounting (Appropriated Fund)

The DoN Accounting System tracks budget execution and contains a comprehensive set of uniform general ledger accounts designed for accrual accounting in compliance with requirements of higher authorities. The system is designed on the premise that all accounting transactions are uniformly classified and coded at the source of input and subsequently reported via the chain of command to the Departmental level.

The general ledger structure, in conjunction with independent data elements such as appropriation symbols, organization codes and budget activities, helps to achieve the DoN goal of a single, integrated financial management system.

The uniform general ledger accounts were designed to enable financial managers to obtain summary financial information, e.g., fund status, while supporting the reporting requirements imposed by external authorities.

The financial management and accounting for operations at the activity level also provides the cost center manager and responsibility center manager reports of financial and quantitative information. This information enables the manager to expeditiously determine variances from the budget plan, specific areas causing the variances, areas where workload is increasing or decreasing, reduced or increased efficiency, and to take corrective action to effect efficient utilization of available resources.

Defense Business Operations Fund (DBOF)

Effective 1 October 1991, DoD consolidated existing revolving funds through the establishment of the Defense Business Operations Fund (DBOF). Revolving funds were originally established to satisfy recurring industrial and commercial requirements through the application of businesslike practices and the formation of customer-provider relationships. Unlike profit-oriented commercial businesses, revolving funds were designed to break even over the long term.

Building on these principles, the DBOF combines existing and new business activities under a single Treasury symbol, while permitting functional and cash management responsibilities to remain with the managing component. Prices for goods and services produced

within a component business area remain the responsibility of the component and are set to recover applicable costs.

Morale, Welfare and Recreation Activities

The DoN advocates the establishment and operation of well-rounded Morale, Welfare and Recreational (MWR) programs to ensure the mental and physical well-being of its military personnel. Depending upon the nature of individual types of MWR activities, some are wholly or predominately operated and maintained with Appropriated Funds, while others rely on Nonappropriated Funds to sustain operations.

Nonappropriated Funds are derived from sources other than appropriations, primarily from the sale of goods and services to DoD military and civilian personnel and their dependents. Nonappropriated funds may be used to supplement Appropriated Funds when necessary to sustain operations.

Commanding officers have the same responsibility for the proper administration of Nonappropriated Funds as for any other functional elements of the command and are also responsible for the budget for Appropriated Funds which are authorized to support morale, welfare and recreational activities.

Management Controls

The DoN Management Control Program was established as a result of the *Federal Manager's Financial Integrity Act (FMFIA)* of 1982. The FMFIA requires ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control. The head of each Executive Agency is required to submit an annual statement to the President and the Congress, stating whether or not the agency's management control systems comply with requirements of the Act.

The DoN Management Control Program was implemented through the issuance of SECNAVINST 5200.35 (series). The Under Secretary of the Navy directs and manages the DoN Management Control Program and conveys overall policy and direction through the Chief of Naval Operations, the Commandant of the Marine Corps and the Assistant Secretaries of the Navy and Secretariat Staff Offices, as appropriate.

The Management Control Program applies to all programs and functions in each DoN organization. The Program requires all levels of management to involve themselves in assuring the adequacy of controls in their

area(s) of responsibility by performing risk assessments, management control reviews, and documenting and reporting the related results.

You, or your executive officer (deputy), are required to submit an annual certification statement, via the chain of command, to the Chief of Naval Operations or Commandant of the Marine Corps or the appropriate Assistant Secretary of the Navy. Due dates for reports and reporting formats are established by chain of command and implementing instructions.

There are numerous management control mechanisms, both internal and external, with which you should be familiar. Internal to your command, you have responsibility for command management efficiency and have programs such as the Management Control Program to assist in this. External to your command are the audit reviews and investigations performed by the Naval Audit Service, the DoN and DoD Inspectors General, the General Accounting Office and the House Appropriations Committee, Services and Investigations Staff.

You are responsible and accountable for the performance and mission effectiveness of your units, as well as for compliance with all operating procedures established by higher authority.

In addition, you are responsible for maintaining economy, efficiency, effectiveness, and integrity of operations in meeting mission requirements. This requires having an in-house capability to assess the overall efficiency and integrity of all command functions, with particular focus of high risk areas susceptible to waste, fraud, and abuse.

Functions which should be covered include:

- reviewing compliance with existing directives,
- assuring proper expenditure and control of Appropriated and Nonappropriated Funds,
- reviewing Inspector General and other command high interest programs,
- providing audit liaison and audit coordination for Naval Audit Service and other auditors,
- performing audit follow-up—monitoring the correction of deficiencies which are revealed by the Naval Audit Service (NAVAUDSVC),

General Accounting Office (GAO), or other external reports, and

- investigating allegations of waste, fraud, and abuse (e.g., Hotline calls).

In carrying out these responsibilities, you have the freedom to establish your organization in the manner that you deem most productive to accomplish its mission and protect the integrity of its operations.

Chief Financial Officers Act of 1990 (CFO Act)

The CFO Act of 1990, Public Law 101-576, was enacted to improve the general and financial management of the federal government. The Act establishes a leadership structure, provides for long-range planning, requires audited financial statements, and strengthens accountability reporting. Audited financial statements were required of the Defense Business Operations Fund (DBOF), commercial functions, revolving funds and trust funds beginning with FY 1993.

The *Federal Financial Management Act of 1994* (31 U.S. Code Section 3515) of the *Government Management Reform Act of 1994*, Public Law 103-356, Section 405, expanded the original legislation to require audited financial statements for all appropriation and fund accounts and associated activities commencing with Fiscal Year 1996.

The Annual Report consists of four parts:

- the overview of the reporting entity,
- the principal statements and related notes,
- the combined statements, and
- the supplemental financial and management information.

Preparation of DoN CFO financial statements is a partnership between the Defense Finance and Accounting Service (DFAS) and the DoN. Guidance and methodology are provided by the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) and the Office of Financial Operations (FMO) of the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (OASN[FM&C]).

The DoN financial statements are audited by the NAVAUDSVC and submitted to the OUSD(C) as part

of the consolidated DoD submission to the Office of Management and Budget (OMB).

Financial statements preparation on a Department-wide basis requires a team effort crossing many functional areas within the DoN. This effort will ensure a smooth transition as financial management evolves from budgetary accounting to financial accounting.

Financial reporting differs from budgetary reporting by focusing on the key elements of assets, liabilities, equity and revenues and expenses. This focus differs significantly from the "status of funds" concept as determined by budget authority, commitments, obligations and expenditures.

Auditing

Auditing should be recognized as a meaningful tool to assist management in the decision-making process. Commanding officers and managers need to be supportive of the audit function and be familiar with any audit plans for their organization. They should also stay informed of the status of audit work being performed at their organization and take action to correct noted deficiencies.

Within the DoN, internal auditing is the responsibility of the Auditor General of the Navy (AUDGEN). The NAVAUDSVC is the internal audit organization for DoN. It executes, primarily, performance oriented audits with emphasis on DoN-wide functions. During a NAVAUDSVC audit, findings are developed and discussed with all levels of management. This procedure enhances management's ability to correct problems early; gains agreement on the findings, recommendations, and potential monetary benefits; and expedites completion of the audit.

Other audit organizations such as the GAO, the DoD Inspector General (DODIG), Assistant Inspector General for Auditing (AIG[A]), the Defense Contract Audit Agency (DCAA), and DoN Nonappropriated Fund Instrumentalities (NAFIs) audit organizations also perform audits in DoN.◊

Notes

Chapter I

CO Responsibilities

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Introduction

In general, you are responsible for the substance and validity of your budget and its provisions, the costs that are actually being incurred and charged against your available funds, and the resultant performance.

You must be aware of the different appropriation categories and the resources they can provide. You must also recognize that problems can arise and must be dealt with, and that prevention of these problems is still the best solution. This requires constant checking and comparing your budgeted funds with actual costs and performance.

In addition, you are expected to be supportive of the audit function in the DoN. This includes cooperating with auditors, providing timely responses to audit recommendations, and taking proper actions to correct noted deficiencies.

You must monitor both the progress of your organization in attaining its goals and the rate at which you are consuming resources.

The regulatory basis of your responsibility for financial management may be found in DoN regulations:

Paragraph 0802.3: The commanding officer shall be responsible for economy within the command. To this end, the commanding officer shall require from subordinates a rigid compliance with the regulations governing the receipt, accounting, and expenditure of public money and materials, and the implementation of improved management techniques and procedures.

Paragraph 0802.1: While the commanding officer may, at his or her discretion, and when not contrary to law or regulations, delegate authority to subordinates for the execution of details, such delegation of authority shall in no way relieve the commanding officer of continued responsibility for the safety, well-being and efficiency of the entire command.

Types of Responsibilities

Your responsibility to ensure the most economical utilization of available resources is particularly acute. Basically, you have two types of financial responsibility:

Command—That responsibility paralleling your other responsibilities which tasks you with the control and administration of funds granted to perform your mission; and

Legal—That responsibility not to overcommit, overobligate, or overexpend Appropriated Funds which is placed on you by 31 U.S. Code Section 1517(a) when you receive an allotment, operating budget, or, under limited conditions, reimbursable orders. Another important statutory limitation is placed on you by 31 U.S. Code Section 1301(a), as follows:

Appropriations shall be applied only to the objects for which the appropriations were made, except as otherwise provided by law.

In other words, you may not create obligations or expenditures for purposes other than those authorized by Congress.

When do these responsibilities begin?

At the moment you assume command you take over the full financial responsibility of your predecessor, including the full financial responsibility for the orders in effect at the time of the change of command.

You should fully acquaint yourself with the status of all aspects of the financial resources for which you are responsible, since you are legally liable for any overobligation or overexpenditure that occurs after you assume command.

If, after assuming command, you discover an apparent violation of law or regulations governing the administration of Appropriated Funds, you are compelled to comply with the reporting requirements of 31 U.S. Code Section 1341(a), 1342, or 1517(a). This action is taken through the chain of command to determine the extent of, and the responsibility for the suspected violation.

A commanding officer being relieved should provide the relieving officer with all current official records which reflect the status of the organization's financial resources. All other relevant information and records relating to the financial administration and control of funds should also be provided so that the new commanding officer can be fully apprised of the command's total financial posture.

What are you expected to do?

Initially you should determine the source of your funds. This makes a difference in the nature of your responsibility. Then you have the following financial responsibilities:

- Examine your mission and assigned tasks and determine the most economical means by which they may be accomplished.
- Accomplish your mission at the lowest cost. Prepare budget estimates setting forth as accurately as possible the fund requirements for accomplishing your mission and assigned tasks.
- Budget for your needs. Prepare a financial plan for utilization of the funds that are authorized in response to the budget request.
- Plan your work. Ensure that funds are utilized in accordance with approved plans and directives of higher authority.
- Work your plan. Ensure that funds are not over-committed, overobligated, or overexpended.
- Never overspend. Maintain records reflecting the status and utilization of authorized funds and account for these funds to the grantor in accordance with current regulations and directives.
- Keep track of how you spend. Conduct a continuous review of internal fiscal operations.
- Keep checking against your plan.
- If you receive your funds via an Operating Target (OPTAR), or if the upper limits of available funds have been determined by a "planning estimate," your responsibilities are much the same as those listed above.

There is one important distinction— you have command responsibility, but the legal provisions

of 31 U.S. Code Section 1517(a) do not apply to you. It means that you are not legally liable for failing to remain within your OPTAR or planning estimate.

- If you overcommit, overobligate, or overexpend your OPTAR or planning estimate, you are held administratively accountable to your superiors in the chain of command. On the other hand, if you hold an Operating Budget (OB) (Expense Operating Budget [EOB] for Marine Corps), reimbursable orders, or an allotment, you are *legally bound* not to overcommit, overobligate or overexpend these funds in accordance with the provisions of 31 U.S. Code Section 1517(a).
- You may delegate command responsibility for execution of the operating budget to department heads or other subordinates. This can be accomplished by means of OPTARs or planning estimates, but you cannot delegate your responsibility to oversee on a regular, periodic basis, actual budget performance in comparison to the budget authorized for your command.
- As a general rule, you must expend funds authorized to you for the purposes for which you justified their need to higher authority.

Tips on Avoiding Violations

After assuming command of your activity, you should request that your comptroller or fiscal officer brief you on all relevant information regarding the organization's financial resources. In particular, the comptroller or fiscal officer should:

- Explain in detail the purpose of 31 U.S. Code Section 1301(a), 1341(a), 1342, and 1517(a).
- Provide you information on any past violations of either 31 U.S. Code Section 1341(a), 1342, and 1517(a).
- Ensure that corrective actions to correct past deficiencies have been completed.
- Review your annual financial plan which includes obligations and expenditures. Compare the plan against actual performance. This review can be accomplished through a monthly briefing with special emphasis on the status of obligations and expenditures.

- Question substantial variations of planned and actual accomplishment.
- Review your internal control procedures.

If you suspect that you have a 31 U.S. Code Section 1341(a), 1342, or 1517(a) violation, you should:

- Have an investigation conducted by personnel who have no "conflict of interest."
- If the investigation reveals a violation of 31 U.S. Code Section 1341(a), 1342, or 1517(a), a report must be filed in complete consonance with the *NAVCOMPT Manual*, Volume 3, 032011.

Lessons Learned

You have important responsibilities for the acquisition, control, and utilization of Appropriated Funds.

You should be involved directly in the planning and development of your activity's budget, including the review of proposed and ongoing programs and the justification of all major elements of the annual budget.

Upon receipt of the approved operating budget, have financial management personnel keep you informed of the distribution and utilization of resources (direct and reimbursable programs).

You may have an internal audit/other evaluation group, depending on the size and scope of your activity, to review and correct potential financial problem areas before they become unmanageable.

You should ensure that your financial personnel are qualified and have the requisite training. Where deficiencies are identified, the employees should be provided appropriate training as a matter of priority.

Finally, you should be familiar with the kinds of problems you may face. As a commander with financial responsibilities, you are placed in situations where you must evaluate evidence and act responsibly.

Learning to differentiate one situation from another and to recognize the more important issues in each situation contribute to the development of a financial manager.

Conclusion

These "insights" noted below are from a general officer who received an official reprimand for dereliction

of duty in financial management. These examples were excerpted from the July 1976 edition of the *Armed Forces Comptroller* and are as applicable today as they were then.

...what happened to me was a failure of the system, and being on top of the system, I take full responsibility...

...we have had horrendous problems in pricing, billing and cash flow. We just didn't get cash into the program in time to pay our bills...

...we found numerous cases where we had funds that didn't match programs, and similarly, we had programs without matching funds...

...we are taking a hard look at reconciliations. How long has it been since you reconciled your finance records, or your procurement records to your finances? Do you have absolute control over customer orders within your own service as well as in support of other services?

...I conducted an extensive review of...audit reports going back to the sixties. I found (service-wide) reports during the time frame of the sixties which presented indicators of where the bottom fell out of the seventies. I also found (lower level) reports showing similar findings...

...The basic question boils down to 'Why did we not take corrective action on these reports at the time they were published?' The main reason was that our internal review staffs were looking elsewhere, our comptrollers were looking elsewhere, and our commanders were not looking down the throats of their comptrollers to ensure that corrective action was taken on these audit reports. I challenge all of you to look at your local audit reports of the last few years to be certain you are not going down the same path...

Sound financial management within a command requires the continued involvement of the commander in the financial management process. *Best wishes!* ◇

Notes

Chapter II

PPBS and Sources of Funds

§

Introduction

The funds approved for your use during any fiscal year are the end result of a long chain of sequential, complex and integrated events. The process by which resource requirements are determined, documented and costed in the DoD is known as the Planning, Programming and Budgeting System (PPBS). Through the PPBS, requirements for the manpower, money, and materials to carry out various programs are incorporated into a Future Year Defense Program (FYDP) which is reviewed by top level officials in the Military Departments, the Joint Staff, the Office of the Secretary of Defense (SECDEF), and the Office of Management and Budget. These requirements eventually become part of the President's Budget and are submitted to the Congress for its review and approval.

The Congress approves its version of the budget in the form of an appropriation bill which, after signature by the President, becomes law and an appropriation act.

Since the nature and amount of funds available at the activity level are heavily influenced by the PPBS and the actions of the President, the Congress, and others, this chapter presents an overview of these processes to increase your understanding of these important segments of the financial management process.

Planning, Programming, and Budgeting System

Planning and programming in the DoD is integrated with the DoD Planning, Programming, and Budgeting System (PPBS). Almost every headquarters, directorate, office, branch, or section influences or is influenced by this system of planning for national defense.

PPBS is a comprehensive system which provides the basis for standardized planning and programming for the DoD. It is described in detail in a rather comprehensive library of manuals, memoranda, orders, bulletins, and instructions, and this chapter highlights the most important milestones of the process.

As its name implies, PPBS consists of three separate and distinct phases:

- A planning phase where global threat is assessed and strategy to meet that threat is defined.
- A programming phase which translates the strategic plans into alternative force structure programs defined in terms of men, material, and financing.
- A budgeting phase which expresses the programs in annual funding requirements.

In actual operations, the system is not as definitive and orderly as the process just described. More accurately, the three phases are closely interrelated and the calendar events of planning and programming are timed to conform to the more rigid budgeting cycle.

Visualized in the broadest sense, the planning, programming, and budgeting system spans the processes listed below (implicit in the process is the development of objectives, the conduct of special studies, and research and development of weapons systems and their procurement and support).

- Collection of intelligence
- Appraisal of the threat
- Development of strategy to meet the threat based on national policy
- Determination of force levels to support the strategy
- Programming of weapons systems, manpower and support over a period of time to attain force levels within specified fiscal constraints.
- Budgeting funds to procure manpower and materials to carry out the programs.

Cycle

The DoD PPBS operates on an 18-month cycle, but the system is recycled annually and an overlap results. This means simultaneously budgeting for one year,

programming for the following year, and planning for the succeeding years.

The cycle is illustrated in Figure II-1 (at the end of this chapter) and includes the following major steps:

1. The Joint Chiefs of Staff (JCS) submit the Joint Strategic Planning Document (JSPD) to the SECDEF. The JSPD contains the recommendations of the JCS on the military strategy and force structure required to attain the national security objectives of the United States.
2. SECDEF issues Draft Defense Planning Guidance (DPG) based on review of the JSPD. The DPG may change the strategy in the JSPD based on changes in national security objectives or commitments provided by the President.
3. SECDEF issues a Study Plan (SP) which lists a series of studies, including assignments of responsibility, aimed at correcting analytical deficiencies made apparent in drafting the DPG.
4. SECDEF issues DPG. This marks the end of the planning phase. The DPG contains fiscal and other guidance for the programming phase of the process.
5. Military Departments and Defense Agencies submit Program Objectives Memoranda (POM) to SECDEF. The DoN POM is the Secretary of the Navy's biennial recommendation to SECDEF for the detailed application of DoN resources for six years, beginning two years after its approval and force level objectives for an additional three years.

The POM is developed within the constraints in DPG to satisfy all assigned functions and responsibilities. The POM is the instrument through which programming under fiscal constraints is implemented. It is also the primary means of requesting revisions to SECDEF approved programs.
6. JCS submits Joint Program Assessment Memorandum (JPAM) to SECDEF which include force and resource recommendations, rationale, and risk assessments. The JPAM is fiscally constrained, consistent with fiscal guidance in the DPG. In addition, manpower constraints are introduced into this programming phase.

7. SECDEF issues Program Decision Memoranda (PDMs). Issues related to force levels, systems acquisitions, research and development efforts, levels of support and similar topics identified in the POM are discussed by the Military Department Chiefs, Secretaries, and SECDEF resulting in major program decisions which are published as PDMs.

Rebuttals or reclaims to these decisions are submitted by Departments or Agencies and then final decisions are issued.

8. Departments and Defense Agencies submit budget estimates for the budget years during the last months of the cycle. It is in the annual DoD budget request where programming efforts are translated into annual funding requirements.
9. SECDEF issues Program/Budget Decisions after final review of the budget requests. The final budget decisions are incorporated into the President's Budget which is submitted to Congress.

System Products

Future Years Defense Program (FYDP)

The FYDP is formulated biennially and revisited in the "off-year" on the basis of SECDEF decisions in response to the POMs and budget requests submitted by the Military Departments. The FYDP is the summary of the approved Six-Year programs of all DoD components (Military Departments plus the Defense Agencies).

The FYDP projects force requirements for eight years and manpower and cost data (associated with approved programs) for six years. It is in the official program of the DoD and is updated as changes occur in accordance with the PPBS.

Budget

The biennial budgets of the Defense components are developed every other year and revisited in the "off-year" during the apportionment review on the basis of the forces and programs set forth in the FYDP. Budgets are expressed in greater refinement and detail than the FYDP.

The Defense portion of the President's Budget is based on SECDEF decisions regarding the separate budgets submitted by the defense components.

In summary, the basic procedures within the PPBS can be stated in a few words:

- Strategy is developed in consideration of the threat and policy.
- Force objectives are developed to support the strategy.
- Programs are developed to provide, on an orderly basis, ships, aircraft, weapons systems and manpower over the period of time with due consideration of the total cost to the Nation.
- Lastly, funds are budgeted to obtain the forces and weapons systems via appropriations requests to the Congress.

Obtaining Funds at the Activity Level

Beginning with estimates of the resources required for the activity which are developed in consultation with the technical staff, the comptroller adjusts the estimates as required and then consolidates the estimates into proper technical format.

The consolidated request is submitted through successive levels of higher command, culminating in appropriations to be approved by Congress. Once approved, authorizations to incur obligations and make expenditures against appropriations generally come down the same command chain that processes your original estimates. Naturally, changes may be made to your original estimates before they are approved since the competition for resources intensifies above the activity level.

Approved authorizations provide you the authority to expend public funds within the framework of the budget and justification submitted by you in support thereof. Central to this process of requesting and receiving funds is the concept of appropriations—how your estimates are consolidated by the various echelons of command above you, how Congress approves the DoD Budget, and how you are granted funding authority all involve “appropriations.”

What is an Appropriation?

The Congress provides funds principally by means of annual legislation known as the *DoD Appropriation Act*.

Before an Appropriation Act is passed, it is customarily preceded by an Authorization Act, which authorizes programs and the amounts to be appropriated for

the various DoD purposes. The Authorization Act also prescribes such things as military and civilian end strengths, training student loads, as well as providing new substantive authority.

Appropriations permit an agency to hire personnel, purchase supplies and equipment, award contracts, and incur other obligations.

Department of the Navy appropriations may be classified into three types—one-year, or annual appropriations; multiple, or more than one year appropriations; and no-year, or continuing appropriations. An annual or one-year appropriation is available for incurring obligations only during the fiscal year specified in the *Appropriation Act*.

Such annual appropriations include operation and maintenance (O&M) and military and reserve personnel. If funds from an annual appropriation are not obligated in the year of availability, they automatically revert to the grantor of the funds at the end of the fiscal year.

Multiple-year appropriations are available for incurring obligations for a definite period in excess of one fiscal year. The Navy and Marine Corps receive multiple-year appropriations for procurement, military construction and for research, development, test and evaluation.

A continuing or no-year appropriation is one which is available for incurring obligations for an indefinite period of time. Included in this classification of continuing or no-year funds are revolving funds, which are further explained in Chapter VI, “Defense Business Operations Fund (DBOF).” The appropriations not only specify the amounts but also the purposes for which funds may be used.

It is illegal to spend funds from one appropriation to accomplish a purpose for which that appropriation is not available. In other words, we cannot take funds that have been authorized and appropriated for buying aircraft and use them for ship construction, except as specifically authorized by law.

Appropriation Categories

The appropriation structure is based upon major programs or budget activities. The nature and number of appropriation categories are not static; they are often changed. Several broad categories remain relatively constant and encompass most of the Navy/Marine

Corps activities requiring funding. A brief description of appropriation categories follows.

Military Personnel, Navy (MPN) and Military Personnel, Marine Corps (MPMC)

These annual appropriations provide for the pay, allowances, clothing, and permanent change of station moves for active duty Navy and Marine Corps personnel. Appropriations are centrally administered.

Reserve Personnel, Navy (RPN) and Reserve Personnel, Marine Corps (RPMC)

These annual appropriations provide for the pay, allowances, clothing, per diem, travel and other related costs for Navy and Marine Corps Reserve personnel. Appropriations are centrally administered.

Operation and Maintenance, Navy (O&MN) and Operation and Maintenance, Marine Corps (O&MMC)

These are the bread-and-butter annual appropriations for most Navy and Marine Corps activities which provide funds to finance the costs of the day-to-day operations and maintenance.

The funds pay for salaries and fringe benefits for civilians; contracts for maintenance of equipment and facilities; fuel, supplies and repair parts for weapons; and equipment.

For most activities, the O&M appropriation provides funds for your operating budget which is your master financial planning and control document for accomplishing your mission.

Your operating budget contains estimates of workload, manpower and dollars and also a dollar estimate of the reimbursable workload or the work and/or services you may perform for others.

Operation and Maintenance, Navy Reserve (O&MNR), and Operation and Maintenance, Marine Corps Reserve (O&MMCR)

These are annual appropriations which provide for the day-to-day support of Navy and Marine Corps Reserve activities, ships and aircraft.

The support is similar to that of the active establishment under the O&MN and O&MMC appropriations.

Procurement Appropriations

The following appropriations comprise the procurement of multiple year appropriations of the DoN:

- Aircraft Procurement, Navy (APN)
- Weapons Procurement, Navy (WPN)
- Shipbuilding and Conversion, Navy (SCN)
- Other Procurement, Navy (OPN)
- Procurement, Marine Corps (PMC)

Those appropriations are generally administered centrally by the acquisition commands, except for command support equipment funding which is made available to you by various means.

Research, Development, Test and Evaluation, Navy (RDT&E,N)

This multiple year appropriation finances the cost of the scientific research, development, test and evaluation of new and improved weapons systems and related equipment for both Navy and Marine Corps.

The work is performed at Navy R&D laboratories and under contract by industrial firms, universities and nonprofit organizations.

Defense Business Operations Fund

The Defense Business Operations Fund (DBOF) operates using financial policies that were in place for revolving funds as modified by USD(C) guidance. A separate chapter has been included in this guidebook to familiarize you with the DBOF.

Military Construction, Navy (MCON)

This appropriation is used for the construction, conversion or improvement of permanent or temporary facilities and public works including land acquisition, site preparation, utilities and integral equipment supporting the active forces of the Navy and Marine Corps.

These funds are available for obligation for a period of five fiscal years. MCON is used for a minor construction project when the cost is anticipated to exceed the current threshold for funding by appropriations available for operations. Each project is supposed to produce a complete and usable facility or complete and usable improvement to a facility.

Military Construction, Naval Reserve (MCNR)

This is the reserve forces' of the Navy and Marine Corps equivalent of MCON. The principal differences between MCON and MCNR are in the manner of

breakout in the budget and Congressional approval levels.

Family Housing, Navy and Marine Corps

This appropriation is unusual in that it combines the financing of construction/improvement of family housing and related facilities, the operation and maintenance of these facilities, leasing of certain facilities and rental guarantee payments.

Funds appropriated for construction are available for obligation for five fiscal years while those for operation, maintenance and other ongoing costs are subject to the limitations associated with annual funds. Construction projects also include fixtures, shades, screens, and major appliances.

Flow of Funds

Having identified some of the largest appropriations, an explanation of how the funds start to flow downward from the Congress to you is provided. Knowing how these funds flow is helpful in understanding how restrictions and constraints are placed on the funds which eventually wind their way down to you at the activity level. Figure II-2 (at the end of this section) is a simplified version of how the process works.

Congress sends the DoD appropriations bill to the President, which, after signature by the President, becomes the *Appropriation Act*.

The next action is one of apportionment by the Office of Management and Budget (OMB). Apportionment must occur before your funds become available for commitment, obligation and expenditure.

The apportionment process in the federal government dates back almost 100 years. As originally enacted, it required that expenditures be spaced in an orderly manner throughout the year to avoid the need for additional Congressional appropriations.

With passage of the *Budget and Accounting Act of 1921*, apportionment was given an additional function, i.e., saving funds. This *Act* authorized the President to establish "reserves" to effect savings or to provide for contingencies. It is under this authority that the President, through OMB, often withholds funds appropriated by the Congress.

As a result of this apportionment process, the O&M annual appropriations are divided into four quarterly limits, not necessarily in equal amounts. For example, a

\$1M appropriation may be apportioned in one of the three ways shown below, or at any other rate as determined by OMB.

(\$In Thousands)

	I	II	III
1st Qtr	250	100	200
2nd Qtr	250	400	200
3rd Qtr	250	400	200
4th Qtr	250	100	*400
	\$1,000	\$1,000	\$1,000

* No more than 20 percent of an annual appropriation shall be obligated during the last two months of the fiscal year. The ASN (FM&C) applies and monitors this restriction at the appropriation level.

You can see that apportionment regulates the rate at which funds may be spent. The important thing to know is that the quarterly division of funds is as legally binding as the total limits of the appropriation itself.

After the appropriation is enacted and the apportionment is released by OMB, the apportionment becomes the SECDEF authorized obligation plan. Following the establishment of the rate of obligation by SECDEF, the ASN(FM&C) further subdivides or allocates funds to responsible offices in the DoN.

These allocations are usually divided into suballocations and are subsequently issued as operating budgets, allotments, suballotments or operating targets to make the funds available for commitment, obligation and expenditure.

- a. A commitment is a firm administrative reservation of funds, based on 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 official accounting records is

to reserve funds for future obligations. A commitment is subject to cancellation by the approving authority provided it has not been obligated. Commitments are not accounted and reported for under Operation and Maintenance appropriations.

- b. An obligation represents the amount of an order placed, contract awarded, service rendered, or other transaction which legally encumbers a specified amount of an appropriation or fund for expenditure.
- c. Expenditures (disbursements) result in actual payments from available funds. They are evidenced by vouchers, claims, or other documents approved by competent authority.

Importance of Undelivered Orders and Obligations

Undelivered orders/obligations are comprised of the following types of documents:

- contracts
- order for work or services
- travel orders

The dollar value of the above items represents obligations which have been entered into your activity's accounting records. Since the materials or services have not yet been received, final payment has not been made as an expenditure of your funds. It is important that you keep track of these undelivered orders and requisitions by periodic review and validation.

The *NAVCOMPT Manual*, Volume 3, requires that a minimum of three validation reviews be made each fiscal year. An astute manager would be wise to schedule more frequent reviews so that obligations which are no longer valid may be deobligated and these resources be put to use for additional purposes consistent with the intent of the original fund authorization.

Other Appropriation Issues

Budget Activities

The needs of the Department are too numerous, diverse, and complex to be identified meaningfully by only the general appropriation categories. Consequently, each appropriation is further broken down into budget activities which identify in greater detail the functions or areas to be funded under that appropriation. Budget activity titles provide more precise identification

as to what is covered within each appropriation. Some appropriations and their related budget activities are summarized and contrasted in Figure II-3 at the end of this chapter.

Transfer of Funds Between Appropriations

Under the Constitution, Congress must authorize the expenditure of all federal funds. These authorizations to spend money not only specify the amounts, but also the purposes for which money may be used. The intent of Congress regarding the use of Appropriated Funds is evidenced by the language of the *Authorization Act* and the *Appropriation Act*. No funds may be transferred from one appropriation to another unless expressly provided for by the Congress.

Obligating Appropriated Funds

Regardless of command level, obligations of Appropriated Funds may not be made prior to receipt of proper authorization, e.g., a manager may neither automatically obligate money on 1 October for communication equipment unless authorization to spend procurement funds has been received nor may obligations exceed authorized amounts (more in Chapter IV).

It should be noted that at times appropriations may not be enacted by the beginning of the FY. A Continuing Resolution for the interim period is usually effected, limiting obligations to the prior year's rate.

Optional Restrictions on Spending

The authorization for spending appropriated monies may also set forth certain restrictions such as:

- the total amount for a specified appropriation category may not be revised;
- not less than "X" dollars must be used for the maintenance, repair, and alteration of real property (floor); and
- not more than "Y" dollars may be used for the purchase of foreign-made items (ceiling).

A manager is bound by the restrictions included in the authorization issued by the approving authority.

Another example of restrictions on spending is the ceiling imposed on Travel of Personnel (TDY/TAD).

Authorization Accounting Activity

Accounting for a shore activity normally is performed by a fiscal office that is an organizational

component either of the same activity or of another activity designated to perform your accounting. In the case of the latter, insofar as the accounting relationship is concerned, the activity that is assigned the accounting responsibility is called the "Authorization Accounting Activity" (AAA) or "Defense Accounting Office" (DAO).

The detailed functions of the official accounting activity include, but are not limited to the following:

- appropriation
- stores
- plant property
- cost
- civilian payroll accounting

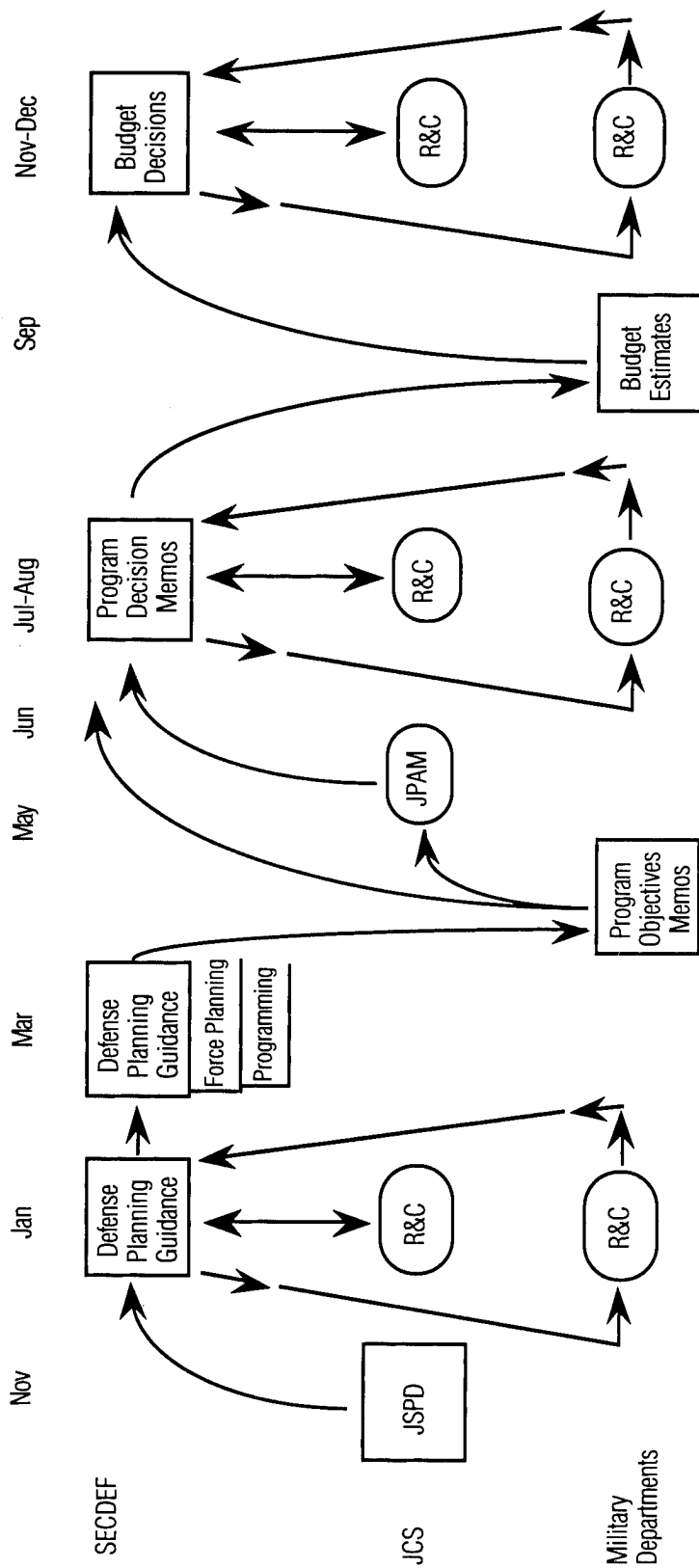
Inherent in this responsibility is the requirement for the AAA to provide you with timely and accurate reports needed for the effective management of programs and funds under your control. Where an AAA or DAO has been designated for your activity, it is essential that your fiscal personnel reconcile their records with accounting data by the AAA. Discrepancies should be vigorously pursued and eliminated.

Year-End Closing Guidance

The Defense Finance and Accounting Service (DFAS) and the DoN issue year-end closing guidance annually. Key issues of concern to the DoN in FY96 are:

- the posting of unresolved problem disbursements for canceled accounts;
- closing accounts; and
- obligations over 180 days old in active and expired accounts.

To maintain the integrity of DoN financial management processes and systems, fund authorization holders should stress the daily validation of financial transactions and the performance of detailed obligation reviews.◇



Legend:
 JSPD—Joint Strategic Planning Document
 JPAM—Joint Program Assessment Memorandum
 SECDEF—Secretary of Defense
 JCS—Joint Chiefs of Staff
 R&C—Review and Comment

Figure II-1: Planning, Programming, and Budgeting

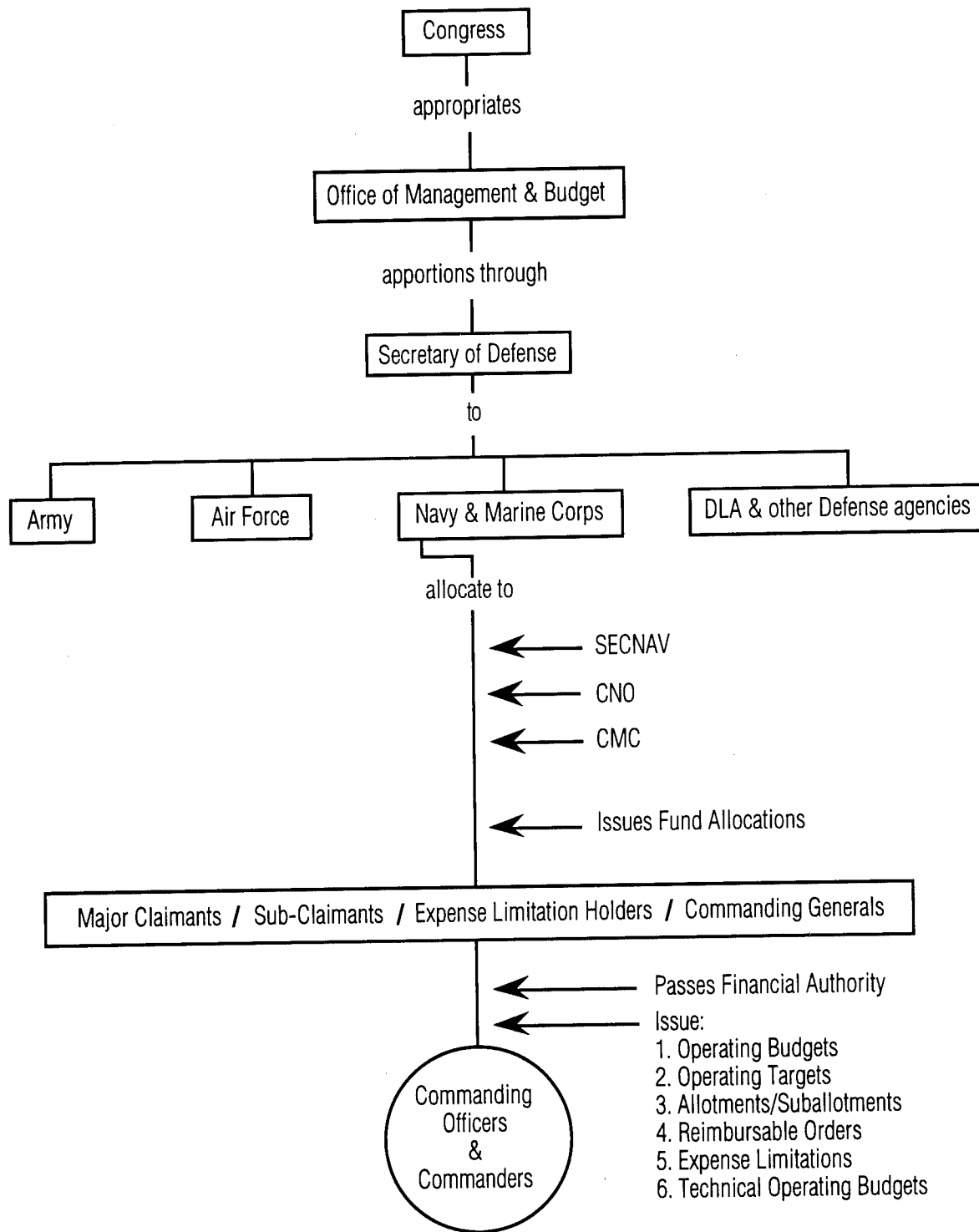


Figure II-2: Flow of Funds

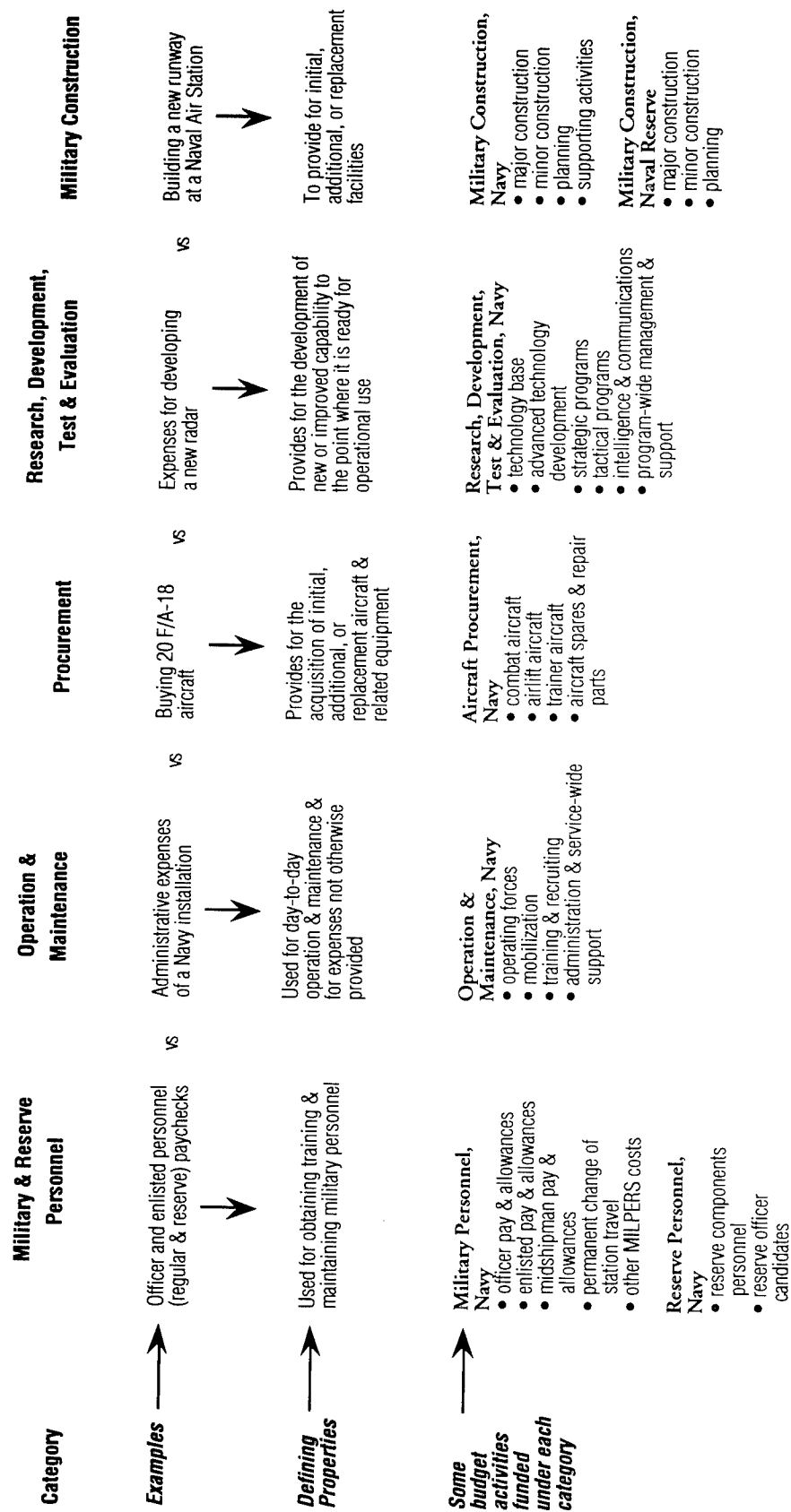


Figure II-3: Some Appropriation Categories and Related Budget Activities

Chapter III

Activity Level Budgeting

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What is a Budget?

A budget for any organizational entity is a financial plan of action. In its broadest sense, budgeting is a systematic technique for overall financial planning.

The budget is a combination of administrative and legislative process. The task of developing the budget of the U.S. Government has been delegated to the Executive Branch; the function of review and approval rests in the hands of the Legislative Branch. Thus, when an activity prepares its budget, it is forwarded to its management command and combined with other budgets.

In the final analysis, your activity's budget becomes a part of the DoN Budget, which in turn becomes a part of the DoD Budget, and ultimately it becomes a part of the President's Budget presented to the Congress for review, modification, and approval.

An operating budget is designed to provide a plan against which performance can be measured, variances analyzed, and adjustments made to permit effective management of resources at all echelons. Although the budget is an annual plan, it must contribute to the attainment of future objectives and missions. It is not an entity unto itself; it has roots in the past and must bear a direct relationship to the future.

The development of an operating budget is a process of determining valid requirements at the lowest echelon (normally a cost center), and summarizing these requirements with those of other cost centers for the total activity. In developing a budget, the cost center manager utilizes those specific guidelines provided by the commanding officer.

Budget Guidance

Substantive guidance concerning overall budget amounts and particular programs is developed at all levels and issued to subordinate echelons. Guidance is issued by the President based on a number of factors including various monetary and fiscal policy considerations as well as assessment of the international situation.

The Department of the Navy's budget guidance is issued in the *DoN Budget Guidance Manual*, NAV-COMPT Instruction 7102.2C and annual guidance or "calls" issued as memoranda, sequentially serialized as Budget Guidance (BG), Cycle Year, Number. Guidance from higher levels is translated into more specific guidelines at the lower levels. Budget formulation at operating activities is based on program planning and policy guidance received via command channels from the cognizant departmental organization. It may be supplemented at intermediate levels of command, and translated into specific requirements for the particular activity. The guidance also must reflect the management policies of the commanding officer who is responsible for the assignment of local budget responsibilities and final responsibility for the completed estimate.

Activity Level Budget Preparation

The commanding officer normally issues a yearly "budget call," requesting cost center managers to develop their operating budget estimates and provide supporting justification and date. (At small activities, the comptroller or budget officer may prepare the entire estimate with assistance from operating personnel.) In the budget call, the CO communicates policy decisions, assumptions, and instructions based on guidance received through command channels, together with a projection of local program and workload objective. Also included is: information about specific budget procedures; actions required of each cost center; the schedule for these actions; and the approved flow of budget data from point of origin to review levels. Basically, an operating budget is constructed in four steps:

- Translating the planned workload for each cost center into budget/accounting classifications such as civilian and military labor hours, material requirements, work or services to be performed by others, etc.
- Applying realistic dollar values to each of the above within the guidelines established by the OASN(FM&C) and management commands.

- Summarizing the dollar estimates for each cost center, thus providing the planned operating budget for internal use.
- Preparing the final budget for the total activity and submission to higher authority.

The CO's Review

Cost center estimates are usually forwarded first to the activity comptroller for analysis and review. The comptroller then presents these estimates to the commanding officer and offers such recommendations considered necessary. Your command review of the budget proposed by your subordinates is a very important function. It should be precise and detailed. At its conclusion, you should be personally satisfied that the proposal is valid. You must assure yourself that the budget recognizes all known requirements, that the workload planning is valid, and that the estimated costs are fully supportable to higher review authorities. You may approve, disapprove, or modify a cost center budget request based on your own evaluation of the program, workload, and priorities. If disapproved or modified, the affected departments must make the necessary adjustment and resubmit the estimates.

Following your final approval, the comptroller's staff summarizes the total operating budget in the required budget/accounting classifications. The submission to the next level of command should reflect the alignment of command priorities and should contain additional data required, such as schedules of personnel positions and compensation, statements justifying the planned workload, and justification for any increase over current funding levels.

Budget and Funds Justification

Because programs are as varied as they are numerous, there is no single form in which a proposal for funding can be described and justified. For example, the facts required to support a need for funds to cover "preservation of material in store" are quite different from the facts required to support funds for "Trident Missiles" or for "ship overhauls." The justification process tries to find the facts that are most useful in describing and supporting these varied requirements. Many of these facts are available from planning and comptroller personnel within your activity.

The justification process requires written and possibly oral and graphic material to support requests for funds. Such support is given at each level of review. The commanding officer may be required to justify the

request orally and through "backup" material to the superior in the funding chain. A brief on budget segments may be made, emphasizing areas where questions from higher levels are anticipated or where policy decisions are required.

You should realize that you may not receive 100% of the funds requested in your budget. In a period of declining resources throughout the DoD, it is prudent to ask, "*What if my budget is reduced by 5% or 10%?*" You should be in a position to balance your planned program of operations with available resources. If your approved budget is less than planned, you should have a list of programs which may be deleted or reduced in scope. On the other hand, if additional funds become available, a prioritized list of programs should be available for implementation.

Fund Authorizations and Limitations

After your budget submission has been approved by your chain of command, funding is obtained through two media: an operating budget or allotment. These funding authorizations provide obligational and expense authority for accomplishment of your mission and for budget execution. The funding authorizations contain essential information regarding availability of funds and identify those legal limitations, targets, and restrictions on the use of those funds. Funding authorizations for operation of the mission of your activity are identified as follows:

Operating Budgets/Allotments

NAVCOMPT Form 2168-1
Resource Authorization (O&M Activities)

NAVCOMPT Form 2189-1
Approved Operating Budget (RDT&E,N Activities)

NAVCOMPT Form 372
Allotment/Suballotment Authorization

Reimbursable Orders

NAVCOMPT Form 2275
Order for Work or Services

The funding authorization may contain amendments to increase or reduce program and related financing or to finance unbudgeted or cost growth requirements. Reimbursable orders are used by all activities to finance those areas which are not financed

by management commands through the O&M and RDT&E,N operating budgets.

It is your responsibility to become thoroughly familiar with the financial management system applicable to your command. This can generally be accomplished by scheduling indoctrination sessions with the comptroller when you assume command. This should familiarize you with the financial terminology unique to your financial management system and better inform you of the proper channels for obtaining adequate resources to accomplish your mission. The indoctrination sessions should include a complete discussion of any fund limitations imposed by issuers of operating budgets/allotments and reimbursable orders.

The type of limitations are varied, depending on the sources of funds made available to operate your activity. Some of these limitations are:

- **New Obligational Authority.** This is a legal limitation imposed initially by the Congress and transmitted through various funding commands to the activity fund authorization level. It is subject to 31 U.S. Code Section 1517(a), the *Anti-Deficiency Act*. A full discussion of the most important limitation is contained in the next chapter.
- **Equipment.** End-items of equipment with a unit cost of \$50,000 or more or items that are centrally managed cannot be funded as an operating expense. Funds for this purpose are provided to you by special funding authorizations from procurement appropriations.

Allotments/Suballotments

All initial fund authorizations under appropriations other than the O&M and RDT&E appropriations are in the form of allotments. Two important documents are the:

NAVCOMPT Form 372, Allotment/Suballotment Authorization, the document which provides the allotment, and

NAVCOMPT Form 2025, Status of Fund Authorization which provides a monthly status of the allotment.

The granting of an allotment reduces the available balance of the appropriation but does not constitute a

commitment or an obligation. The holder of an allotment may create commitments, obligations and expenditures against the appropriation within the scope of the allotment.

The holder of an allotment may issue suballotments when appropriate. The granting of a suballotment reduces the available balance of the allotment but does not constitute a commitment or an obligation. The holder of a suballotment may create commitments, obligations and expenditures against appropriations within the scope of the suballotment.

Operating Targets

Commanding officers may give subordinates a degree of financial responsibility paralleling their other responsibilities by the administrative procedure of issuing operating targets (OPTARs) for funds that are planned for utilization by the subordinate commander. The OPTARs are not to be construed as legal subdivisions of funds; therefore, if you issue an OPTAR, you still retain all legal and accounting responsibility for the assigned funds. Funds issued to operating target holders are not subject to 31 U.S. Code Section 1517(a).

Full-time Equivalent (FTE)

The *Federal Work Force Restructuring Act of 1994* was signed by the President on 31 March 1994, providing a statutory ceiling on the total number of full-time equivalent work years which may be executed by the end of each fiscal year, FY 1994 through FY 1999. This ceiling replaces the prior DoN administrative Manage To Payroll fiscal controls and legally proscribes exceeding established work year targets. The flexibility formerly available to accommodate civilian personnel staffing adjustments to meet emergent workload changes is severely constrained.

Starting with FY 1995, major claimants are provided total FTE ceiling controls at the claimant level with sub identification at the Appropriation/Fund, direct/indirect hire level, and DBOF business area. Budget execution is monitored based on the total statutory FTE work year ceiling. This statutory ceiling reflects the budgeted direct and reimbursable work year levels. Major claimants are afforded flexibility to realign FTE ceilings among Appropriations, Funds or DBOF business areas while remaining within their total work year ceiling target. ♦

Notes

Chapter IV

Legal Aspects of Fund Management

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31 U.S. Code Section 1301(a)

This provision of law dealing with the application of monies appropriated by Congress requires that funds be used only for purposes for which the appropriation is made.

The law states:

Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law.

For example, this law provides that funds appropriated for Operations and Maintenance expenses such as utilities or building repairs may not be used for investments such as procurement of a large computer or a tugboat.

31 U.S. Code Sections 1341(a), 42, 49-50; 1511-19

These provisions, often referred to collectively as the *Anti-Deficiency Act*, are probably the most important legal limitations affecting the Commanding Officer at the activity level.

The statute most commonly referred to is 31 U.S. Code Section 1517(a) which prohibits any officer or employee from making or authorizing an obligation in excess of the amount available in an appropriation or fund.

The *Anti-Deficiency Act*:

- prohibits the acceptance of voluntary services on the employment of personal services in excess of that authorized by law, except in cases of an emergency involving the safety of human life or the protection of property.
- provides that the person who caused the violation may be subject to discipline which may include suspension without pay or removal from office. If action is done knowingly and willfully, that person may be subject to criminal penalties of a fine up to \$5,000 or imprisoned for not more than two years, or both.

- forbids the involvement of the government in any contract or obligation to pay money in advance of an appropriation.
- requires apportionment by months, quarters, other regular periods, by activities or functions, or a combination of both methods.
- requires the head of each agency to issue regulations establishing an administrative control system with a dual purpose: first, to keep obligations within the amount of apportionment; and second, to enable the agency to fix responsibility for making obligations in excess of the apportionment.

When Does a Violation of the Anti-Deficiency Act Occur?

When an action is taken which results in an overcommitment, overobligation or overexpenditure of funds in any appropriation or subdivision thereof, or exceeds any statutory or administrative limitation applied to a particular fund, a violation of 31 U.S. Code Section 1517(a) occurs.

Violations of other parts of the *Act* can occur when any officer, enlisted person or civilian involves the government in a contract or obligation either in advance of appropriations or without adequate funding authority or accepts voluntary services or employs personal services in excess of that authorized by law (except in cases of emergency).

Most common are violations of 31 U.S. Code Section 1517(a) which have occurred as a result of a violation of 31 U.S. Code Section 1301(a). After funds are used inappropriately—a violation of 31 U.S. Code Section 1301(a)—the accounting records must be adjusted to reflect the proper charges. In the process of making these, it sometimes is discovered that insufficient funds existed at the performing activity to make the correction. In this manner, a violation of 31 U.S. Code Section 1517(a) occurs. Examples are listed below.

- Operations and Maintenance (O&M) funds were provided to an activity in its Operating Budget. The activity planned to use some of the operating funds to lease reproduction equipment. The company leasing the equipment apprised the representatives of the activity of an opportunity to "buy out" the lease under very favorable terms.

Believing this option to be in the best interests of the government, activity personnel decided to utilize funds provided in the Operating Budget to buy the equipment. Since the correct appropriation for this purchase was Other Procurement, Navy (OPN), in taking this action, funds were used for a purpose other than that provided by law, a violation of 31 U.S. Code Section 1301(a) and, because the activity did not have sufficient OPN dollars to cover the purchase, a violation of 31 U.S. Code Section 1517(a) occurred.

- Operation and Maintenance, Navy (O&M,N) minor construction dollars were used to build an addition to an existing building. The construction occurred in several stages with no single stage exceeding the \$300,000 threshold on use of minor construction dollars.

Subsequently, it was determined that the several stages should have been viewed as a single project and, as such, Military Construction (MILCON) dollars were appropriate. Since the local command did not have authority to obligate MILCON dollars, a violation of 31 U.S. Code Section 1517(a) occurred.

- Operation and Maintenance, Navy Reserve (O&M,NR) dollars were provided to an activity on a reimbursable funding document for performing engineering services for ships in the Navy Reserves. In an audit, it was determined that, at the verbal request of the fund's originator, the money was used to perform services which benefited the ships in the active fleet.

Despite the verbal direction, this was an inappropriate use of O&M,NR and a violation of 31 U.S. Code Section 1301(a). Since the activity did not have an O&M,N-funded order against which it could legitimately charge the work, a violation of 31 U.S. Code Section 1517(a) occurred.

Other violations have occurred as a result of procedural problems, as shown in the examples listed below.

- At a Naval Training Center, auditors found that Navy Stock Fund (NSF) obligations were incurred in excess of allotment authorizations. Three overobligations were identified ranging from \$156,000 to \$807,000. Requisitions for material had been placed in the supply system without adequate funds to pay for them. To avoid detection, obligations were not entered into the accounting records under the assumption that the obligations would be recorded when additional funds became available.

- An audit of a Naval Air Station disclosed ten instances in which obligational authority granted under NSF allotments was exceeded from about \$38,000 to \$469,000 during one fiscal year. The reasons for the violations are as follows:

- a. Obligations were incurred without regard to fund availability because financial reports were not prepared at prescribed intervals.

- b. Controls did not ensure that all financial transactions were recorded as obligations in the accounting records.

- c. Satellite activities with authority to initiate transactions chargeable to the Air Station did not promptly forward obligating documents.

- d. Periodic and year-end validation of outstanding obligations and accounts payable were not performed.

- During a scheduled audit, a review of the Other Procurement, Navy (OPN) budget, its supporting documentation, its execution and the status of funds disclosed that the official accounting ledgers showed a negative balance in the account. Further examination revealed that the balances in the official accounts excluded additional valid obligations and commitments. Factors contributing to the overobligations were:

- a. Delayed processing of accounting transactions,

- b. Lack of control over document flow, and

- c. Misinterpretation of document status (e.g., obligations were erroneously recorded as commitments, and commitments were recorded as obligations).

Reporting Requirements

Reports of violations under the administrative control of appropriations regulations conform to detailed guidance contained in the *DoD Financial Management Regulation*, Volume 14, "Administrative Control of Funds and *Anti-Deficiency Act* Violations."

Reports of violations of 31 U.S. Code Section 1301(a) must be prepared and kept on file internally. Known and suspected violations of 31 U.S. Code Section 1517(a) must be reported through the chain of command to the ASN(FM&C) and OUSD(C) on a monthly basis. Final reports should be filed as expeditiously as possible. The final report is provided, ultimately, to the President of the United States and to the Congress.

A key aspect of the report is the identification of responsible persons and the discipline applied. Depending on the nature of the violation, administrative discipline may range from a verbal admonition to release from employment. If the violation is determined to have been a result of willful intent and/or is incident to fraud, the case should be turned over to the Naval Criminal Investigative Service (NCIS). In such an instance, criminal penalties may be applied.

In the following circumstances, apparent violations of 31 U.S. Code Section 1517(a) are not considered true violations, and no formal report is required:

- **Erroneous Charging or Recording.** An erroneous charge may occur through indication of the wrong appropriation, subhead, budget project, or authorization number on the expenditure document (including the recording of duplicate payments or overpayments). An erroneous recording is the posting, by the accounting activity, of an authorization of funds, obligation, commitment, or expenditure on the wrong record, or the posting of an amount other than that shown on the document.
- **Appropriation Accounts not Subject to Reporting Requirements Below the Appropriation Level.** The reporting requirements for the following funds, miscellaneous accounts, and special deposit accounts, are applicable only at the appropriation level:
 - a. Trust Funds
 - b. Deposit Funds
 - c. Budget Clearing Account (Suspense), Navy

- **Return or Withdrawal of Funds.** The withdrawal of funds are amendments of original fund authorizations. As such, withdrawal of funds does not constitute valid reductions of previous fund authorizations if they are in excess of the following:
 - a. Unallotted balances, in the case of withdrawals of allocated funds.
 - b. Unobligated balances, less amount of outstanding contingent liabilities under contract (for example, for price redetermination and quality variances) in the case of allotted funds.

31 U.S. Code Section 1517(a) Checkpoints

The charts on the following pages pinpoint several essential areas regarding 31 U.S. Code Section 1517(a). Shown for each type of funding source (i.e., O&M, RDT&E, MILCON, etc.) are the funding document, reporting document, and a brief description of how a violation occurs and where to detect violations.

Each source of funds has been further subdivided to identify potential violations for various categories of funds such as operating budget authority, reimbursable authority, or allotments.

The specific NAVCOMPT Forms and the appropriate columns or places on the forms pinpoint the specific information regarding overcommitments, overobligations, and overexpenditures. (See charts on pages 28 and 29.)

31 U.S. Code Section 1517(a) Checkpoints

Source of Funds	Category	Funding Document	Reporting Document	How a Violation Occurs	Where to Detect Violations
O&M (Regular & Reserve)	New Obligational Authority (NOA)	Resource Authorization (NAVCOMPT Form 2168-1)	Trial Balance Report (NAVCOMPT Form 2199)	When the cumulative quarterly New Obligational Authority in Column (11) of NAVCOMPT Form 2168-1 is exceeded.	An apparent violation is indicated when the NAVCOMPT Form reports a debit balance in the account 3212. Uncommitted/Unobligated Authorization-Direct Program during the current fiscal year or a debit balance in the account 3280. Direct Unobligated Balance Available in Expired Accounts used to control the various programs or categories.
	OB Restrictions/Limitations	NAVCOMPT Form 2168-1: Remarks section will clearly identify items subject to 31 U.S. Code Section 1517(a)	NAVCOMPT Form 2199	When new obligational authority that is restricted to a given item is exceeded or not adhered to.	The General Ledger accounts reported in the NAVCOMPT Form 2199 provide the visibility to detect an apparent violation of 31 U.S. Code Section 1517(a). The activity comptroller should provide identification of the General Ledger accounts used to control the various programs of categories.
RDT&E,N	Reimbursable Authority	Project Order (PO) or Work Request (NAVCOMPT Form 2275), & other reimbursable documents	Local management reports such as the Reimbursable Work Order Records & Report on Reimbursable Orders (NAVCOMPT Form 2193)	When obligations &/or accrued costs exceed the amount authorized in the funding document & the funding document conveys 31 U.S. Code Section 1517(a) responsibility.	Acceptance of a Reimbursable Order for Work or Services automatically increases the amount available for obligation within the Operating Budget. Obligations & accrued costs must not exceed the amount of the total amount authorized in the Reimbursable Order. As a check, local management reports will reflect obligations, expenditures & billed amounts for each Reimbursable Order. These reports should be reconcilable with records maintained by the Authorization Accounting Activity such as the Reimbursable Work Order Record (NAVCOMPT Form 2164) & the Reimbursable Orders Received Journal (NAVCOMPT Form 2166), The Report on Reimbursable Orders (NAVCOMPT Form 2193) will provide funds status.
	New Obligational Authority (NOA)	NAVCOMPT Form 2189-1	NAVCOMPT Form 2199	Obligations in excess of the amount authorized by the operating budget for each program element.	An apparent violation is indicated when the NAVCOMPT Form 2199 reports a debit balance in the account 3211. Uncommitted/Unobligated Authorization-Direct Program.
Military Construction (Regular & Reserve)	Reimbursable Authority	Order for Work & Services (NAVCOMPT Form 2275)	NAVCOMPT Form 2193 & local management reports	When obligations &/or accrued costs exceed the amount authorized in the funding document, the admonitions of 31 U.S. Code Section 1517(a) apply separately to each accepted reimbursable order containing a legal constraint; also, when total obligations (accrued costs & outstanding obligations) exceed the reimbursable programs element availability.	Acceptance of a Reimbursable Order for Work or Services automatically increases the amount available for obligation within the OB. Local reporting systems should be established to identify each Reimbursable Order, amount authorized, commitments, outstanding obligations, accrued costs & billings against each Reimbursable Order.
	Allotments/Suballotments	NAVCOMPT Form 372	NAVCOMPT Form 2025	When obligations exceed authorizations.	NAVCOMPT Form 2025: Gross Obligations "Current Total" (Column 8) must not exceed Authorizations "Current Total" (Column 4).
Military Construction (Regular & Reserve)	Reimbursable Authority	Order for Work & Services (NAVCOMPT Form 2275)	NAVCOMPT Form 2193 for each Reimbursable Order; local management reports; & Division Status Report (NAVFAC 2315)	When obligations &/or accrued costs exceed the amount authorized in the funding document, the admonitions of 31 U.S. Code Section 1517(a) apply separately to each accepted reimbursable order. When total obligations (accrued costs & outstanding obligations) exceed total reimbursable availability at the budget project level.	Acceptance of a Reimbursable Order for Work or Services automatically increases the amount available for obligation within the allotment. Billings must not exceed the amount of each funded document. Local reporting systems should be established to identify each Reimbursable Order, amount authorized, commitments, outstanding obligations, accrued expenditures & billings against each.

31 U.S. Code Section 1517(a) Checkpoints (continued)

Source of Funds	Category	Funding Document	Reporting Document	How a Violation Occurs	Where to Detect Violations
Family Housing Management Account, Defense	Allotments/ Suballotments	NAVCOMPT Form 372	NAVCOMPT Form 2025 & Housing Cost Report	When obligations exceed authorizations.	NAVCOMPT Form 2025: Gross Obligations "Current Total" (Column 8) must not exceed Authorizations "Current Total" (Column 4).
SCN, WPN, APN, OPN, PMC	Allotments/ Suballotments	NAVCOMPT Form 372	NAVCOMPT Form 2025	When obligations exceed authorizations.	NAVCOMPT Form 2025: Gross Obligations "Current Total" (Column 8) must not exceed Authorizations "Current Total" (Column 4).
Reimbursables			Order for Work & Services (NAVCOMPT Form 2275)	When obligations &/or accrued costs exceed the amount authorized in the funding document, the admonitions of 31 U.S. Code Section 1517(a) apply separately to each accepted Reimbursable Order containing a legal constraint.	Acceptance of a Reimbursable Order for Work or Services automatically increases the amount available for obligation within the allotment. Local reporting systems should be established to identify each Reimbursable Order, amount authorized, commitments, outstanding obligations, accrued expenditures, & billings against each.
MPN	Allotments/ Suballotments	NAVCOMPT Form 372	NAVCOMPT Form 2199	When obligations exceed authorizations.	An apparent violation is indicated when the NAVCOMPT Form 2199 reports a debit balance in the account "Uncommitted/Unobligated Authorization-Direct Program."
RPN	Allotments/ Suballotments	NAVCOMPT Form 372	NAVCOMPT Form 2025	When obligations exceed authorizations.	NAVCOMPT Form 2025: Gross Obligations "Current Total" (Column 8) must not exceed Authorizations "Current Total" (Column 4).
MPMC	Allotments/ Suballotments	NAVCOMPT Form 372	NAVCOMPT Form 2025	When obligations exceed authorizations.	NAVCOMPT Form 2025: Gross Obligations "Current Total" (Column 8) must not exceed Authorizations "Current Total" (Column 4).
RPMC	Allotments/ Suballotments	NAVCOMPT Form 372	NAVCOMPT Form 2025	When obligations exceed authorizations.	NAVCOMPT Form 2025: Gross Obligations "Current Total" (Column 8) must not exceed Authorizations "Current Total" (Column 4).
DoN Stock Fund (Navy Portion)	Budget Project Level	Budget Project Suballocation (NAVSUP Form 1084)	NAVSUP Form 1091 Project Control Ledger Summary	When commitments or obligations exceed suballocation.	NAVSUP Form 1091: Under "Current Total," obligations or commitments must not exceed authorizations.
DoN Stock Fund (Navy Portion)	Allotment Level	NAVCOMPT Form 372	NAVCOMPT Form 2129 Status of Fund Authorization-Stock Fund	When commitments or obligations exceed total allotment.	NAVCOMPT Form 2129: Under "Current Total," obligations or commitments must not exceed authorizations.
DoN Stock Fund (Navy Portion)	Individual procurement document	Purchase request or requisition with firm limitation		When purchasing office is a separate entity not under the immediate supervision of the commanding officer of the activity placing the limiting requisition or request & an order is placed in excess of the limitation.	Contract/Purchase Order files of purchasing activities.
DoN Stock Fund (Marine Corps Portion)	Allotments/ Suballotments	NAVCOMPT Form 372	NAVCOMPT Form 2025	When obligations exceed authorizations.	NAVCOMPT Form 2025, Gross Obligations "Current Total" (Column 8) must not exceed Authorizations "Current Total" (Column 4).
Defense Business Operations Fund (DBOF)	Capital Budget plus Major Maintenance	Annual Cost Authority	Monthly Obligation Report	When obligations exceed cost authority.	Compare obligations on monthly report with cost authority.

Notes

Chapter V

Activity Level Accounting (Appropriated Fund)

§

Definition

Accounting is defined as the science of recording, classifying, summarizing, reporting and interpreting financial transactions and events. Accounting must not be viewed as an end in itself but as a useful tool. It is a method of communicating financial facts concerning an activity to those who have an interest or responsibility to interpret and use those facts.

Background

The DoN accounting system is controlled by acts of Congress; by regulations of the General Accounting Office, the Office of Management and Budget, and the Department of the Treasury in which Congress has placed joint authority to control financial management in the federal government; and by regulations of the DoD. The Constitution of the United States of America states:

No money shall be drawn from the Treasury, but in consequence of appropriations made by law; and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time.

Over the years, statutes have been passed, appropriation language devised, and administrative practices developed for the purpose of ensuring that funds are expended in a manner consistent with the will of Congress. Congress has repeatedly expressed the following objectives of federal accounting systems:

- Full disclosure of the financial results of agency activities;
- Production of adequate financial information needed for agency management purposes;
- Effective control over the accountability for all funds, property, or any asset for which each agency is responsible;
- Reliable accounting results to serve as the basis for preparation and support of agency budget requests, for controlling the execution of the budgets, and for providing financial information

required by the Office of Management and Budget; and

- Suitable integration of agency accounting with the central accounting and reporting operations of the Department of the Treasury.

Scope

Within these provisions, the general ledger account structure is applicable to all appropriations and funds. Accounting subsystems are identified with the functional purpose they serve. Generally, accounting subsystems may be classified as:

- Operation and Maintenance Appropriations
- Research, Development, Test, and Evaluation Appropriations
- Procurement Appropriations
- Military Construction Appropriations
- Other Appropriations or Funds

The general ledger accounts for each appropriation subsystem can be found in the applicable accounting handbooks or user's manual supporting that particular subsystem. Below is a list of the *Financial Management of Resources* handbooks.

NAVSO P-3006—*Operation and Maintenance (Shore Activities)*

NAVSO P-3013—*Operating Forces*

NAVSO P-3014—*Departmental Level, O&MN*

NAVSO P-3062-1—*Research, Development, Test and Evaluation (Departmental Level)*

NAVSO P-3062-2—*Research, Development, Test and Evaluation (Activity Level)*

NAVSO P-1570—*Military Construction*

Although activities may receive funding under any of the above subsystems, this chapter primarily addresses operations accounting for shore activities under the *Operations and Maintenance Appropriation (Shore Activities)* NAVSO P-3006.

Each accounting subsystem uses a selected group of general ledger accounts applicable to classifying and

reporting its transactions. The accounts are uniform in definition and coding wherever used. Therefore, throughout the DoN, similar transactions may be uniformly classified, accumulated and reported.

Such uniformity affords greater opportunity to prescribe standard methods and procedures in accounting and reporting for all appropriations. Summary reporting at the various levels of administration is facilitated.

Accounting System

The accounting system provides accounts, records and procedures for recording transactions and is designed to include accounting and budgeting controls. The accounts and records are designed to provide financial data and cost information required by a commanding officer and activity cost center managers.

Effective application of the system requires a carefully planned organizational structure, well-defined operating policies and procedures, clear delegation of duties to subordinates, competent personnel, and a strong evaluation program.

The system design includes reporting of planned output, actual output, and variances, and recognizes that the quantitative information should be used by management in the process of assuring that resources consumed are used effectively and efficiently in accomplishment of the mission of the activity.

Requirements for accumulating and reporting work unit data are provided within the system. Although top-level management need not concern itself with the details of accounting, it is appropriate to show briefly what the accountant is doing and what information can be given to the commanding officer and cost center managers.

General Ledger Controls

The general ledger accounting system provides a uniform accounting technique for classifying all financial transactions as to assets, liabilities, investment, income, expenses, and memo/budgetary accounts, and is used to control, summarize and report the results.

Relationship of General Ledgers to Other Parts of Accounting System

General ledger accounting provides a uniform method of control over other parts of the accounting system, such as appropriation or fund accounting, expense accounting, cost accounting, and property or

inventory accounting. The relationship of parts of the accounting system is discussed briefly in the following subparagraphs.

Appropriation and Fund Accounting

Regulations pertaining to the administrative control of appropriations require the maintenance of a system of administrative control which shall:

- restrict obligations or expenditures against appropriations or other funds to the amount therein;
- fix responsibility for violations; and
- provide financial reports on the status of funds administered by the DoN.

Appropriation and fund accounting provides the system to accomplish this objective by identifying and accounting for each appropriation as a separate entity throughout its existence from the time of appropriation through apportionment, transfer, allocation, authorization, obligation, expenditure, reimbursement or refund, and until closed.

General ledger control accounts in the system provide for the needs of appropriation fund administration.

Expense Accounting

Expense accounting is the application of the accrual accounting concept to appropriation or fund accounting. It is the recognition of costs when resources are consumed or when a benefit is actually provided.

Expense accounting is not specifically addressed in appropriation language nor in formal budget execution reporting, but it is a specific requirement of the Comptroller General's principles and standards for accounting systems.

Expense accounting serves a number of management purposes, among which are to provide financial data for:

- the operating expense budgetary requirements and analyses incident to budget administration and program management within the operating budget concept;
- the correlating of nonfinancial operating data to meet requirements of the budget estimates and financial plans;

- development of cost factors by mission, function, or weapons system for purposes of evaluating performance and related resource consumption; and
- financial and progress analyses and evaluation of programs and operations in relation to plans.

General ledger accounts along with subsidiary accounts of the system provide the necessary summary controls.

Cost Accounting

Cost accounting is the accounting process used to determine the cost of resources used to perform a service or product or improve an asset. Cost accounting classifies financial data regarding the application of resources at the lowest level of detail within the accounting system.

Each cost accounting system is subsidiary to the general ledger system which exercises summary control. Each cost account is tailored to the type of activity or function it serves.

Cost accounting provides for accumulation of costs by responsibility centers and levels of management responsibility.

Property and Inventory Accounting

Property and inventory accounting generally encompasses the acquisition, consumption and other disposition of property and inventories of the DoN.

Property and inventories include material-in-transit, stores, real property, equipment in use, industrial equipment reserve, and all DoN-owned materials in the hands of contractors. Specific subsystems provide for accounting and reporting of inventories, plant property, and military equipment in use.

The appropriation accounting system provides information only for the acquisition costs of property and inventories. Other financial transactions affecting property and inventory accounts must be derived from each specific subsystems.

Accounting Structure

Major Classifications of General Ledger Accounts

- Real Accounts—include asset (property, inventory and accounts receivable), liability (accounts

payable and unearned revenue), and investment (invested capital and unexpended appropriations) accounts.

- Nominal Accounts—include expense (operating expense and transfers out) and income (transfers in and foreign currency transaction gains) accounts.
- Memorandum/Budgetary Accounts—are provided for special control or reporting purposes, such as breakdown of appropriations into allocation and allotments.

The general ledger is a book of accounts in which all financial transactions are recorded and from which financial reports are provided. A general ledger is maintained for each shore activity under its cognizance. The account codes, titles and definitions are contained in the *Financial Management of Resources* handbooks.

Basic Characteristics

The primary source of data for financial planning/financial control of operations is a system of accrual accounting with expense classifications appropriate for management.

The DoN accounting system has four major characteristics described below.

Double entry accounting requires that for each debit or credit entry in one general ledger account, there must be a balancing debit or credit in one or more of the other general ledger accounts.

Accrual accounting is a technique whereby expenses and liabilities are recorded when material, work or services are received rather than when collected.

It is important to note that the General Accounting Office does not approve an accounting system unless it complies with accrual accounting concepts.

Internal control includes segregating the personnel functions so that the person disbursing funds does not certify the receipt of material or services; fixing responsibilities; and providing for audit trails.

System integration means that the chart of accounts serves the dual purpose of collecting all financial information needed to protect the integrity of the appropriation and provide cost data in terms needed for management/budgetary review/analysis.

Reporting

The Commanding Officer and cost center managers have at their disposal a number of management and financial reports under the accounting system for operations. The reports and their distribution are covered briefly.

Financial Management Reports

NAVCOMPT Form 2168 Operating Budget/Expense Report—provides management with details as to work units completed, man-hours, and accrued expenses, cumulative-to-date, by responsibility center for each subactivity group code, functional/subfunctional category code, and cost accounts within the responsibility center. A similar report is required for each cost center comprising the responsibility center.

NAVCOMPT Form 2169 Performance Statement—provides management with the actual fiscal budget.

Uniform Management Report Formats (UMR)—the formats are in four report options for field level managers. The principal data elements that are used in budget formulation at the activity level.

These report formats are prepared for each activity and cost center manager and provide actual fiscal year-to-date totals for accrued expenses, undelivered orders, and work units together with the approved annual budget for each subactivity group code, functional/subfunctional category code, and cost account in the operating budget.

In addition, the report formats display management information not available in the NAVCOMPT Forms 2168 and 2169, e.g., obligations, production rates.

NAVCOMPT Form 2199 Trial Balance Report—provides the current fiscal year status of all funds (direct and reimbursable) received by the activity on the NAVCOMPT Form 2168-1, Resource Authorization, and funded reimbursable orders. The report is the basis for preparation of fiduciary reports to higher authority.

NAVCOMPT Form 2171 Activity/Subactivity Group/Expense Element Report—provides detailed input to major claimants/subclaimants for summarization and submission to the CNO/

OASN(FM&C) level. The report consists of accrued expenses and gross adjusted obligations for the current month and fiscal year-to-date in terms of subactivity group codes, functional/subfunctional category codes, expense elements, and subhead.

Facilities Management Reports

The facilities management reports are special management reports for utilities, transportation, maintenance and housing that are produced to satisfy outside functional requirements to enable technical program managers to monitor and evaluate performance.

Monthly Report of Travel Advances Outstanding

This report provides advice of travel scheduled to have been completed ninety (90) days or more prior to the end of the report month.

The Commanding Officer, or designee, upon receipt of a copy of this report, should take action to notify the traveler(s) of their failure to repay the excess travel advances.

Summary

The hierarchy of reports should progress upward from specific date-oriented cost center reports, which are then summarized and forwarded for additional consolidation into reports at the responsibility center (Commanding Officer), subclaimant, major claimant, and departmental levels.

The success or failure of financial reporting can be measured by the extent to which local and top management are informed of potential or actual deviations from budget plans, as well as by the extent to which this information is provided in time for management to make decisions and to take the most effective action. It can also be judged by the extent to which exceptions reported to local and top management are serious.

The prescribed reports are like building blocks as they are forwarded up the chain of command. As a result of good reporting, management is not only better informed, but more effective. When accurate records are kept, reprogramming and supplemental requests from the command can be supported.

In an organization as complex as the DoN where many programs interrelate, reports to management must show these interrelations to enhance financial

management DoN-wide by providing data on past experience, as well as supporting details for estimates of future requirements.

The Financial Management System contributes materially to budget formulation and justification.

Providing data on the status, interrelationships, and progress of programs, efficient budget execution results at all management levels.

Enhanced reporting is the cohesive force that unites all facets of a program into an integrated whole, from program inception to culmination.◇

Notes

Chapter VI

Defense Business Operations Fund (DBOF)

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General

As authorized by 10 U.S. Code Section 2208, the Defense Business Operations Fund (DBOF) essentially combines existing commercial and business operations that were previously managed as individual revolving funds into a single revolving, or business management fund.

Other business areas that have met the criteria for inclusion have been added to the DBOF.

Criteria for inclusion of a business area in the DBOF are: the goods and services (outputs) produced by the business area have been identified; costs of the business area can be related to these outputs; and the customers of the business area have been identified.

Fund Management

Functional and cost management cash responsibilities remain with the Military Departments and Defense Agencies.

Prices for outputs produced in a business area remain the responsibility of the managing command and are set, in the form of stabilized rates, to recover costs over the long term.

Individual business activities concentrate on managing these costs rather than on the level of cash available. Profits, when they occur, are returned to customers through lower rates in subsequent years, while losses are recouped through increased rates in subsequent years.

Unit Cost

The unit cost (cost per output) concept has been established for business areas within the DBOF. Unit cost goals are established by the USD(C) and passed to DBOF activities via the chain of command.

These goals are used as a control mechanism and indicator of business efficiency. This cost-oriented approach is designed to encourage management to consider all costs including overhead in terms of the business output.

Structure and Content

General

Within the DoN, DBOF activities operate under the USD(C) guidelines for centralized policy and decentralized management. The following paragraphs briefly describe the business areas operated by DoN.

Supply Support

The Supply Management business area consists of various inventory control points which procure material for their customers and make repair parts available in support of military readiness.

Material is procured from contractors and held in inventory for sale to authorized customers.

Customers purchase the material using Appropriated Funds. Prices for items purchased cover the acquisition cost plus the cost of supply operations and transportation.

Distribution Depots

The DoN Distribution Depot business area consists of three overseas depots:

Pearl Harbor
Guam
Yokosuka, Japan

This business area receives, stores, and issues material to overseas customers.

Logistics Support Activities

The Logistics Support Activities business area consists of activities which provide a variety of direct fleet support services.

These services include contract management reviews, large and small procurements in support of fleet units, port services for docked ships, and the load-out of combat logistics ships for fleet commanders.

Depot Maintenance

The Depot Maintenance business area consists of maintenance, repair, and manufacturing activities. They include weapons stations, shipyards, aviation depots, and the Marine Corps Depot Maintenance (MCDM) activities at Albany, GA and Barstow, CA.

Work is billed to customers based on the quantity of direct labor and materials consumed as well as the appropriate share of allocated indirect and general and administrative (G&A) costs.

Research and Development

The Research and Development business area consists of multiple centers and labs which provide research and development, engineering, and test and evaluation support for weapons programs.

These activities include:

- Naval Research Laboratory
- Naval Civil Engineering Laboratory
- Naval Command, Control, and Ocean Surveillance Center
- Undersea, Surface, and Air Warfare Centers

Direct and overhead costs at these activities are billed to customers.

Base Support

The Base Support business area is comprised of Naval Facilities Engineering Command Public Works Centers (PWCs) and the Naval Academy Laundry.

The PWCs provide facility maintenance, utility services, and other engineering support services to installations and their tenant activities.

Customers are billed for the direct costs of repair and maintenance and an allocated share of indirect and general and administrative costs.

Utilities and sanitation services are sold on the basis of usage.

The Naval Academy Laundry provides service to authorized individuals at prices competitive with commercial facilities. Direct and overhead costs of the laundry are billed to customers.

Information Services

The Information Services business area consists of the Naval Computer and Telecommunications Command activities which provide communications and automated data processing services to customers on a fee-for-service basis.

Printing and Publications Service

The Printing and Publications Service business area consists of the Defense Printing Service (DPS) which has been designated as the single manager for DoD printing.

DPS provides management and operation of a worldwide printing, production, and procurement network.

Transportation

As part of the Transportation business area, the Military Sealift Command (COMSC) is responsible for operating both DoN-unique sealift assets (which are managed directly by COMSC) and common support sealift assets (which are managed by the Transportation Command [U.S. TRANSCOM]).

This business area provides seaborne transportation services and accumulates and distributes costs to outputs measured primarily in terms of cargo movement (e.g., measured tons).

Budget Formulation

Operating Budget

The operating budget reflects the total operating costs/expenses required for a DBOF activity to accomplish its assigned workload.

The operating budget includes depreciation or amortization costs for all capital assets benefiting the business area.

Expenses reflected in the operating budget are consistent with the revenue recognition policy discussed in the *NAVCOMPT Manual*, Volume 7.

Capital Budget

The capital budget separately identifies the development, manufacture, transfer, or procurement of capital assets for use by DBOF activities.

Capital assets include:

- equipment other than automated data processing equipment (ADPE);

- ADPE and telecommunications resources;
- software development;
- facilities construction; and
- management improvement initiatives having a value of \$50,000 or more and a useful life of two years or greater.

The \$50,000 threshold is intended to be consistent with Congressional action on expense/investment criteria. Accordingly, determination of expense/investment shall exclude transportation, design, installation, and other related costs.

These additional costs are included as part of the total cost of the capital asset identified in the capital budget and are included in the amount depreciated or amortized over a predetermined period as discussed in the *NAVCOMPT Manual*, Volume 7.

Minor Construction

Minor Construction projects costing \$50,000 or more, but less than \$300,000, are funded through the capital budget and are fully depreciated in the operating budget.

Military Construction

Military construction projects (i.e., construction projects costing more than \$300,000) are budgeted and funded through the applicable Military Construction appropriation, but business areas include the cost of military construction projects in their capital budget as non-add entries and fully depreciate such projects in their operating budget. Maintenance and Repair

All maintenance and repair projects on existing facilities are an expense. Major maintenance and repair projects—those costing \$50,000 or more—are specifically identified and funded in a separate section of the business area annual operating budget. In the accounting records, business areas expense, on a monthly basis, a predetermined amount for major maintenance and repair projects.

Depot Maintenance Equipment

Purchase and installation costs for the initial procurement of all depot maintenance capital equipment required to support, and unique to newly-introduced platforms or weapons systems are funded in the appropriate procurement appropriation.

Platform or weapons systems program managers are responsible for ensuring that the equipment and installation are programmed and budgeted in the proper appropriation and for coordinating equipment requirements, specifications, and delivery with the receiving DBOF activity.

Once transferred to or otherwise capitalized by the DBOF activity, the capital equipment becomes the property of the activity.

The DBOF activity treats the equipment as a capital asset, depreciates the equipment, and funds subsequent replacement and maintenance of the equipment in its capital and operating budgets.

Financial Policy

General

The USD(C) incorporated DBOF policy into the *DoD Financial Management Regulation*, Volume IIB, "Reimbursable Operations, Policy and Procedures—Defense Business Operations Fund." The following paragraphs discuss policy areas which have been specifically addressed or modified by the USD(C).

Mobilization/Surge Costs

To ensure adequate cost visibility, separate funding is required for costs related to mobilization and wartime surge capacity that would not otherwise be incurred to meet peacetime requirements.

Prices of outputs provided to peacetime customers exclude these costs but they are elements of business area costs and must be fully justified in the business area budget submission. Justification for such costs must identify the scenario assumptions or other basis for the requirement and must provide a description of how the costs are collected and accounted for in execution.

War Reserve Material

War reserves are procured and maintained to meet wartime requirements as determined by Defense guidance. These costs are funded with direct procurement appropriations, not through customer rates.

Since war reserve material is under the management of the supply management business area, war reserve requirements are identified in the supply management business area budget to support procurement appropriation requests.

Military Personnel Costs

Reimbursement to Military Personnel Appropriations

Military personnel costs have been included in the DBOF to ensure that the total costs of a business area are being captured. The cost of military personnel included in the DBOF is reimbursed to the applicable Military Personnel appropriations, and the budget request for those appropriations reduced accordingly.

Costing at Civilian Rates

It is understood that some military personnel may be working in business areas for a variety of reasons not related to peacetime missions. These include career progression and sea/shore rotational assignments.

If it were not for these requirements, some positions now staffed by military personnel could be staffed with civilians at a lower cost than military members.

DBOF policy provides for "costing" at civilian rates for military personnel that are assigned to DBOF activities only for career progression and rotational assignments.

The additional costs of these military personnel over and above equivalent civilian salaries and wages are financed separately in the applicable Military Personnel appropriations.

Complete justification must be provided in budget justification materials to support each military billet proposed for civilian equivalent costing.

Depreciation/Amortization Costs for Capital Assets

All capital assets owned by activities in the DBOF are capitalized and depreciated or amortized by the individual business area.

Additional guidance regarding the treatment of capital assets is provided in the USD(C) memorandum of 21 July 1992.

Categories of Capital Assets

As discussed in the *NAVCOMPT Manual*, Volume 7, capital assets consist of:

Tangible Capital Assets

These assets include all depreciable property, equipment, and software which are developed, manufactured, transferred or acquired at a determinable cost of \$50,000 or more; are used over some period (useful life), and the length of which is estimated to be two

years or greater; and generally, become economically worthless (except for residual value) at the end of their estimated useful lives.

Intangible Capital Assets

These include amortizable investments which cost \$50,000 or more; have projected pay-back-periods; have economic value over some period (useful life, the length of which is estimated to be two years or greater) but lack physical substance; and have no residual value at the end of the estimated useful life. Management initiatives and training initiatives are examples of intangible assets.

Management Initiatives

Management initiatives include planning, designing, developing, and implementing a functional initiative for the benefit of the business area (i.e., strategic planning, requirements development, and organizational redesigns which are expected to result in improved operations and reduced costs).

Training Initiatives

Training initiatives consist of organic or off-site developmental and improvement training initiated or requested by a business area from which specific benefits are derived over a designated period for an identified segment of the work force.

Ownership of Capital Assets

Capital assets used by a DBOF activity in providing goods or services must be recognized in the property and financial records of that DBOF activity. Ownership determines which activity is entitled to record a capital asset in its property and financial records.

The cost of depreciation or amortization of capital assets owned by a DBOF activity must be reflected in the operating budget of the DBOF activity.

Depreciation/Amortization Criteria

Depreciation

Tangible capital assets are depreciated by DBOF activities using a straight-line method based on the original acquisition cost, or reasonable estimate thereof, including transportation, design, installation and other related costs, less the residual value of an asset.

Depreciation Schedule for Capital Assets

- Facilities construction projects—20 years

- Equipment purchases (other than ADPE and Telecommunications Equipment)—10 years
- ADPE and Telecommunications Equipment—5 years
- General Purpose Vehicles—5 years
- Software Development—5 years

Assets that are partially depreciated when capitalized to the DBOF shall be depreciated for the remaining cost over the remaining useful life.

Assets that are older than the criteria provided above are considered fully depreciated. For new acquisitions, depreciation commences during the year of delivery.

Amortization

Intangible capital assets are amortized (i.e., recognized by the allocation of cost) as operating expenses over the periods in which the assets are expected to provide benefits.

Management Headquarters Costs

Management headquarters are defined as major commands, subordinate commands, major claimants, and Defense agency headquarters.

In keeping with the DBOF principle of charging customers the full cost of providing goods and services, costs related to the portion of management headquarters dedicated to the management of DBOF activities are reflected in the DBOF and recovered through the stabilized rates charged to customers (effective FY94).

Recovery of Costs

Price Setting

All business areas are required to set their prices based upon full cost recovery, including general and administrative support provided by others.

Prices are established through the budget process and remain fixed during the year of execution; actual costs are evaluated against revenue generated by workload at established prices; and the financial condition of the business area assessed accordingly.

Profits or losses are determined at the end of the year and are employed as a basis for evaluating operating efficiency.

Rate Stabilization

Prices for every business area are established for each fiscal year. Once established, these prices are held constant, or stabilized, through program execution.

This stabilized rate policy serves to protect customers from unforeseen inflationary increases and other cost uncertainties and to assure customers that they will not have to reduce programs to pay for potentially higher-than-anticipated prices.

This policy also allows DBOF activities to execute programs at the budgeted level and, thus, permits effective utilization of DBOF resources.

Detailed guidance on the rate stabilization program is contained in the *NAVCOMPT Manual*, Volume 5.

Accumulated Operating Result

Prices for the budget year(s) are set to recover total costs over the long run. This means that prices are set to achieve an Accumulated Operating Result (AOR) in the budget year(s) of zero.

During budget execution, business areas have either a positive or negative Net Operating Result (NOR). Accordingly, prices in the budget year are set to either make up actual/projected losses or to give back actual/projected gains in the budget year(s).

Revenue Recognition

To ensure consistency and comparability within and between business areas, the percentage-of-completion method shall be used for all end-product type orders that are expected to be completed in a fiscal year other than the fiscal year in which the order is started.

When costs are incurred on a relatively uniform basis over the life of the order, revenue may be recognized as a percentage of incurred costs to total projected costs.◇

Notes

Chapter VII

Morale, Welfare and Recreation Activities

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Background

The DoN advocates the establishment and operation of well-rounded Morale, Welfare and Recreational (MWR) programs to ensure the mental and physical well-being of its military personnel. Depending upon the nature of individual types of MWR activities, some are wholly or predominately operated and maintained with Appropriated Funds while others are wholly or predominately operated and maintained with Nonappropriated Funds.

Nonappropriated Funds are derived from sources other than Congressional appropriations, primarily from the sale of goods and services to DoD military and civilian personnel and their dependents. 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.

Policies

The DoD Nonappropriated Funds policy and procedures are provided in Volume 13 of the *DoD Financial Management Regulation*.

Programs and facilities provided through morale, welfare and recreation functions are deemed by the DoN to be essential to the performance of its functions. As such, they are necessary adjuncts of the department.

Morale, welfare and recreation activities are instrumentalities of the federal government and, as such, are entitled to all the immunities and privileges which are available to the departments and agencies of the federal government under the Constitution and statutes.

MWR programs are administered in compliance with applicable federal laws and operate in concert with certain state and municipal laws. Questions involving jurisdiction and compliance, which cannot be resolved locally, should be submitted to the appropriate authority for resolution.

MWR programs within the DoN have been classified for financial reporting into the following three basic categories:

Category A—Mission-Sustaining Activities

Category B—Basic Community Support Activities

Category C—Business Activities

The entities operate under technical and administrative direction published by their respective program manager. Examples within each specific category are listed at the end of this chapter. Activities should be classified according to how they are organized and operated. For example, a rod and gun club may be operated as part of a special services program (welfare and recreation), established as a private organization, or organized as a self-sustaining business activity category.

The facilities and/or services of morale, welfare and recreation programs are not available to any group which practices discrimination on the basis of gender, race, creed, color or national origin. This does not prohibit the establishment of cultural or ethnic private organizations if membership is not restricted or discriminatory. Private organizations whose memberships are restricted on the basis of religion may be authorized to operate on DoD installations provided authorization is also approved for requests by similar organizations without preference.

Responsibilities

Commanding Officer

Fund administration and supervision is a command function. Consequently, commanding officers have the same responsibility for the proper administration of Nonappropriated Funds as for any other functional element of their command. Under the technical supervision of the appropriate program manager, and in accordance with applicable directives, the commanding officer has jurisdiction over and is responsible for the establishment, administration, operation, and functional condition (including solvency, stability and dissolution) of morale, welfare, and recreation activities and:

- directs the activity operation
- reviews and evaluates financial statements

- appoints qualified managers and ensure that an advisory group is designated for each morale, welfare and recreation program to act in an advisory capacity to the commanding officer (the custodian/treasurer of the business activity categories such as flying clubs, rod and gun clubs, etc., should be elected or appointed from the memberships of such activities subject to the approval of the commanding officer)
- budgets for Appropriated Funds which are authorized to support morale, welfare and recreational activities
- ascertains that each activity is being properly administered and its property safeguarded, that all income has been received in full and properly recorded, and ensure that all disbursements are made only for authorized purposes
- directs that inventories are taken as required by governing directives

Program Manager

The program manager (Chief of Naval Operations; Headquarters, U.S. Marine Corps; Bureau of Naval Personnel; Naval Supply Systems Command; and Military Sealift Command), as the administrative manager for morale, welfare and recreation functions under his/her command, is responsible for:

- the technical and administrative directives which set forth requirements for establishment of the programs;
- implementing an accounting system;
- implementing report requirements;
- aiding in the preparation of budgets;
- specifying management policies;
- specifying formats and provisions of contracts;
- disposing of surplus property;
- establishing policies for purchasing, contracting, investing, administering and protecting assets; and
- establishing audit programs and management review cycles.

Manager

The manager as a direct representative of the commanding officer exercises executive control over the MWR function and is charged with the following responsibilities and specific duties:

- receives, safeguards, disburses and accounts for monies and other assets.
- puts into effect all management policies as directed by the program manager, the commanding officer and other competent authorities.
- employs/trains/supervises/discharges personnel.
- establishes a continuous training program.
- develops, implements and maintains an internal control system.
- is financially liable for losses of monies and property when dishonesty, fraud or culpable negligence is established.
- ensures that financial reports are prepared.
- ensures the adequate protection of cash (including bank deposits) and proper investment of monies.
- prepares necessary budgets.
- ensures that inventories are taken.
- is responsible for all purchasing/contracting.
- is responsible for all financial operations of the activity to include all income-producing or service functions.

Appropriated Fund Support

General

Common support consists of services and related goods provided to an activity by another activity as a part of its mission. MWR activities, because they are located on DoN bases, frequently utilize common support available to them.

It is not always possible to place a monetary value on some common support services provided to MWR activities because some of these functions are generally performed at the base, regardless of the presence of an MWR activity. This type of function is usually consid-

ered to be an indirect cost to the tenants of the base, including MWR activities. Other common support can be separately identified as resulting directly from the presence of the MWR activity and is, therefore, considered to be a direct cost of the MWR activity.

Indirect Support

All MWR activities are allowed to receive appropriated fund indirect support. Indirect support is provided by the base or installation commander to protect the health and safety of participants, employees, resources and property. It includes, but is not limited to:

- fire protection
- security protection
- pest control
- sewage disposal
- trash and garbage removal (Note: not authorized for military exchanges in CONUS)
- snow removal
- road and sidewalk maintenance
- safety, medical, veterinary and sanitary inspections
- authorized veterinary care
- rescue operations

Guidance concerning the reporting of indirect support for MWR is contained in NAVCOMPTINST 7102.2C, the *DoN Budget Guidance Manual*.

Direct Support

All MWR activities may utilize direct common support services provided by a base or installation commander. Category A and B activities are authorized to use Appropriated Funds for these services, but revenue generating activities (Category C) must bear the costs utilizing Nonappropriated Funds resources.

Common support services include, but are not limited to:

- custodial services
- accounting and financial management services

- communications
- Civilian Personnel Office/HRO assistance
- procurement, technical advice, assistance and administration

When the sum of direct common support services provided by a base or installation commander to an MWR program or activity is less than \$500 per year, the cost is generally considered to be uneconomical for billing purposes. Common service support costs less than \$500 per year which are not billed to the MWR activity are not considered to be a cost to the MWR activity or program.

If appropriated fund costs over \$500 are generated, or if MWR activity utilization of these services generates addition, incremental appropriated fund costs or personnel at the base or installation level to adequately address the common support requirements of MWR activities, costs are considered direct MWR expenses.

Reporting Requirements

Financial statements are prepared at the end of each accounting period—monthly, quarterly or annually, as prescribed by the program manager and/or the OASN(FM&C).

The four Principal Financial Statements are listed below.

- Balance Sheet: Provides information related to the assets, liabilities, and net worth at a selected point of time, usually at the end of the accounting period.
- Income Statement: Summarizes the revenues and expenses over an accounting period.
- Reconciliation of Net Worth: Summarizes all the changes in net worth during the accounting period.
- Appropriated Fund Support to Nonappropriated Funds Instrumentalities (NAFIs).

Classification of Activities

General

The continuum of MWR activities from mission-essential to businesslike has been divided into three categories, with the level of direct appropriated support

allowable defined by category, in accordance with budget policy established below.

Category A: Mission-Sustaining

This category contains those activities which are considered most important for the health and well-being of the military member.

Also included are all consolidated support services functions such as accounting, procurement, or personnel services for one or more MWR activity, regardless of category.

Examples of **Category A** activities include:

- Armed Forces Professional Entertainment Programs Overseas
- MWR Consolidated Support Service Offices
- Gymnasium/Physical Fitness/Aquatic Training
- General Libraries (excludes Technical Libraries)
- Parks and Picnic Areas
- Recreation Centers/Rooms
- Shipboard Activities
- Shipboard/Isolated/Deployed/Free Admission Motion Pictures
- Sports/Athletics (Self-Directed, Unit Level, Intramural)
- Unit Level Programs and Activities

Activities in this category have virtually no capacity for generating revenue. Category A activities are supported almost entirely with Appropriated Funds, with the use of Nonappropriated Funds as essential for the operation of a facility or program.

Category B: Basic Community Support Activities

Category B contains activities closely related in terms of supporting the military mission to those grouped in Category A.

These activities differ from those in Category A primarily because fees are usually charged for participation and thus some revenue is generated.

Examples of **Category B** activities include:

- Amateur Radio
- Arts and Crafts Skill Development
- Automotive Crafts Skills Development
- Bowling Centers (12 lanes or less)
- Child Development Centers
- Community Centers
- Entertainment (music and theater)

- Marinas Without Resale or Private Boat Berthing
- Outdoor Recreation
- Recreational Information, Ticket/Tours Services
- Recreational Swimming Pools
- Sports Programs (above the intramural level)
- *Stars and Stripes*
- Youth Activities

These activities are not expected to sustain themselves based purely on the fees charged. These MWR activities are generally supported by a mixture of Appropriated and Nonappropriated Funds.

Category C: Business Activities

Category C activities have the highest capability to generate revenue through the sale of goods and services to authorized patrons for use in specific morale programs.

Examples of **Category C** activities include:

- Academic Bookstore
- Aero Clubs
- Amusement Machine Locations and Centers
- Animal Care Funds
- Armed Services Exchange & Related Activities
- Armed Forces Recreation Centers (accommodation/dining/resale facilities)
- Audio/Photo and Other Resale Activities
- Bingo
- Bowling Centers (over 12 lanes)
- Cabins/Cottages/Cabanas/Recreational Guest Houses
- Catering
- Golf Courses
- Joint Service Facility (The New Sanno)
- Marinas and Boating Activities With Resale or Private Boat Berthing
- Military Open Messes/Clubs
- Motion Pictures (Paid Admission Functions)
- Motorcycle Clubs
- Package Stores
- Pro Shops
- Recreation Equipment Checkout
- Rod and Gun Clubs
- Scuba/Diving
- Skating Rinks
- Skeet/Trap Ranges
- Snack Bars/Soda Fountains
- Stables
- Temporary Lodging Facilities
- Unofficial Commercial Travel Services

Chapter VIII

Management Controls

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DoN Management Control Program

The *Budget and Accounting Procedures Act of 1950* requires each agency to establish and maintain adequate systems of internal control. The Office of Management and Budget (OMB) Circular A-123 establishes government policy on internal control and assigns management the responsibility of establishing, maintaining, reviewing and improving internal control systems in each agency. The Circular requires:

- assigned responsibilities for carrying out internal control initiatives and evaluations;
- performance of risk assessments to determine the susceptibility of programs and operations to fraud, waste or mismanagement;
- performance of management control reviews which are detailed reviews of internal control systems to ensure controls exist and function as intended;
- identification of weaknesses/deficiencies and performance of appropriate corrective action.

The *Federal Managers' Financial Integrity Act (FMFIA)* of 1982 amended the *Budget and Accounting Procedures Act of 1950* to require ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control. Each government agency is required by the *Act* to establish, maintain and evaluate internal control systems in accordance with standards prescribed by the Comptroller General and guidelines issued by OMB. In addition, the *Act* requires an annual statement from the head of each Executive Agency to the President and the Congress stating whether or not the agency's internal control systems comply with requirements of the *Act*. Material control weaknesses are to be identified along with plans for correcting deficiencies.

The DoN Management Control Program was initiated through the issuance of SECNAVINST 5200.35 (series) which implements the DoD Directive 5010.38 (series). The Under Secretary of the Navy

(UNSECNAV) directs and manages the DoN Management Control Program. The UNSECNAV conveys overall internal control policy and direction through the Chief of Naval Operations, the Commandant of the Marine Corps and the Assistant Secretaries of the Navy and Secretariat Staff Offices, as appropriate.

The ASN(FM&C) is responsible for program management and administration and has established a staff office to administer the Management Control Program for DoN. Through the UNSECNAV, this office develops and publishes policy and procedures, provides Program/technical guidance, and maintains oversight of the DoN Management Control Program. Specific questions you may have regarding the Program should be directed to the OASN(FM&C), Attn: FMO-33, 1100 Navy Pentagon, Washington, DC 20350-1100.

The Management Control Program applies to all programs and functions in each DoN organization. The Program requires all levels of management to involve themselves in assuring the adequacy of controls in their area of responsibility by performing risk assessments, management control reviews, and documenting and reporting the related results or utilizing the results of alternative management control reviews. The results of these assessments and reviews are consolidated and reported through the chain of command to the Secretary of the Navy.

Risk Assessments

A risk assessment is a management evaluation of an assessable unit (a major organizational programmatic or functional entity) aimed at identifying the potential for mismanagement, loss, fraud or waste in a program or function.

The objective in performing assessments is to attain a ranking of assessable units as high, medium or low susceptibility to loss, unauthorized use of resources, errors in reports or information, illegal or unethical acts, and/or adverse or unfavorable public opinion. This ranking determines priorities for conducting management control reviews over a five-year period or cycle.

Assessable units rated as having a high risk must be reviewed during the first two years of the five-year cycle and reviews of all other assessable units with ratings of medium or low over the entire five-year period.

Assessments are to be conducted as frequently as circumstances warrant, but not less frequently than once every five years. For example, assessments should be conducted as soon as possible on new programs and functions, those which have undergone extensive change, and on those programs/functions (assessable units) being phased out to ensure that controls operate during the phaseout period.

Management Control Review

A management control review is a detailed examination of a program or an assessable unit to ensure management controls exist, are documented and are functioning as intended.

These reviews should identify weak, nonexistent or excessive controls and initiate actions necessary to correct noted deficiencies. Management control reviews are performed at each DoN command and activity by the managers responsible for the assessable unit under review.

The results of audits, inspections, etc., may be considered alternative management control reviews and utilized in lieu of conducting a management control review, but alternative management control reviews must have tested controls and documented the results.

Documenting and Reporting the Results of Assessments and Reviews

Documentation must be maintained at each command and activity to ensure that assessments and reviews are performed in accordance with DoN procedures and OMB guidelines. The documentation should identify assessable units reviewed, management officials who performed the assessment or review, the process and results, plans for corrective action and estimated completion date(s).

Reports must be prepared in accordance with DoN guidance, to summarize the results and assessments and reviews.

Annual Management Control Certification Statement

An annual management control certification statement by the SECNAV to the SECDEF is required by the FMFIA. Feeder certification statements to the

SECNAV are required from the CNO, CMC, and other Echelon 1 commands, and the ASN(FM&C).

Those certifications are based on statements from subordinate components. All reports flow via the chain of command. Statements must be signed by the component head or deputy and be in the format prescribed by DoN guidance.

Command Management, Economy, Efficiency, and Review

Commanding officers are responsible for ensuring economical and efficient use of command resources. They need to ensure that mechanisms are in place to assess the effectiveness of management control procedures related to accountability, recordation, certification and the expenditure of funds.

In addition, commanding officers must have a means to evaluate use of personnel resources and the control of command property, materials and supplies.

The approach taken to achieve this end is left to the discretion of each commander/commanding officer. Specific functions to be covered should include:

- Reviewing safeguards/refinements to existing controls for material/financial accountability.
- Randomly reviewing the proper execution of various directed programs such as (1) cost reduction, (2) financial reports generated by or for the activity, and (3) physical inventory and reconciliation.
- Maintaining liaison and providing assistance to auditors of the Naval Audit Service assigned to perform continuous, periodic, or integrated audits; providing similar liaison and assistance where appropriate to other audit or inspector representatives such as the GAO, Inspector General, command inspections, etc.
- Reviewing "Hotline" complaints.
- Reviewing the civilian timekeeping and payroll functions and certain NAFIs Activities.
- Monitoring the correction of deficiencies which are revealed by the Naval Audit Service, GAO, or by other external reports, analyses, or observations.

Commanding officers have the option of maintaining a local audit staff if there is a need for a dedicated in-house audit function. The work of local audit staffs is subject to the policies, standards, and oversight of the Auditor General of the Navy.

To enable the Auditor General to exercise oversight responsibilities, commanding officers must report the establishment of a local audit office to the Auditor General and, upon request, release all audit reports prepared by the staff to the Auditor General or other investigators in cooperation with existing DoN policy. Local audit offices must be staffed by fully qualified auditors.◇

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Chapter IX

Auditing

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Audit Organizations

Audit organizations include:

Naval Audit Service (NAVAUDSVC)

DoD Inspector General (DODIG), Assistant Inspector General for Auditing (AIG(A))

USD(C), Defense Contract Audit Agency (DCAA)

General Accounting Office (GAO)

**Nonappropriated Fund Instrumentalities (NAFIs)
Audit Organizations**

Local Audit Organization

An audit is an official examination or verification of an activity's financial records, programs and operations, performed by auditors in conformance with government auditing standards as issued by the Comptroller General of the United States.

Commanding officers and managers should be familiar with the NAVAUDSVC and DODIG audit plans for their organization. Each commanding officer and manager should ensure that they are personally informed of the status of audit work being performed in their organization.

DoD audit policies prescribe a broad management approach to auditing. The SECDEF and the SECNAV have emphasized the value of audits in helping management identify deficiencies or undesirable conditions to initiate, plan and take corrective actions required.

Management should recognize that auditing is an independent staff function. An auditor's responsibilities are to report the facts and make recommendations to appropriate levels of management that can take corrective actions on the recommendations. The auditors exercise no authority over activities or organizations. The audit effort in no way relieves management of its assigned responsibilities as management must make the final decisions on appropriate courses of action.

The Auditor General of the Navy (AUDGEN) is the senior DoN advisor to the UNSECNAV on all audit-related matters. The NAVAUDSVC under the direction of the AUDGEN is responsible for conducting internal audit functions within the DoN. The AUDGEN also provides oversight of audits performed by DoN Nonappropriated Fund Instrumentalities (NAFIs) Audit Organizations. GAO, DODIG and DCAA are external audit organizations to the DoN.

DODIG audits frequently cover functions common to two or more Military Departments.

DCAA audits focus on DoD contractor operations. GAO establishes an annual audit plan for federal agencies. GAO performs audits, called surveys or reviews in response to requests from members of Congress and Congressional committees. Nonappropriated Fund Audit Organizations audit morale and welfare funds. Local Audit Organizations audit command operations and functions.

A brief synopsis of the audit organizations that audit DoN activities is below.

Naval Audit Service

The NAVAUDSVC is the DoN internal auditing organization with responsibility for accomplishing the DoN audit mission. The NAVAUDSVC conducts independent audits on programs, activities, systems, procedures, and other operations involving the expenditure of funds, utilization of resources, or accomplishment of DoN management objectives. Many audits are "management" or "performance-oriented" with primary emphasis on DoN-wide functions. The functions can be audited Military Department-wide, which allows auditors to cross command lines as needed to fully evaluate the functions being audited and make recommendations to senior DoN managers. Financial statement and financial-related audits also are performed.

NAVAUDSVC professional personnel include auditors and individuals with special skills in disciplines such as Management Information Systems, Financial Management, Economics, Logistics Management,

Procurement Management, and Nonappropriated Fund Management. NAVAUDSVC utilizes automated information systems and microcomputers in support of audit operations to improve audit coverage.

NAVAUDSVC Headquarters is located in Falls Church, VA. NAVAUDSVC has three area offices and each has local audit offices and sites at the various DoN commands. The three areas are:

Arlington Area Office, Arlington, VA
Eastern Area Office, Virginia Beach, VA
Western Area Office, San Diego, CA

The NAVAUDSVC has a Management Consulting Directorate available to perform non-audit work at the request of individual commands. The management consulting effort is distinct from auditing both in the nature of work performed and methods employed.

The Management Consulting Directorate, located at NAVAUDSVC Headquarters maintains a private relationship with the commands it serves so that problems can be discussed openly. Final action on consulting requests is solely the responsibility of the command that requested the consulting work. An exception to this private relationship is made if instances of fraud are discovered.

NAVAUDSVC distributes an annual audit plan for audits planned each fiscal year. Based on this annual audit plan, the NAVAUDSVC sends an audit announcement letter to the DoN commands and their superiors in the chain-of-command involved in the audit. This notification is normally provided 30 days before the scheduled audit begins.

As an audit progresses, drafts on audit findings are developed and discussed with all levels of management. This procedure enhances management's ability to correct problems early; gains agreement on the findings, recommendations and potential monetary benefits; and expedites completion of the audit.

Audit recommendations are entered into the DoN audit follow-up system to ensure corrective actions are taken.

Commanding officers and managers should recognize that auditing is a meaningful tool to assist in the decision-making process. Audits should not be perceived as disruption which must be tolerated, but rather as a chance to identify opportunities for improvement.

In addition, audits can assist management in carrying out management control responsibilities since DoN policy allows audits to be substituted for management control reviews under the DoN Management Control Program.

Additional information concerning the policies and procedures pertaining to the NAVAUDSVC is provided in the current edition of SECNAVINST 7510.7.

Department of Defense Inspector General (DODIG), Assistant Inspector General for Auditing (AIG(AI))

The DODIG has the responsibility to conduct, supervise, monitor and initiate audits and investigations relating to DoD programs and operations.

The DODIG Assistant Inspector General for Auditing coordinates audit plans with NAVAUDSVC and GAO to avoid duplication.

DODIG audit coverage includes:

- audits of selected aspects of operations, frequently of two or more DoD components;
- audits of the entire procurement process, including the performance of contractors and DoD contracting officials;
- audits of activities, programs or functions within one Military Department if the Department audit activity is unable to provide coverage; and
- other audits the DODIG considers appropriate.

DODIG audits of Navy and Marine Corps activities are coordinated by the OASN(FM&C), FMO-31.

FMO-31 is the DoN audit liaison office with DODIG, processing audit announcements, distributing draft and final audit reports, and assigning the appropriate DoN Action Office to meet with DODIG auditors and prepare the official DoN audit response.

DoN personnel should not begin audit discussions with DODIG auditors until they have received the DODIG audit announcement from FMO-31 via the chain of command (announcements can be faxed).

DoN activities should not respond directly to DODIG draft and final audits. Responses to DODIG audits must be signed by the ASN, or ASN designees.

Additional information concerning the policies and procedures pertaining to DODIG audits is provided in the current edition of SECNAVINST 5740.25.

USD(C), Defense Contract Audit Agency (DCAA)

DCAA audits provide professional contract audit and financial advisory services worldwide to DoD components including the DoN commands responsible for procurement and contract administration.

DCAA audits assist in achieving the objectives of prudent contracting by providing financial information and advice on proposed or existing contracts or contractors in connection with the negotiation, administration and settlement of contracts.

The Assistant Secretary of the Navy (Research, Development and Acquisition) (ASN [RDA]) Acquisition, Policy, Integrity and Accountability – Procurement Policy (APIA-PP) is the DoN liaison office for DCAA contract audits.

General Accounting Office (GAO)

GAO carries out the statutory audit responsibilities of the Comptroller General of the United States and Congressional members and committees.

GAO surveys, reviews and audits DoN activities and programs, identifies problems, highlights areas where management could be improved, and offers potential corrective actions. DoN policy is to cooperate fully with GAO.

GAO audits of Navy and Marine Corps activities are coordinated by OASN(FM&C), FMO-31, Audit Management Procedures Branch. FMO-31 is the DoN audit liaison office with GAO and DODIG and processes the audit announcements, and distributes draft and final audit reports.

FMO-31 assigns the appropriate DoN action office to meet with GAO auditors and provides the official DoN response and policy to the OSD action officer.

The OSD action officer prepares one response to GAO covering all DoD organizations. The DoD responses must be signed by the Assistant SECDEF. DoN personnel should not begin audit discussions with GAO auditors until they have received the GAO audit announcement from FMO-31 via the chain of command. Announcements are faxed, if required. DoN activities do not respond directly to GAO draft or final audits.

Additional information concerning the policies and procedures pertaining to GAO audits is provided in the current edition of SECNAVINST 5740.26.

Nonappropriated Fund Instrumentalities (NAFIs) Audit Organizations

Within the Marine Corps, audits of NAFIs (including Exchanges) are performed by Marine Corps Nonappropriated Fund Audit Organizations.

In the DoN, the Naval Exchange Service Command, under the direction of the Commander, Naval Supply Systems Command, performs audits of the Navy Exchange System to ensure effective management.

Other reviews of DoN NAFIs are the responsibility of the local commanding officer and must be conducted using the guidance provided by BUPERS.

These reviews can be accomplished by command evaluation staffs, Local Audit Organizations, management control reviews, NAVAUDSVC on a reimbursable basis, or through contracting with certified public accountants.

When contracting for auditing services, the commander must arrange to send copies of all proposed and awarded contracts for auditing services to the AUDGEN. The AUDGEN has responsibility for evaluating contracts for NAFIs audits performed in DoN.

Local Audit Organization

SECNAVINST 7510.9 (series) states that commanding officers are directly responsible and accountable for the performance and mission effectiveness of their units. They should have the freedom and opportunity to establish their organizations in the most efficient and effective manner to accomplish their mission. The command management economy, efficiency, and review function provides this capability. It also provides the commanding officer the option to develop a dedicated, in-house, Local Audit Organization.

Each Local Audit Organization is subject to the policies, standards, and oversight of the AUDGEN as specified in NAVAUDSVC P-7511.3

Audit Follow-up and Liaison

Audit follow-up on the implementation of audit recommendations is an important responsibility of management to achieve economies and efficiencies. OPNAVINST 5200.24 requires that management follow-up action be taken on agreed-to audit recom-

mendations. Commanding officers should establish a staff function to provide the necessary liaison between the local command and audit agencies external to the command.

The audit liaison function includes:

- **Receiving** auditor reports and distributing reports on individual findings and recommendations to the appropriate staff offices for comments and action.
- **Ensuring** proper disposition of findings and recommendations.
- **Maintaining** formal records on all auditors' reports, management actions in response to the reports, and time schedules for responding to and acting on findings and recommendations.
- **Monitoring and reporting** corrective actions initiated and completed.
- **Providing** follow-up status reports in the prescribed format to the NAVAUDSVC or appropriate chain of command.

Additional information concerning the policies and procedures pertaining to GAO and DODIG audit follow-up is provided in the current edition of SECNAVINST 5740.4.

Current Naval Audit follow-up policies and procedures are available from command IG offices and the NAVAUDSVC.

House Appropriations Committee, Surveys and Investigations Staff (S&IS)

The House Appropriations Committee of has a staff of investigators known as the Surveys and Investigations Staff (S&IS).

The S&IS refers to reviews and evaluations as "investigations," but these evaluations of functional and organizational issues are similar to audits in many ways.

The objective of an S&IS report is to provide information and recommendations to the House Appropriations Committee on how government funds best can be used or saved.

As with the DODIG and the GAO, S&IS investigations of Navy and Marine Corps activities are coordinated by the OASN(FM&C), Office of Financial Operations (FMO-3).

Additional information concerning the policies and procedures pertaining to S&IS investigations is provided in the current edition of SECNAVINST 5740.24. ◊

Appendix A

Glossary

§

A

Accelerated Labor Rate. Labor expense recorded in such a manner that as an employee works one straight-time hour, the expense equals 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 materials 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. There have been many initiatives over the years to convert the Federal budget to an accrual accounting basis, but to date current accounting practices are applied on a cash basis. For the DoD, the exception is in the military retirement account which is now administered by the Treasury Department on an accrual basis.

Activity/Subactivity Group (AG/SAG). Basic purpose for which an activity proposes to spend money (i.e., Station Operations).

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.

Annual Appropriation. Budget authority provided by an act of Congress that permits Federal agencies to incur obligations for a specific purpose during a single specified fiscal year and to make payments out of the Treasury. Military personnel and operation and maintenance appropriations are annual appropriations.

Appeal. A request for reconsideration of an item which has been deleted, reduced or otherwise adjusted during the Congressional phase of the budget process. Although the term "Reclama" has the same meaning, it is not used in the Congressional phase.

Allocation. An authorization by a designated official of a component of the DoD 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.

Allotment. The authority expressed in terms of a specific amount of funds granted by competent authority to commit/obligate/expend funds for a particular purpose. Obligation/expenditure may not exceed the amount specified in the allotment and the purpose for which the authorization is made must be honored. Allotments are granted for all appropriations except the operating accounts such as O&MN and RDT&E which use operating budgets; all allotments must be accounted for until the appropriation lapses or until all obligations are liquidated, whichever occurs first, and

are reported on NAVCOMPT Form 2025 (Status of Allotment Report).

Annual Appropriation. An appropriation available for incurring obligations only during the fiscal year specified in the Appropriation Act.

Anti-Deficiency Act, 31 United States Code Section 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 \$5,000.00 fine, or imprisonment for two years; and
- requirements for the apportionment of appropriations, funds or contract authority.

Appeal. Alternative term for reclama; usually used in communications with Congressional committees.

Apportionment. A determination made by the OMB 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.

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 subactivities, programs, projects and elements of expense.

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.

Apportionment. A distribution by the OMB of amounts available for obligation in appropriation or fund accounts of the Executive Branch. The distribution makes amounts available on the basis of time periods (usually quarterly), programs, activities, projects, objects, or combinations thereof.

Appropriation. Budget authority provided by an act of Congress to incur obligations and to make payments out of the Treasury for specific purposes. Appropriations are divided into budget activities and subdivided into activity groups and subactivity groups (Operation and Maintenance), line items (procurement), program elements (R&D), and projects (MILCON).

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-Year Defense Program (FYDP).

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

Audit. Audit is a term used to describe work done in examining financial statements and operations and in reviewing compliance with laws and regulations, economy and efficiency of operations, and effectiveness in achieving desired results. An audit is performed by an independent staff who collectively have the knowledge and skills necessary for the audit. Normally, this staff consists of professional auditors but may also consist of non-auditor personnel as needed. At a minimum, the audit must be supervised by a professional auditor. Audits are required to be performed in accordance with generally accepted government auditing standards established by the Comptroller General of the U.S.

Authorization. Legislation enacted by the Congress to set up or continue the operation of a federal program or agency. Authorizing legislation is normally a prerequisite for subsequent appropriations, but does not usually provide budget authority. In the case of the DoD, authorization normally is annual and limits the amount of budget authority which can be appropriated.

Authorization Accounting Activity (AAA). An activity designated by the ASN(FM&C) to perform accounting for another shore activity.

B

Balanced Budget. A budget in which receipts are equal to outlays.

Base Year. Fiscal year basis of cost estimates.

Budget. A fiscal operations plan 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 the President transmits to the Congress to revise his budget request after he formally transmits the budget but before the Congress has completed appropriations action

Budget Authority. The value of annual new legal authority to incur obligations; for example, to enter into contracts involving expenditures of funds from the Treasury. Budget authority in most cases is provided by appropriation.

Budget Call. Budget planning guidance provided from higher authority, down the chain of command.

Budget Deficit. The amount by which the government's budget outlays exceed its budget receipts for any given period. Deficits are financed primarily 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 which incorporates those actions performed in the development, review, justification and presentation of budget estimates.

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 and for which the budget estimate is prepared. For example, if the current fiscal year is Fiscal Year 1990, the budget year would be Fiscal Year 1991.

C

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 canceled. Fixed appropriation accounts are closed five years after availability for new obligations ends.

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 approving authority if it is not already obligated. Commitments are not required under O&M appropriations.

Common Service. Nonreimbursable service that has been directed or agreed upon between or among DoD components at the departmental level.

Common Use Facility. A building or structure in which space is used concurrently by both supplier and receiver.

Concurrent Resolution. A resolution passed by both Houses of Congress, but not requiring the signature of the President, containing government-wide budget targets for receipts, budget authority, and outlays that guide the Congress in its subsequent consideration of appropriations and revenue measures. The concurrent resolution due by 15 April establishes the Congressional budget. Other concurrent resolutions for a fiscal year

may be adopted at any time following the required concurrent resolution for that fiscal year.

Concurrent Resolution on the Budget. 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, including:

- 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/deficit in the budget (if any);
- the recommended level of Federal revenues; and
- the appropriate level of the public debt.

Continuing or No-Year Appropriation. An appropriation which is available for incurring obligations for an indefinite period of time, including revolving funds.

Continuing Resolution. An act of Congress which provides funds to continue government functions until regular appropriations are enacted. Restrictions on the use of funds under a continuing resolution vary from year to 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. 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 homogeneous 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. That function performed by one military service in support of another military service for which reimbursement is required from the service receiving support.

Current Year. The fiscal year in progress. (See also "Budget Year.")

D

Defense Accounting Office (DAO). A DoD organization which replaced the financial information processing centers (FIPCs) whose mission is to provide authorization accounting and reporting for operating budgets and allotments, commercial bill-paying, disbursing, civilian payroll, plan property accounting and financial reporting of cash transactions for customer activities.

Defense Business Operations Fund (DBOF). Combines existing commercial and business operations previously managed as individual revolving funds (formerly the Industrial Fund), plus other business areas, into a single revolving business management fund. Products or services are provided to external users. The purpose of the fund is to provide a more effective means of controlling costs; establish a flexible means for financing, budgeting and accounting; encourage the creation of buyer-seller relationships; place budgeting and accounting on a more commercial basis; and encourage cross-servicing between military departments.

Defense Planning Guidance. Guidance issued by the SECDEF which 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 SECDEF staff in reviewing proposed programs.

Deferral of Budget Authority. The withholding of budget authority to preclude its obligation or expenditure. The President must report all proposed deferrals to the Congress.

Deficiency Appropriation. An Act passed after a fiscal year has expired, to increase funds available so that the appropriation has a positive balance and can lapse to the successor, or "M" account.

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

Department of the Navy Future-Year Program (DNFYP). The Department's official programming document, this publication consists of volumes or booklets and displays the DoN portion of the Future-Year Defense Program (FYDP). SECDEF approved forces, manpower and financial data are given for each Program Element for the current, budget and program years.

Direct Costs. Direct costs are costs incurred directly for and are readily identifiable to specific work or work assignments.

Direct Reimbursable. One of two types of Reimbursable Work Orders (RWOs) which become part of an activity's gross operating budget. This type includes RWOs for nonrecurring products or services which are not part of providing for the activity's mission and for which no regular work units are budgeted. The exact cost of the product service is charged to the RWO from the receiving activity.

Disbursements. Gross disbursements are checks issued or cash disbursed, less refunds. Net disbursements are gross disbursements less reimbursements.

DoD Planning/Programming/Budgeting System (PPBS). An integrated system for the establishment, maintenance, and revision of the FYDP and the DoD budget.

E

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 Section 1535).

Execution. The operation of carrying out a program as contained in the approved budget. Often referred to as "Budget Execution."

Expenditures. See outlays.

Expense Element. Identifies the type of resource being consumed in the functional/subfunctional category or program element. These are listed and defined by *NAVCOMPT Manual*, Volume 2.

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

- labor of civilian and military personnel, including contractual labor;
- rental of facilities and equipment;
- food, clothing, and petroleum, oil, and lubricant (POL) items;
- supplies and material consumed or applied;
- items designated for stock fund management in the central supply system;
- maintenance, repair, overhaul, and rework of investment items, including real property facilities; (7) travel and transportation of personnel;
- equipment (having a unit value of less than \$50,000 in FY95; or, all non-centrally managed equipment beginning in FY96); and
- services received (purchased utilities, leased communications, printing and reproduction, and other). The cost of minor construction of a value of \$300,000 or less is included as an expense.

Expense Limitation. The financial authority issued by a claimant to an intermediate level of command. 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, expense type appropriations are usually broken into two main subcategories—operation and maintenance and military personnel.

Expired Appropriation. One which is no longer available for new obligations. Previously obligated balances are available to be expended and adjusted.

F

Fences. Explicit limitations (ceilings and floors) on uses of funds provided in the appropriations act by Congress.

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.

Fiscal Year. 1 October – 30 September

Fixed Price (FP). A dollar amount upon which two government activities agree that a service costs. 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 estimates," 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 semiannually 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 constitute a gain or loss to the performing Expense Operating Budget.

Floor. A minimum amount of an appropriation imposed by Congress designated for a specific purpose (e.g., 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.

Full-Time Equivalent. The total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees divided by the number of compensable hours applicable to each fiscal year.

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 subfunctions, depending upon the complexity of the national need addressed by that function.

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

Functional/Subfunctional Category (F/SFC). Subfunctional categories are a finer grouping within the functional category grouping used to accumulate expenses separately for various functions encompassed by a single functional category. Combined they provide a classification which states that functions will be performed (i.e., Administration).

Fund Availability. The amount of obligational 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 Year Defense Program (FYDP). The FYDP summarizes all approved programs of the entire DoD. 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 programs, program elements, and resource categories: Strategic Forces; General Purpose Forces; Intelligence and Communications; Airlift and Sealift; Reserve and Guard Forces; Research and Development; Central Supply and Maintenance; Training, Medical and Other Personnel Activities; Administration and Associated Activities; Support of Other Nations; and Special Operation Forces.

G

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 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. The amount of checks issued/cash or other payments, less funds received.

H

Host Activity. The activity that provides facilities to another activity and may supply services.

I

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 cover only a portion of the obligations to be incurred in completing the program or project 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.

Indirect Expense. Indirect expenses are costs incurred by direct cost center which are not incurred directly for and are not readily identifiable with specific job orders established for the accomplishment of assigned work.

Input Budgeting. A budgetary method which focuses on the cost of the objects or inputs.

Internal Audit. The independent appraisal activity within an organization for the review of the accounting, financial and related operations as a basis for protective and constructive services to management.

Interservice 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 DoD or a DoD component.

Intraservice Support. An activity providing support to another activity within the same DoD component or other federal agency.

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.

Investments. Investments are costs of capital assets such as real property and equipment that provide new or additional military capabilities or maintain existing capabilities. Items of equipment designated for centralized individual item management by an inventory manager in the central supply system, and other items of equipment costing more than \$50,000 per unit are investment items. Effective FY96, all centrally-managed items are investments.

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 receipt of goods/services.

J-K

Job Order. (1) A formal instruction to perform certain work according to specifications, estimates, etc.; (2) 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.

L

Labor Distribution. The vehicle which transfers the actual cost of labor to the job order cost accounting system.

Labor Distribution Card. A card which identifies hours spent day by day for each job order applicable to their effort.

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 an expenditure.

M

Major Claimant/Subclaimant. A major claimant is a bureau/office/command/Headquarters, Marine Corps which is designated as an administering office under the Operation and Maintenance appropriations in *NAVCOMPT Manual*, Volume 2, Chapter 2. 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 which 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/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 to requisition and issue transactions. The Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP) system provides uniform procedures, codes and documents to transmit, receive, issue and adjust data between inventory managers and stock points in support of supply and financial management.

Minor Construction. Describes construction projects costing \$1.5 million or less. Projects costing \$300,000 or less are funded by Navy appropriations available for Operation and Maintenance. Projects costing over \$300,000 are always funded by Navy appropriations available for Military Construction. CNO/CMC approval is required. SECNAV must approve all projects costing \$500,000 or more.

Minor Property. Personal property acquired for immediate use and having a unit cost of less than the investment/expense funding threshold used by the Congress for appropriating funds and those personal property items having an acquisition cost equal to or greater than the investment/expense funding threshold used by the Congress for appropriating funds, but with a useful life of less than two years (see par. 036200 in the *NAVCOMPT Manual*).

Multiyear Appropriation. Authorization by an act of Congress permitting federal agencies to incur obligations for a specific purpose/period of time > one fiscal year and to make payments out of the Treasury (e.g., procurement, R&D, or military construction).

N

New Obligational Authority. The former meaning of this term has been replaced by Budget Authority. 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/services to DoD military/civilian personnel and their dependents, used to support/provide essential morale/welfare/recreational/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.

O

Object Classification. A uniform classification identifying the transactions of the Federal Government by the nature of the goods or services purchased without regard to the agency involved or the purpose of the programs for which they are used.

Obligations. Amounts of orders placed, contracts awarded, services received, or similar legally-binding commitments made by Federal agencies during a period that requires outlays at commitment or later.

Obligation Availability Period. Appropriations have a specific obligational availability period and duration which can be grouped as annual or multi-year appropriations. Generally, the duration 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. 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; and 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. Monies received by the government as a result of business-type transactions with the public (sale of goods and services) or as a result of payments between government accounts which 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 canceled to the successor account or surplus.

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/subfunctional 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 subaccounting group.

Operating Target (OPTAR). An administrative rather than legal limitation of expenditures provided to an afloat operating unit or department ashore.

Operations 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 which 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. Checks issued or cash disbursed. Outlays include interest accrued on the public debt or other forms of payment, net refunds and reimbursements. Expenditures or net disbursements.

P

Past Year. The fiscal year immediately preceding the current year; the last completed fiscal year.

Performance Budget. Focuses attention on the general character and relative importance of the work to be done by taking as its basis the estimated cost of programs, function, and projects designed to accomplish the mission. For example, the cost of a function (operating a rifle range/communications centers/motor pool, etc.) vs. the cost of things (supplies/equipment/personnel services, etc.).

Performing Activity. An activity which 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 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.

Plant Property. Navy-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 which are procured through investment appropriations and normally managed by a hardware command. Principal items are normally issued to 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 which 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 including Military Personnel and Operation and Maintenance.

Program Decision Memorandum (PDM). A document which provides SECDEF decisions on the Program Objectives Memorandum.

Program Element. Major programs are subdivided into Program Elements. The program element is the basic building block of the FYDP. It is defined as "an integrated combination of men, equipment and facilities which together constitute an identifiable military capability or support activity." It identifies the mission to be undertaken and the organizational entities to perform the mission. Elements may consist of forces, manpower, materials, services, and/or associated costs as applicable.

Program Objectives Memorandum (POM). A formal submission from the Military Departments to the SECDEF 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 which 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(s). It 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 activities for work or for the manufacture of supplies/material/equipment which, for the purpose of obligation, assumes the characteristics of orders or contracts placed with commercial enterprises under the authority and limitations of 41 USC 23.

Prompt Payment Act. Legislation that requires the Federal Government to pay interest on late payments made on contracts and purchase orders.

R

Reapportionment. A revision by OMB of a previous apportionment.

Receivables. A collective term used to describe amounts due or to become due from others, usually within a relatively short time.

Rescission. A legislative action which cancels budget authority previously provided by Congress.

Reclama. A request for reconsideration of an item which has been deleted, reduced or otherwise adjusted during the OASN(FM&C) 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 used 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 which 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, are not

included as reimbursements but are treated as reductions of disbursements. Refunds 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 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 requestor which may entail expenditure of labor, material, services or subcontractual support to fulfill the request, and with funds coming from outside the Operating Budget.

Reimbursements. Sums received by the Government for commodities sold or services furnished either to the public or to another Government account that are authorized by law to be credited directly to specific appropriation and fund accounts. These amounts are deducted from gross disbursements in determining outlays for such accounts.

Reprogramming. Utilization of appropriation account funds for purposes other than those originally contemplated, accomplished pursuant to agreements with the appropriate Congressional committees.

Request for Contractual Procurement (RCP). An order usually to provide funds for direct citation on contracts/requisitions. Citations are the requestor's funds vice those of the performing contracting activity (NAVCOMPT Form 2276).

Request for Services. An order for services to be performed issued by an activity, organization or private party to another. Documents utilized for this purpose are: Order for Work and Services (NAVCOMPT Form 2275), Requisition (DD Form 1345), 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.

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 Section

1012 of the Impoundment Control Act of 1974, unless Congress approves a rescission bill within 45 days of continuous session after receipt of the proposal, the budget authority must be made available for obligation.

Resource Authorization. Title of the Funding Document, NAVCOMPT 2168-1, NAVCOMPT 372, etc., authorizing Obligation and/or Expense/Military Services Authority (funds).

Resources. Consist of military and civilian personnel, material on hand and on order, and the entitlement to procure or use material/utilities/services.

Responsible Office. The office which is assigned the responsibility for overall management for all programs financed by an appropriation. The Director, 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 for all Marine Corps appropriations. The Office of the Chief of Naval Research is the responsible office for RDT&E,N. (See "Administering Office.")

Responsibility Center. The DoD definition of a responsibility center is "an organization unit headed by an officer or supervisor who is responsible for the management of resources in the unit and who in most instances can significantly influence the expenses incurred in the unit."

The Navy application of the DoD definition is that a responsibility center is usually an activity listed in the Standard Navy Distribution List. There are situations where it may be either necessary or desirable to establish more than one responsibility center in an activity or to combine several activities into one responsibility center. Commandants of Naval Districts usually have at least two responsibility centers—one for the Headquarters operations and one for the operation of the naval reserve centers. Several activities would 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.

Retail Stock. Control of requirements for this material is determined by the local retail stock point based upon guidance from the FMSO. (Material is pulled to the stock point.)

Revolving Fund. A fund established to finance a cycle of operations in which reimbursements are retained for

reuse in a manner that maintains the principal of the fund (a self-perpetuating or working capital fund). DoN revolving funds include the stock fund of the Navy and Marine Corps and the funds to provide for defense production guarantees. See DBOF.

S

Secondary Items. DoN stock fund material, a large quantity of which is relatively inexpensive. Items include consumables, repair parts and depot repairables.

Sequestration. A reduction of funds which can occur if deficit reduction targets contained in the Gramm-Rudman-Hollings Act are not met.

Six-Year Defense Program (SYDP). See Future Year Defense Program.

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 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. The development and utilization of predetermined rates for billing customers for work to be accomplished by 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.

Stock Fund. See Defense Business Operations Fund.

Stores Account. An account reflecting the value of supplies on hand and available for issue.

Subhead. A four-number or alphanumeric number identifying the first level subdivision of an appropriation used primarily for administration, accounting and control of an appropriation.

Successor "M" Account. Upon lapse of annual and multiple-year appropriations, the obligated but unexpended balances merge/transfer into the Appropriations Successor "M" Account.

Supplemental Appropriation. Enacted subsequent to a regular annual appropriation act. It provides additional budget authority for programs/activities.

Supporting Activity. An activity that provides only services to another activity.

Surcharge. A specified percentage of costs added to the regular charges for billing a customer. Usually the customer is a government department outside DoD, a foreign government, or private party.

Surplus. Amount of revenues exceeding outlays.

T

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 in a given year, regardless of the year the funds are appropriated, obligated or expended. TOA includes new obligational authority, unobligated balances from prior years, reimbursements not used for replacement of inventory in kind, and unobligated balances transferred from other appropriations.

Transfer Authority. Authority provided by Congress to move budget authority from one appropriation or working capital fund, or any statutory subdivision thereof, to another.

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.

Transferring. Moving funds between appropriations; requires prior approval from Congress.

Transfers. The movement of all or part of budget authority in one account to another in the same year in which the authority was made available.

U

Undelivered Orders. Any document, meeting the criteria of an obligation, 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, and 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. Programs and functions which 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, including revenues and spending for all regular federal programs and trust funds except Social Security, which was removed from budget totals beginning with FY 1987. Prior to the creation of the unified budget in 1969, all trust funds were excluded from budget totals.

Unliquidated Obligations. Outstanding obligations with no matching expenditures.

Unmatched Disbursements. Disbursements that cannot be matched to existing obligations.

V

Voucher. Any document which 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.

W

Warrant. An official document issued by the Secretary of the Treasury and countersigned by the Comptroller General of the U.S. by which monies are authorized to be withdrawn for the Treasury. Warrants are issued after appropriations and similar Congressional authority have been enacted.

Wholesale Stock. Stock requirements and availability determined by the appropriate wholesale Navy inventory control point; material is pushed to the stock point by the appropriate inventory control point.

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.

Work-in-Process Account. Temporary investment of cost into customer requested work which as yet is unbilled.

X-Y-Z

Year-to-Date (YTD). Cumulative totals lodged against job orders or cost accounts from the beginning of the fiscal year to current date.◇

Appendix B

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