

Color of Money

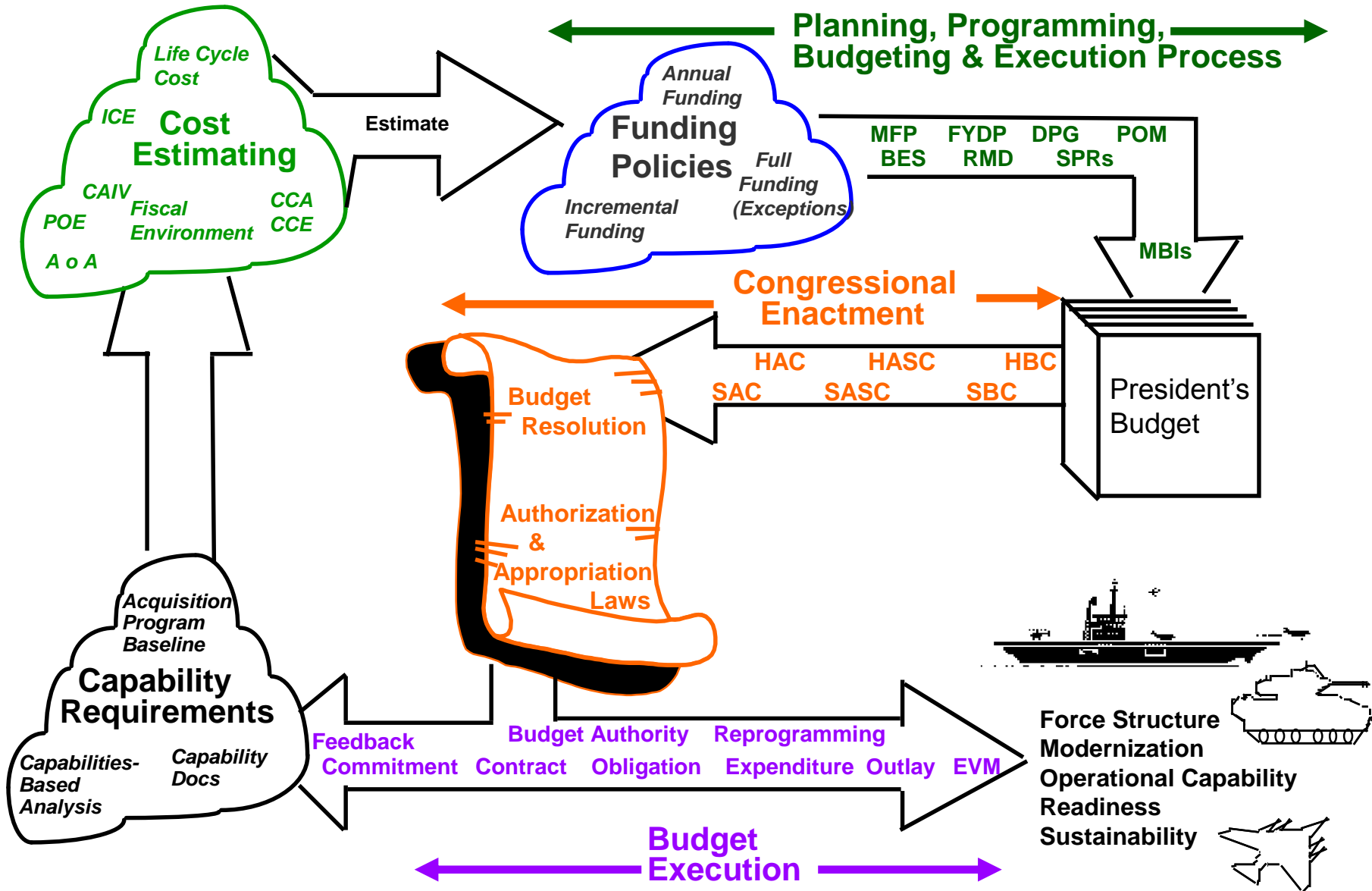
Funding Policies and Fiscal Law

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From Requirement To Capability



Objectives

- Define the DoD appropriation categories
- Illustrate the differences between DoD appropriation categories
- Explain the difference between appropriation categories and appropriation accounts
- Explain the funding policy for each DoD appropriation category
- Apply the proper funding policy to respective DoD appropriation categories
- Explain the exceptions to funding policies
- Explain funding product improvements
- Discuss Fiscal Laws

Major Appropriation Categories

APPN CAT	SCOPE OF WORK EFFORT	FUNDING POLICY	OBLIGATION PERIOD
RDT & E Both	RDT&E Activities & Exp, AIS E/SW @ R&D Facilities	Incremental	2 Years
PROC (SCN) Investment	Production Labor/HW, Initial Spares, AIS E/SW \geq \$250K	Full	3 Years 5 Years - SCN
O&M Expense	Replenishment Spares, Civilian Salaries, Travel, Fuel, Supplies, Minor Const $<$ \$750K, AIS E/SW $<$ \$250K	Annual	1 Year
MILPERS Expense	Military Pay & Allowances, PCS Moves, Retired Pay Accrual	Annual	1 Year
MILCON Investment	Major Construction Projects $>$ \$750K	Full	5 Years

Appropriation Categories vs. Appropriation Accounts

- ***Appropriation Categories***

- Definition: Broad, generic terms pertaining to general “types” of Federal Government funds
- Examples of interest to Acquisition Community:
 - Research, Development, Test and Evaluation (RDT&E)
 - Procurement
 - Military Construction (MILCON)

- ***Appropriation Accounts***

- Definition: Specific designation of Federal Government funds as contained in an Appropriations Act passed by Congress and signed into law by President. **Each account has a unique four digit code.**
- Examples of interest to Acquisition Community:
 - Research, Development, Test and Evaluation (RDT&E), Army (2040)
 - Aircraft Procurement, Navy (1506)
 - Operations & Maintenance (O&M), Air Force (3400)

Appropriation Numerical Codes

<u>Appropriation Account</u>	<u>USA</u>	<u>USN</u>	<u>USMC</u>	<u>USAF</u>	<u>DoD</u>
RDT&E	2040	1319		3600	0400
Procurement					0300
Aircraft	2031	1506		3010	
Missiles	2032			3020	
Weapons		1507			
W & TCV	2033				
SCN		1611			
Ammunition	2034	1508		3011	
USMC			1109		
Other	2035	1810		3080	
MILPERS	2010	1453	1105	3500	N/A
O & M	2020	1804	1106	3400	0100
MILCON	2050	1205		3300	0500

Annual Funding Policy

Applicable Appropriations:

Operations & Maintenance
Military Personnel

Basic Budgeting Policy:

Annual budget request will be limited to obligation authority necessary to **cover all expenses** during the 12 month budget period (fiscal year).



Additional Guidance (Exception): Statutory provision (PL 105-85, Sec. 801 & Title 10, U.S. Code 2410a) allows funding a severable service contract/task beginning in one FY and ending in the next FY, all in the first year, if the contract period does not exceed 12 months

Annual Funding Policy

	FY 13	FY 14	FY 15	FY 16
Supplies & Parts Task 1 \$20M	\$5M	\$5M	\$5M	\$5M
CLS Contract Task 2 \$350M	\$50M	\$100M	\$100M	\$100M
Environ. Assessment Task 3 \$15M		\$10M	\$5M	
O&M Budget Authority	\$55M	\$120M	\$105M	\$105M

Note: A red circle highlights the \$5M values for Task 1 and Task 3 in FY 13 and FY 16. A red box highlights the \$5M values for Task 1 and Task 3 in FY 14 and FY 15. A red arrow points from the \$5M values in Task 1 and Task 3 to the O&M Budget Authority row. A blue double line is present above the \$5M value in Task 1 for FY 13, FY 14, and FY 15. A blue double line is present above the \$100M value in Task 2 for FY 14, FY 15, and FY 16. A blue double line is present above the \$10M value in Task 3 for FY 14. A blue double line is present above the \$5M value in Task 3 for FY 15. A blue double line is present above the \$10M value in Task 3 for FY 14 with the text "12 Month Effort" above it.

Incremental Funding Policy

Applicable Appropriation:

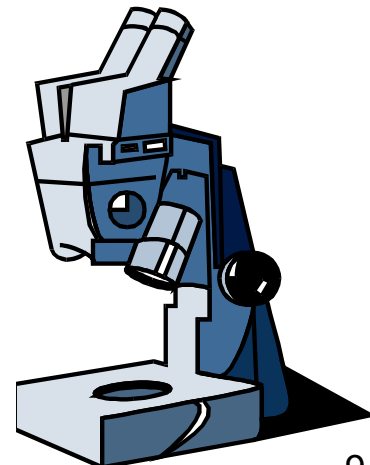
Research, Development, Test & Evaluation

Basic Budgeting Policy:

Annual budget request will be limited to budget authority necessary to cover all costs **expected to be incurred** during that fiscal year.

Incremental Funding Policy

Provides flexibility to the government in the uncertain environment of RDT&E



Incremental Funding Policy

Additional Guidance:

- Initial (1st year) of a “new start” program: can/should represent 9 months or less of effort
- 2nd and succeeding years: Service or Agency comptroller may approve up to 3 months beyond end of FY
- **Exception:** Contracted efforts > 12 months but < 18 months: Service or Agency comptroller may approve request for funding in single FY if one of following is true:
 - 1) Effort not logically *divisible*
 - 2) Infeasible to *shorten* contract length
 - 3) Expect no *bids* if not “fully” funded

Incremental Funding Policy

	FY 13	FY 14	FY 15	FY 16
Support Ktr TASK 1 \$20M	\$5M	\$5M	\$5M	\$5M
Prime EMD Kt TASK 2 \$400M	\$50M	\$100M	\$100M	\$150M
TASK 3 \$15M Lab Support	\$10M	\$5M		
RDT & E Budget Authority	\$65M	\$110M	\$105M	\$155M

Full Funding Policy

Applicable Appropriations:

Procurement and Military Construction

Basic Budgeting Policy:

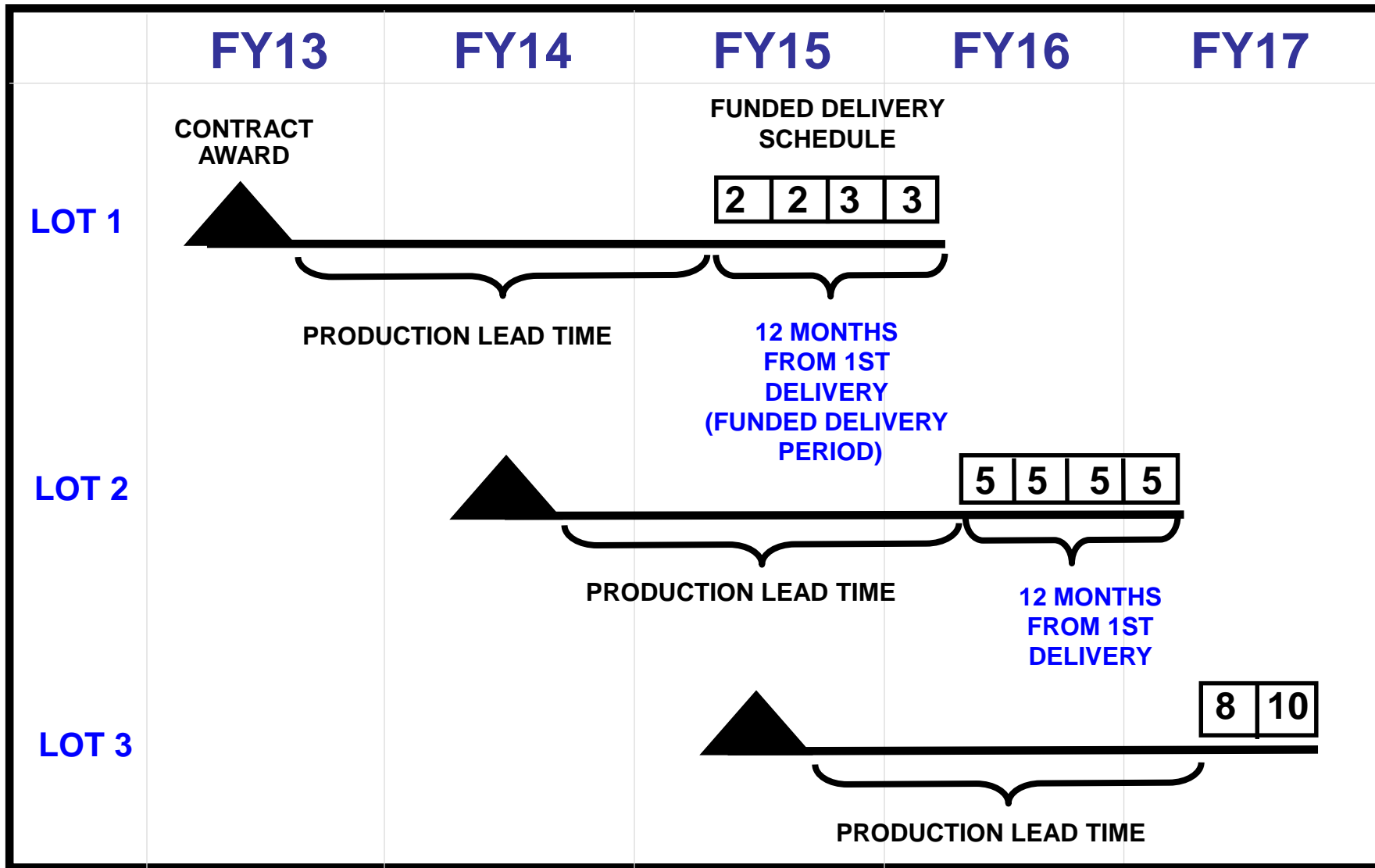
Annual budget request must cover the *total cost* to deliver a given quantity of complete, militarily usable end items in a 12 month funded delivery period.

Governing Concepts:

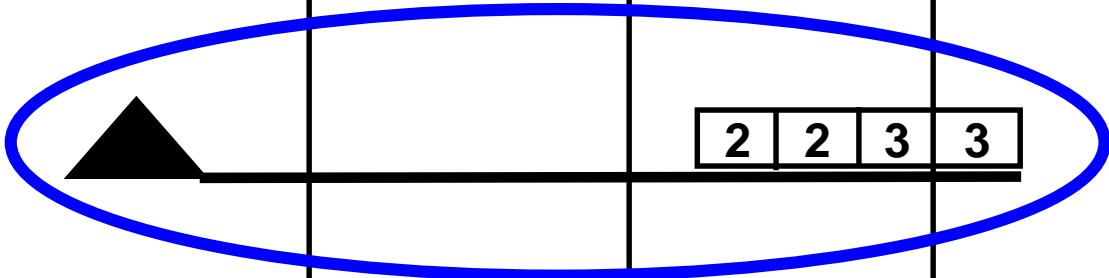
- ***Usable End Items*** - No piecemeal procurement of systems is permitted.
- ***Funded Delivery Period*** - 12 month period starting with delivery of first item.






Funded Delivery Period



Full Funding Policy

	FY13	FY14	FY15	FY16
LOT 1 10 ITEMS				
Start Up Costs:	\$40K	\$0K	\$0K	\$0K
Production Costs:	\$30K	\$140K	\$140K	\$50K
	\$70K	\$140K	\$140K	\$50K
Budget Request:	\$400K			

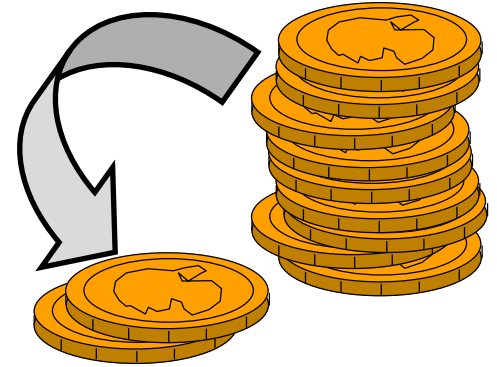
Full Funding Policy

	FY13	FY14	FY15	FY16	FY17
\$ 400 K LOT 1 10 Items	\$70K 	\$140K	\$140K 2 2 3 3	\$50K	
\$ 600 K LOT 2 20 Items		\$120K 	\$200K	\$200K 5 5 5 5	\$80K
\$ 500 K LOT 3 18 Items			\$90K 	\$230K	\$180K 8 10
Budget Request	\$ 400 K	\$ 600 K	\$ 500 K	\$ 0 K	\$ 0 K

Advance Procurement

- **Exception to Full Funding Policy**

- Contained in Acquisition Strategy
- Approved by Milestone Decision Authority
- Separate initial contract



- **Finances Long Lead (Recurring) Components**

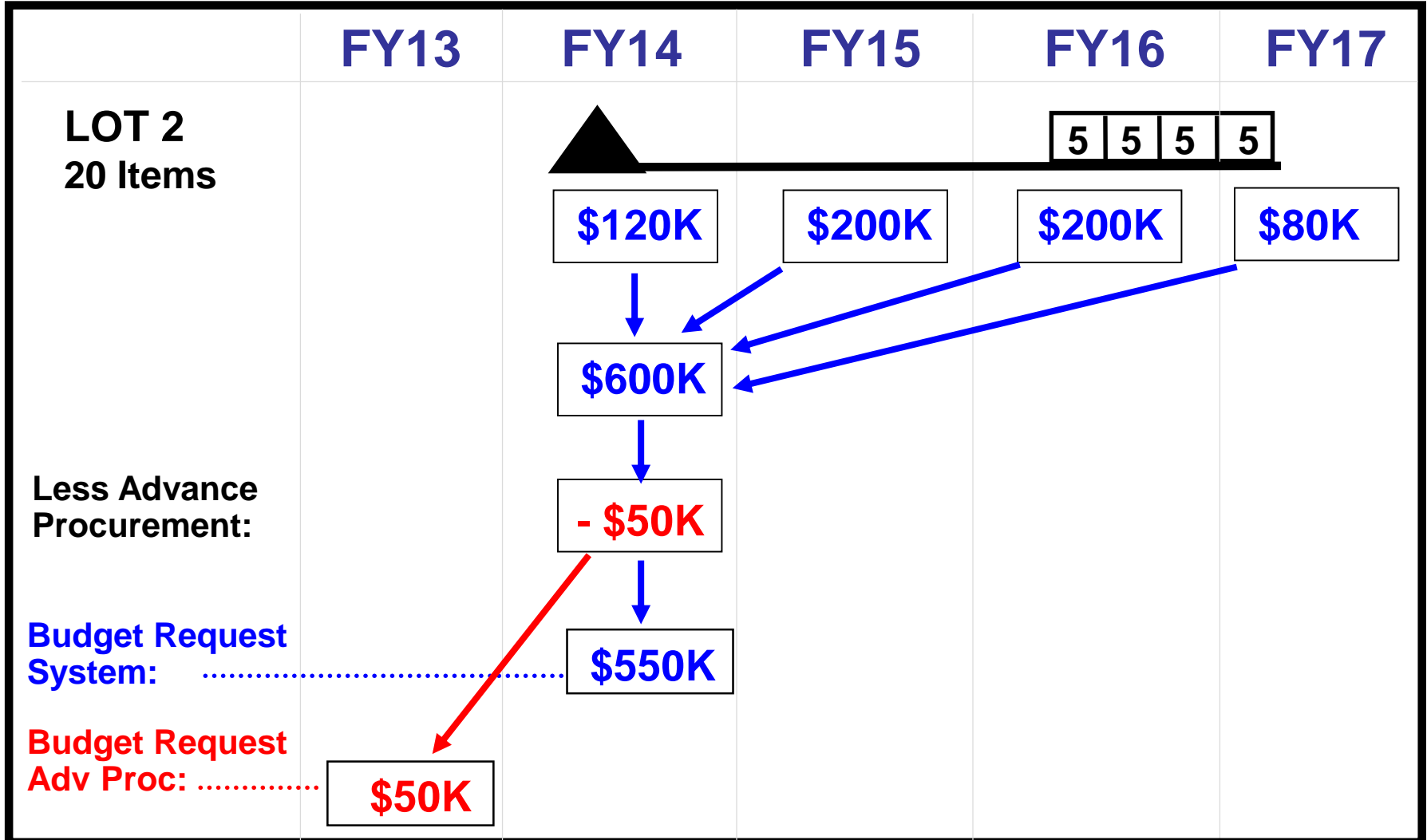
- To protect production schedule
- To maintain a critical skill in the workforce

- **Generally, Budget Authority requested / granted **one Fiscal Year in advance** of the related end item contract**

- **Shown as a separate line item on the budget request**

Why is this an exception to full funding? ***No usable end item!***

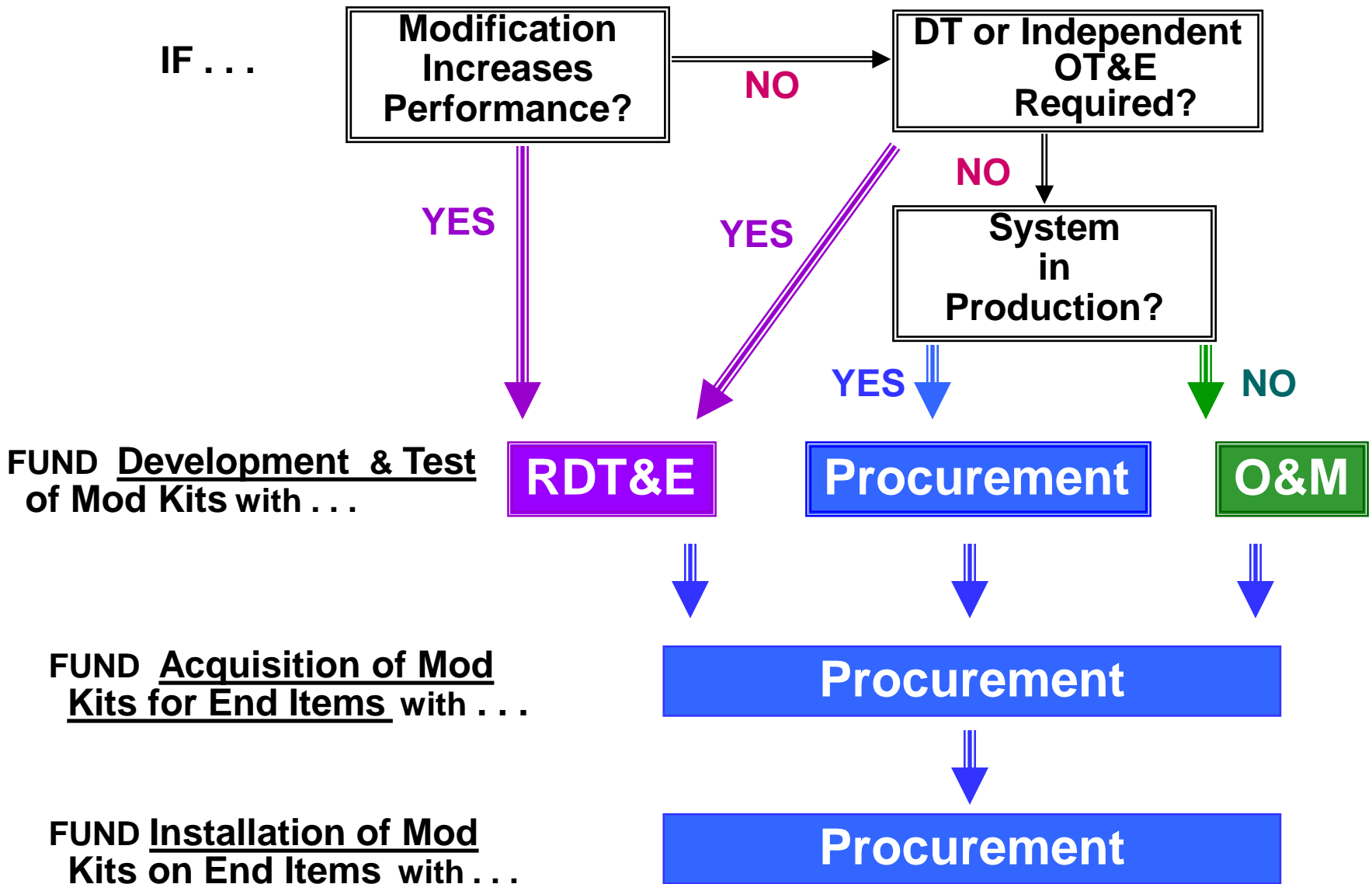
Advance Procurement



Advance Procurement (cont.)

	FY13	FY14	FY15	FY16	FY17
LOT 2 20 Items		▲	5 5	5 5	
Less Advance Procurement:		\$600K ↓ -\$50K			
LOT 3 40 Items			▲	8 10	10 12
Less Advance Procurement:			\$900K ↓ -\$75K		
Budget Request System:		\$550K	\$825K		
Budget Request Adv Proc (PY):	\$50K	\$75K			

Product Improvement Funding Policy



Funding Rules for Information Technology (IT) and Automated Information Systems (AIS)

■ RDT&E:

- DT&E costs
- Development of major upgrades
- HW/SW for RDT&E facilities

■ Procurement – Investment:

- New equipment/SW > \$250K
- Upgrades/replacement equipment > \$250K

■ O&M – Expense:

- New equipment/SW < \$250K
- Upgrades/replacement equipment < \$250K
- Routine maintenance, leases

Fiscal Law

Questions To Ponder

1. For FY 2010, 2011 and 2012 what was the largest single reported amount on the “GAO Antideficiency Act violation report” website?

- A. \$16K B. \$1.6M C. \$16M D. \$160M E. \$1.4B

2. Of the reported fiscal law violations shown on the “GAO Antideficiency Act violation report” website for FY 2010, 2011 and 2012 how many were from the Department of Defense?

- A. None B. 11 C. 21 D. 37 E. 61

Misappropriation Act [Title 31, US Code, Sec 1301]

- Requires that appropriated funds be used only for the purposes and programs for which appropriation was made

Purpose
or
Color

Bona Fide Need Rule [Title 31, US Code, Sec 1502]

- Requires that appropriated funds be used only for needs or services that arise in the year(s) of the appropriation's obligation availability period

Time
or
Year

Antideficiency Act [Title 31, US Code, S 1341,1517]

- Prohibits making or authorizing an obligation in excess of the amount available in the appropriation
- Forbids obligating funds in advance of appropriation
- Requires regulations to ensure obligations are kept within appropriated or sub-divided amounts and to fix responsibility for violations of the Act

Amount

Availability of Appropriations: **PURPOSE**

Congress has “Power of the Purse”



“No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law....”

**The Constitution of the United States,
Article I, Section 9, clause 7**

Misappropriation Act:

“Appropriations shall be applied only to the objects for which the appropriations were made...”

31 USC § 1301(a)

Availability of Appropriations: TIME

The “Bona Fide Need” Rule:

“The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the *period of availability...*”

31 USC §1502(a)



Periods of Availability

RDT&E	2 years
PROC	3 years
O & M	1 year
MILPERS	1 year
MILCON	5 years

Bona Fide Need

Supply Items: When are the supplies needed for use?

Lead-time exception (consider normal production lead time)

Stock Level exception (replace stock consumed in current year with current year funds)

Stock piling of supplies at end of FY is PROHIBITED

Service Contracts: Bona fide need of FY the services are performed.

Nonseverable services exception (single, unified outcome, product or report: may fund entire effort with current year funds & execution may cross FYs.) Single effort that cannot be feasibly subdivided

Severable Service Contract (Exception): Statutory provision (PL 105-85, Sec. 801 & Title 10, U.S. Code 2410a) allows funding a severable service contract/task beginning in one FY and ending in the next FY, all in the first year, if the contract period does not exceed 12 months

Availability of Appropriations: Appropriation Life

The Time Rule:

“On September 30th of the 5th fiscal year after the *period of availability* for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose.”

31 USC §1552(a)



Periods of Availability

RDT&E	2 years
PROC	3 years
O & M	1 year
MILPERS	1 year
MILCON	5 years



Paying Certified (Valid) Invoices (DoD FMR Volume 3, Chapter 10)

If the invoice is received during the “*current*” status of the appropriation, pay with fiscal year funds cited for that original* obligation (e.g. contract, contract mod)

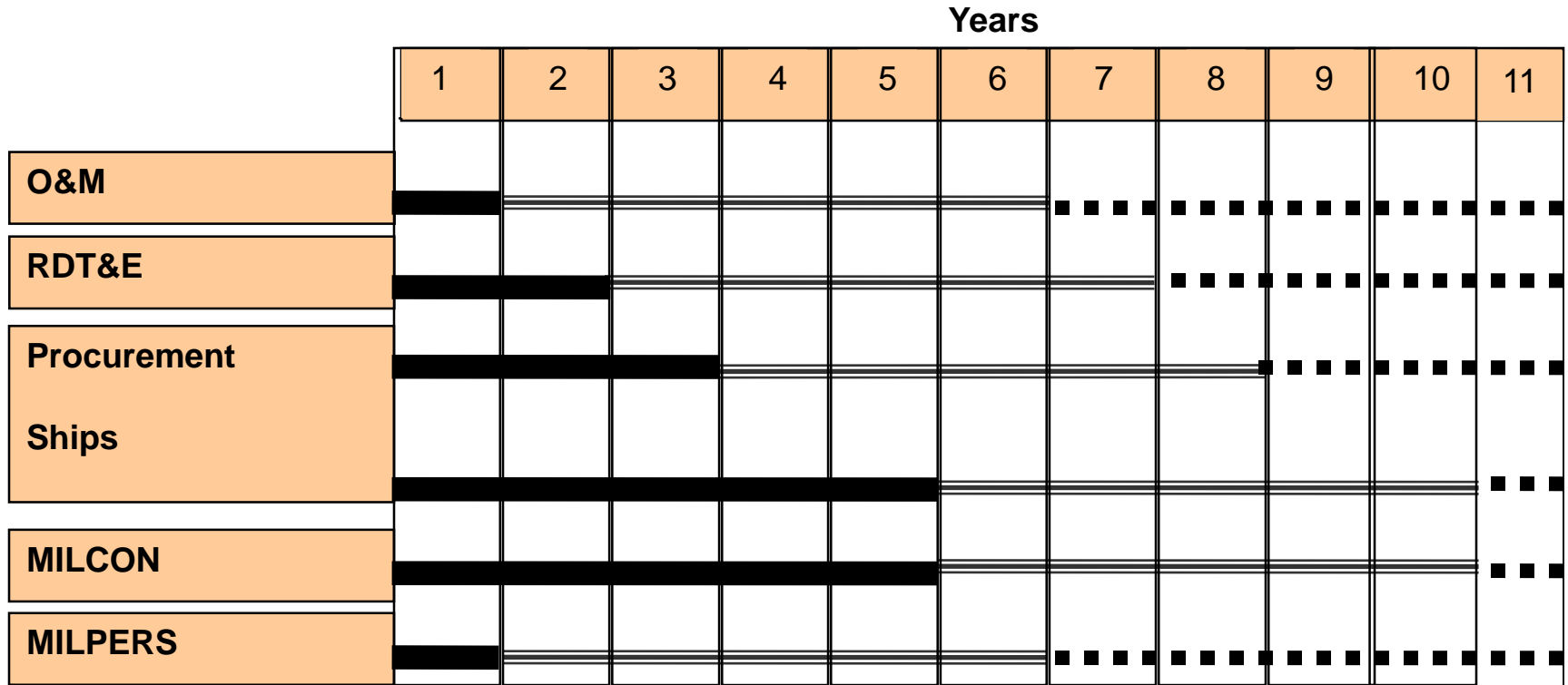
If the invoice is received during the “*expired*” status of the appropriation, pay with fiscal year funds cited for that original* obligation (e.g. contract, contract mod)




If the invoice is received during the “*canceled*” or “*closed*” status of the appropriation, pay with currently available funds of the same appropriation account cited for that original* obligation (e.g. contract, contract mod)

*Note, originally cited appropriation retains its accounting identity through the “current” and “expired” periods; accounting identify is lost when the appropriation is “canceled” or “closed”


Appropriation Life Cycle

Appropriation Life by Category



-  **Current Period:** Available for new obligations, obligation adjustments, expenditures, and outlays
-  **Expired Period:** Available for obligation adjustments, expenditures, and outlays, but no new obligations
-  **Cancelled:** Unavailable for obligations, obligation adjustments, expenditures, and outlays

Availability of Appropriations: AMOUNT

A vertical image on the left side of the slide shows a stack of gold coins at the top, with a US dollar bill partially visible below them. The bill is slightly out of focus, showing the number "100" and some decorative patterns.

The Antideficiency Act (ADA) prohibits making or authorizing expenditures or incurring obligations *in excess or in advance* of an appropriation

31 USC §1341(a)

The ADA prohibits “expenditures or obligations exceeding an apportionment or the amount permitted by regulations...”

31 USC §1517(a)

Heads of executive agencies shall prescribe by regulation a system of administrative control to: (1) restrict obligations or expenditures to the amount of apportionments or reappropriations of the appropriation; and, (2) fix responsibility for exceeding an appropriation or reappropriation

31 USC §1514(a)

Most Frequent Violations of the Antideficiency Act*

- **Exceeding limits on the use of Operation and Maintenance (O&M) funds for minor construction projects**
(exceeding the amount permitted by regulations)
- **Exceeding the fund availability amount in an appropriation or exceeding the amount of an allotment/suballotment**
(often results through failure to record obligating documents in a timely or accurate manner)
- **Using O&M funds to acquire equipment items that exceed the designated amount for mandatory use of procurement funds**
(expense versus investment threshold rule)
(exceeding the amount permitted by regulations)
- **Obligating in advance of funds being made available**

Most Frequent Causes of Violations of the Antideficiency Act*

- **Established internal controls and standard operating procedures not followed**
- **Inadequate supervisory involvement or oversight**
- **Lack of appropriate training**
- **Inadequate standard operating procedures and internal controls**

***Source: DoD Financial Management Regulation, Volume 14, Chapter 2**

Practice # 1 Fiscal Law

Time is FY 07. Your program has both RDT&E and Procurement funds available for new obligations.

The PCO awarded an R&D contract citing a FY07 procurement appropriation. Action did not exceed procurement appropriation.

Violation of Misappropriation Act

Title 31, US Code, Sec 1301

Appropriated funds are to be used only for the purposes and programs for which the appropriation was made.

Practice # 2 - Fiscal Law

Time is FY 07. Your program has both RDT&E and Procurement funds available for new obligations.

The PCO signed a FY07 procurement funded contract for an amount greater than the amount allotted to the program.

Violation of Antideficiency Act (in excess)

Title 31, US Code, Sec 1517(a)

The ADA prohibits “expenditures or obligations exceeding an apportionment or the amount permitted by regulations...”

Practice # 3 - Fiscal Law

Time is FY 07. Your program has RDT&E, O&M and Procurement funds available for new obligations.

The PCO signs a contract citing FY07 O&M funds for new desktop PCs that he expects to need in FY09

Violation of Bona Fide Need Rule

Title 31, US Code, Sec 1502(a)

Appropriated funds are “available only for payment of expenses properly incurred during the period of availability” of the funds

Practice # 4 - Appropriation Life

-Time is 1 Oct 06. Your program has both RDT&E and Procurement funds available for new obligations.

-The program office receives an invoice citing FY03 RDTE. How should the invoice be paid?

1. Is this bill categorized as Current - Expired - Cancelled?
2. Which fiscal year (or years) should the invoice be paid?
3. Does the bill have to be paid out of the same FY and program element line cited in the original obligation?

1. Bill Category is Expired

2. FY03

3. YES: FY and PE must be the same

Lesson Recap

Described the use of use the budgeting policies associated with the major Defense appropriation categories

- Defined the DoD appropriation categories
- Illustrated the differences between DoD appropriation categories
- Explained the difference between appropriation categories and appropriation accounts
- Explained the funding policy for each DoD appropriation category
- Applied the proper funding policy to respective DoD appropriation categories
- Explained the exceptions to funding policies
- Explained funding product improvements
- Discussed Fiscal Laws

Questions or Comments???

