Color of Money

Funding Policies and Fiscal Law

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From Requirement To Capability

Planning, Programming, Budgeting & Execution Process

Congressional Enactment

Estimate

Budget Policies

Funding

Annual Funding

Full Funding (Exceptions)

Incremental Funding

Authorization & Appropriation Laws

Budget Resolution

Congressional Budget Authority

Reprogramming

Budget Authority

Reprogramming

Commitment

Contract

Obligation

Expenditure

Outlay

EVM

Force Structure

Modernization

Operational Capability

Readiness

Sustainability

President’s Budget

MBIs

MFP FYDP DPG POM

BES RMD SPRs

SAC SASC SBC

HAC HASC HBC

President’s Budget

Feedback

Capability

Baseline

Capability

Requirements

Capability

Based

Analysis

Acquisition

Program

Baseline

Life Cycle

Cost

ICE

ICE

POE

POE

CAIV

Fiscal

Environment

CCA

CCE

CCA

CCE

A o A

A o A

Planning, Programming, Budgeting & Execution Process

ICE Cost Estimating

ICE

Cost Estimating

ICE

Cost Estimating

ICE

Cost Estimating
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

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

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<thead>
<tr>
<th>Appropriation Account</th>
<th>USA</th>
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<th>USMC</th>
<th>USAF</th>
<th>DoD</th>
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<td>3010</td>
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<td>O &amp; M</td>
<td>2020</td>
<td>1804</td>
<td>1106</td>
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<tr>
<td>MILCON</td>
<td>2050</td>
<td>1205</td>
<td></td>
<td>3300</td>
<td>0500</td>
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</table>
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

<table>
<thead>
<tr>
<th>Task</th>
<th>FY 13</th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
</tr>
</thead>
<tbody>
<tr>
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<td>$20M</td>
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<td>Task 3: Environ. Assessment</td>
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</tbody>
</table>

## O&M Budget Authority
- FY 13: $55M
- FY 14: $120M
- FY 15: $105M
- FY 16: $105M

12 Month Effort

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*Note: The table and diagram illustrate the annual funding policy for various tasks and budget authorities from FY 13 to FY 16.*
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 \textit{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

<table>
<thead>
<tr>
<th>Support Ktr</th>
<th>FY 13</th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
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<tr>
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<td>$5M</td>
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<td>$155M</td>
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</tbody>
</table>
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

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<th>FY13</th>
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<td>(FUNDED DELIVERY PERIOD)</td>
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<td>12 MONTHS FROM 1ST DELIVERY</td>
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# Full Funding Policy

## LOT 1
10 ITEMS

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<td>$140K</td>
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<td>$50K</td>
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Total Budget Request: $400K
## Full Funding Policy

<table>
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<th>FY15</th>
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<td>$120 K</td>
<td>$200 K</td>
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<td>$600 K</td>
<td>$500 K</td>
<td>$0 K</td>
<td>$0 K</td>
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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

<table>
<thead>
<tr>
<th></th>
<th>FY13</th>
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<th>FY15</th>
<th>FY16</th>
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<td>40 Items</td>
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</tbody>
</table>
Product Improvement Funding Policy

IF . . .

Modification Increases Performance?

YES

FUND Development & Test of Mod Kits with . . .

RDT&E

DT or Independent OT&E Required?

NO

NO

System in Production?

YES

FUND Acquisition of Mod Kits for End Items with . . .

Procurement

O&M

Procurement

Procurement

NO

Procurement

Procurement

Procurement

Procurement

Procurement

Procurement
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
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

Fiscal Laws

**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

**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

**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
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)
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

<table>
<thead>
<tr>
<th>Category</th>
<th>Availability</th>
</tr>
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<tbody>
<tr>
<td>RDT&amp;E</td>
<td>2 years</td>
</tr>
<tr>
<td>PROC</td>
<td>3 years</td>
</tr>
<tr>
<td>O &amp; M</td>
<td>1 year</td>
</tr>
<tr>
<td>MILPERS</td>
<td>1 year</td>
</tr>
<tr>
<td>MILCON</td>
<td>5 years</td>
</tr>
</tbody>
</table>
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
Availibility 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)

<table>
<thead>
<tr>
<th>Periods of Availability</th>
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<tbody>
<tr>
<td>RDT&amp;E</td>
<td>2 years</td>
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<tr>
<td>PROC</td>
<td>3 years</td>
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<tr>
<td>O &amp; M</td>
<td>1 year</td>
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<tr>
<td>MILPERS</td>
<td>1 year</td>
</tr>
<tr>
<td>MILCON</td>
<td>5 years</td>
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</table>
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 identity is lost when the appropriation is “canceled” or “closed”
## Appropriation Life Cycle
### Appropriation Life by Category

<table>
<thead>
<tr>
<th>Years</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
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</table>

**Current Period:** Available for new obligations, obligation adjustments, expenditures, and outlays

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

**Canceled:** Unavailable for obligations, obligation adjustments, expenditures, and outlays
Availability of Appropriations: AMOUNT

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 reapportionments 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

*Source: DoD Financial Management Regulation, Volume 14, Chapter 2
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
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.
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…”
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???