American Society of Military Comptrollers
Professional Development Institute

Workshop #32
31 May 2019

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The Financial Management Perspective: From Requirement to Capability

- **Planning, Programming, Budgeting and Execution**
  - Annual Funding
  - Incremental Funding

- **Congressional Enactment**
  - Authorization & Appropriation Laws
  - Budget Resolution

- **Budget Authority**
  - Budget Execution
  - Feedback

- **Budget Execution**
  - Commitment
  - Obligation
  - Expenditure
  - Outlay
  - Reprogramming

- **Integrated Prog Mgmt**
  - Risk Mgmt
  - Reporting

- **President’s Budget**
  - FYDP
  - DPG
  - POM
  - RMD

- **Funding Policies**
  - Exceptions

- **Life Cycle Cost Analysis**
  - ICE
  - CCA

- **Cost Analysis**
  - CAIV
  - POE
  - AoA

- **Acquisition Program Baseline**
  - Capability Docs

- **Operational Concept**
  - Capabilities-Based Assessment

- **Operational Concept**
  - Capability Assessment

- **Capability Docs**

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- **Integrated Prog Mgmt**
  - Risk Mgmt
  - Reporting
Basic Policy: Budget request limited to BA necessary to cover all costs expected to be incurred during the FY (RDT&E)
## Incremental Funding Policy

<table>
<thead>
<tr>
<th></th>
<th>FY 1</th>
<th>FY 2</th>
<th>FY 3</th>
<th>FY 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TASK 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$20M</td>
<td>$20M</td>
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<td></td>
<td>25 %</td>
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<td>25 %</td>
</tr>
<tr>
<td><strong>TASK 2</strong></td>
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<td>37.5%</td>
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<td>66.6%</td>
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### Incremental Funding Policy

<table>
<thead>
<tr>
<th>TASK</th>
<th>FY 1</th>
<th>FY 2</th>
<th>FY 3</th>
<th>FY 4</th>
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<td>3</td>
<td>$15M</td>
<td>$10M</td>
<td>$5M</td>
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</table>

| RDT&E Budget Authority | $65M | $110M | $105M | $155M |

**Note:** The table above illustrates the incremental funding policy for different tasks over the fiscal years FY 1 to FY 4. The funding amounts are provided in millions of dollars ($M).
## Incremental Funding Policy

### Period of Performance

<table>
<thead>
<tr>
<th>Task</th>
<th>Period</th>
<th>Cost of Effort</th>
<th>Duration</th>
<th>Burn Rate</th>
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</thead>
<tbody>
<tr>
<td>Task 1</td>
<td>Oct 10 to Jan 11</td>
<td>$400K</td>
<td>4 mo</td>
<td>$100K</td>
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<td>Task 2</td>
<td>Dec 10 to Jun 11</td>
<td>$875K</td>
<td>7 mo</td>
<td>$125K</td>
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<td>Jun 11 to May 12</td>
<td>$2,400K</td>
<td>12 mo</td>
<td>$200K</td>
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<tr>
<td>Task 4</td>
<td>Jul 11 to Dec 11</td>
<td>$900K</td>
<td>6 mo</td>
<td>$150K</td>
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### Total

<table>
<thead>
<tr>
<th></th>
<th>FY 11</th>
<th>FY 12</th>
<th>Total</th>
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<tbody>
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<td>$450</td>
<td>$450</td>
<td>$900</td>
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<tr>
<td>Total</td>
<td>$2,525</td>
<td>$2,050</td>
<td>$4,575</td>
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</table>
Incremental Funding Policy

**Period of Performance**
- Task 1: June 2011 to May 2014
- Task 2: XXX to XXX
- Task 3: XXX to XXX

**Cost of Effort**
- Task 1: $2,500K
- Task 2: $X,XXXK
- Task 3: $XXXK

**Duration**
- Task 1: 36 mo
- Task 2: XX mo
- Task 3: XX mo

**Task 1 Yearly Costs**
- FY11: 10% of $2,500K = $250K
- FY12: 30% of $2,500K = $750K
- FY13: 40% of $2,500K = $1000K
- FY14: 20% of $2,500K = $500K

**Budget Request**
- FY11: $250K
- FY12: $750K
- FY13: $1000K
- FY14: $500K
Funding Policies (Full)

• Basic Policy:
  – Budget request must cover the **total cost** to deliver a given quantity of complete, militarily useable end items in a 12 month funded delivery period (PROC & MILCON). Budgeted for in the year of contract award

  – ‘Usable End Item”: no piecemeal procurement of systems permitted

  – “Funded Delivery Period”: the last item in a lot must be delivered within 12 months of the delivery of the 1\textsuperscript{st} item in the lot
## Full Funding Policy (Multiple Lots)

<table>
<thead>
<tr>
<th>Lot</th>
<th>FY 1</th>
<th>FY 2</th>
<th>FY 3</th>
<th>FY 4</th>
<th>FY 5</th>
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</thead>
<tbody>
<tr>
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<td>2</td>
<td>3</td>
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</tr>
<tr>
<td>20 Items</td>
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<td>5</td>
<td>5</td>
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<tr>
<td>LOT 3</td>
<td></td>
<td></td>
<td>8</td>
<td>10</td>
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<tr>
<td>18 Items</td>
<td></td>
<td></td>
<td>8</td>
<td>10</td>
<td></td>
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</tbody>
</table>

### Budget Amounts
- LOT 1: $400K
- LOT 2: $300K
- LOT 3: $500K

### Funding Timeline
- FY 1: $400K
- FY 2: $300K
- FY 3: $500K
- FY 4: $500K
- FY 5: $500K
## Full Funding Policy (Multiple Lots)

<table>
<thead>
<tr>
<th>Budget Request</th>
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<td>$500 K LOT 3</td>
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</table>
Funding for Product Improvements
Funding Decision Tree

IF . . . .
MOD INTENT to INCREASE PERFORMANCE?

YES
RDT&E

AND . . . .
Fund acquisition & installation of MOD Kits for End Items with . . .

THEN . . . .
SYSTEM IN PRODUCTION?

YES
PROCUREMENT

Acquisition of mod kits and installation of mod kits often happen in different fiscal years.
The Financial Management Perspective: From Requirement to Capability

Life Cycle Cost

Cost Analysis

ICE

Fiscal Environment

Annual Funding

Funding Policies

Incremental Funding

Full Funding

Exceptions

Congressional Enactment

Planning, Programming, Budgeting and Execution

FYDP DPG POM RMD MFP PE BES

President’s Budget

Budget Resolution

Authorization & Appropriation Laws

Budget Authority

Operational Concept

Capability Docs

Capability-Based Assessment

Acquisition Program Baseline

EVM

Integrated Prog Mgmt

Risk Mgmt

Reporting

Budget Execution

Commitment

Obligation

Expenditure

Outlay

Reprogramming

Feedback

Committee

HAC SAC

HASC SASC

HBC SBC

Congressional Budget Resolution Authority

Authorization & Appropriation Laws
PPBE – Planning Phase - Lead by USD (P)

YEAR 1
FEB/MAR

YEAR 2
APR/MAY

Elapsed Time: 15-16 Months

President
National Security Council
DNI/JCS/OSD

Planning Phase focus:
- Threat vs. Capabilities
- Update strategy
- Guidance for Programming & Budgeting

COCOM – Combatant Commander
CPR – Chairman’s Program Recommendation
DNI – Director of National Intelligence
DPG – Defense Planning Guidance
JCS – Joint Chiefs of Staff
NDS – National Defense Strategy (absorbed QDR)
NMS – National Military Strategy
NSS – National Security Strategy
OSD – Office of the Secretary of Defense
USD(P) – Undersecretary of Defense (Policy)

New NDS at least every 4 years to Congress (absorbed QDR content), intervening years require annual assessment of current NDS.

Guidance for POM/BES submission and OSD Program & Budget Review

OSD Level

JCS Level
(JCS, COCOMs, SERVICES)
Concurrent Program/Budget Review

SEP
- OSD/OMB
- Issue Resolution
- POM
- Services (PEO/PM, SVC HQs, COCOMs)

OCT
- 3-Star Group
- SECDEF
- SLRG&DMAG
- CPA
- JCS
- Adv Ques/Hearings

NOV
- PDM (RMD)
- BES
- OSD/OMB
- PBDs (RMD)
- Updates FYDP
- MBI

DEC
- Updates FYDP

JAN/FEB
- Program Review focus:
  - Compliance with DPG
  - Ensures the "program" has all the resources necessary to make it executable

Budget Review focus:
- Pricing
- Phasing
- Funding policies
- Budget execution
R - Form Flow Chart

RDT&E Budget Item Justification R-2 & R-2A
- Focus: FYDP Funding Required by FY
- Information:
  - Mission Description
  - Budget Justification
  - Accomplishments
  - Program Changes
  - Other Program Funding

RDT&E Project Cost Analysis R-3
- Focus: BY Funding by Cost Category
- Contract Information:
  - Type & Method
  - Performing Activity
  - Award Date
  - Target Price

RDT&E Schedule Profile R-4 & 4-A
- Focus: Monthly Program Schedule
- Information:
  - Milestones
  - DT&E & OT&E
  - Contract Award & Delivery Dates
    - EMD
    - LRIP
    - Production
P-Form Flow Chart

Procurement Budget Item Justification P-40
- Focus: FYDP Funding Required by FY
- Information:
  - Quantity
  - Advance Procurement
  - Procurement Cost
  - Spares
  - Flyaway Cost
  - Weapon System Cost

Procurement Weapon System Cost Analysis P-5
- Focus: BY Funding by Cost Category
- Information:
  - Quantity
  - Unit & Total Cost
  - Contract Information
  - Type & Method
  - RFP Issue & Contract Award Dates
  - Contractor
  - Date of 1st Delivery
  - Tech Data Available

Procurement History & Planning P-5A

Production Schedule P-21
- Focus: Monthly Delivery Schedule
- Information:
  - Contract Award Date
  - Quantity by Service
  - Monthly Deliveries
  - Production Rates (min, normal, max)
  - Manufacturing & Administrative Leadtimes
Continuing Resolution (CR)

- If Congress fails to pass appropriations acts prior to 1 October, it may pass a joint Continuing Resolution which must be signed by the President.

- Continuing Resolution Authority is stopgap spending authority allowing federal government to continue operating.
  - Allows obligation of funds at the lesser of:
    - Normal rate based on last year’s appropriation
    - Normal rate based on lowest Congressional mark
  - New Start programs NOT PERMITTED
  - Congressional Special Interest programs may have specific direction
  - No initiation of MYPs or increase in production rates above last fiscal year’s level
Apportionment Process

Budget & Accounting Act of 1921

- Appropriation
- Apportionment
- Allocation
- Sub-Allocation
- Allotment

Congress

OMB

OSD Comptroller

Service Comptroller

MACOM/PEO Comptroller

PMO

Program Management Office

Provides Budget Authority

- Investment-full amount
- Expense-quarterly
- Impoundment-Defer/Rescind

Withhold
- Administrative

Withhold
- Admin
- “Taxes” (AKA CGRs/UGRs)

Now PMO can actually use the BA
Examples of Appropriation Structure

• RDT&E
  – Appropriation: 3600F (RDT&E, Air Force)
  – Budget Activity: 03 - Advanced Technology Development
  – Program Element: 0603205F- Flight Vehicle Technology Integration

• Procurement
  – Appropriation: 2032A (Missile Procurement, Army)
  – Budget Activity: 02 - Other Missiles
  – Line Item: 003 - Hellfire System

• O&M
  – Appropriation: 1804N (Operations & Maintenance, Navy)
  – Budget Activity: 01 - Operating Forces
  – Activity Group/Sub Activity Group: Air Operations / Base Support
**Fiscal Laws**

- **“The Purpose Statute” - Misappropriation** [Title 31, U.S. Code, Sec 1301]
  - Requires funds to be used only for the purposes and programs for which the appropriation was made

- **Bona Fide Need Rule** [Title 31, U.S. Code, Sec 1502]
  - Requires funds to be used only for needs or services in the year(s) of the appropriation’s obligation period

- **Anti-deficiency Act** [Title 31, U.S. Code, Sec 1341 & 1517]
  - Prohibits making or authorizing an obligation in excess of the amount available
  - Forbids obligation to pay money from the US Treasury in advance of an appropriation
  - Requires agency to fix responsibility for violations of the Act
### Appropriation Life - *Time*

<table>
<thead>
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<tr>
<td></td>
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<td><strong>O&amp;M</strong></td>
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<td><strong>RDT&amp;E</strong></td>
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<tr>
<td><strong>MILPERS</strong></td>
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</table>

- **Current Period**: Available for new obligations, obligation adjustments, expenditures, & outlays
- **Expired Period**: Available for obligation adjustments, expenditures, & outlays
- **Cancelled**: Unavailable for obligations, obligation adjustments, expenditures, & outlays

*Line of Accounting is maintained from current period through the expired period*
Goal: Classify the status of an account; and determine how the bill must be paid.

Steps:

1. Determine the status of the account.
   Is the bill from a current, expired, or cancelled account?

2. Explain how the bill should be paid.
   Current and expired account bills are paid the same way. Cancelled account bills have their own set of rules

Note: The term “current” and “unexpired” are synonyms and are used interchangeably in this presentation.
The Financial Management Perspective: From Requirement to Capability

Cost Analysis
- ICE
- Fiscal Environment
- CAIV
- POE
- AoA

Life Cycle Cost

Planning, Programming, Budgeting and Execution
- FYDP
- DPG
- POM
- RMD
- MFP
- PE
- BES

Congressional Enactment
- HAC
- SAC
- HASC
- SASC
- HBC
- SBC

Budget Authority
- Budget Resolution
- Authorization & Appropriation Laws

Budget Execution
- Commitment
- Obligation
- Expenditure
- Outlay
- Feedback
- Reprogramming

Integrating Program Management
- EVM
- Reporting
- IMS

Risk Management

Operational Concepts
- Acquisition Program Baseline
- Capabilities-Based Assessment
- Capability Docs

Operational Concept
- POE
- AoA

Operations
- Force Structure
- Modernization
- Operational Capability
- Readiness
- Sustainability
Monetary Concepts

Budget Authority
- Credit Card Spending Limit

Commitment
- Verification of Available Funds

Administrative Reservation of Funds

Legal Reservation of Funds
- Obligation
  - Sign Receipt for Purchase

Expenditure
- Write Check to Credit Card Company

Outlay
- Check clears your account

Purpose
- Time
- Amount
# Obligation & Expenditure Plan

## FY 18 RDT&E Obligation/Expenditure

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<thead>
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<th>Obligations</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
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<th>Mar</th>
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<td>34</td>
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| Variance Cum$ | -2  | -6  | -10 | -34 | -34 | -32 | -28 | -41 | -50 |
| Var Cum %     | -40%| -60%| -67%| -85%| -81%| -73%| -47%| -55%| -59%|

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<tr>
<td>Plan Cum</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td>20</td>
<td>25</td>
<td>30</td>
<td>35</td>
<td>40</td>
<td>50</td>
<td>55</td>
</tr>
<tr>
<td>Actual Cum</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>25</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Variance Cum$ | 0   | -1  | -4  | -7  | -12 | -17 | -21 | -5  | -10 |
| Var Cum %     | 0%  | -50%| -80%| -70%| -80%| -85%| -84%| -17%| -29%|

**Report Cutoff Date**
25 June 2018

How well is this Program Office executing its budget?
Budgeting Policies by Contract Type

Principal Policy: budget to “most likely” price

- **FFP**: anticipated final negotiated price
- **FP-EPA**: anticipated FFP without EPA
- **FPI**: target cost + target profit, not ceiling price @ contract award
- **CPIF**: target cost + target fee
- **CPAF**: target cost + base fee + total award fee for budget period
- **CPFF**: target cost + fixed fee
### Labor costs for software engineers

Labor costs for software engineers are expected to be about $2.0M higher than originally expected during FY 15 due to fierce competition. Materials cost is expected to be about $1.8M higher than originally estimated during FY 15 due to shortages of certain materials used in fabrication of test units.
Cost Plus Incentive Fee

Price Elements:
- Target Cost: $120,000
- Target Fee: $9,400
- Max Fee: $14,000
- Min Fee: $6,000
- Share: 75/25
## Below Threshold Reprogrammings

<table>
<thead>
<tr>
<th>APPRN</th>
<th>MAX INCREASE</th>
<th>MAX DECREASE</th>
<th>LEVEL OF CONTROL</th>
<th>OBL AVAIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>RDT &amp; E</td>
<td><strong>Lesser of $10M or 20%</strong></td>
<td><strong>Lesser of $10M or 20%</strong></td>
<td>PROGRAM ELEMENT</td>
<td>2 YEARS</td>
</tr>
<tr>
<td>PROC</td>
<td><strong>Lesser of $20M or 20%</strong></td>
<td><strong>Lesser of $20M or 20%</strong></td>
<td>LIN E ITEM</td>
<td>3 YEARS</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(5 YEARS SCN)</td>
<td></td>
</tr>
<tr>
<td>O &amp; M</td>
<td>$15M</td>
<td>$15M</td>
<td>BUDGET ACTIVITY or DEFENSE AGENCY</td>
<td>1 YEAR</td>
</tr>
<tr>
<td></td>
<td>$20M (FY18)</td>
<td>$20M (FY18)</td>
<td>SOME BA 1 SUB-ACTIVITY LIMITATIONS ON DECREASES (OPERATING FORCES)</td>
<td></td>
</tr>
<tr>
<td>MILPERS</td>
<td>$10M</td>
<td>No Specific Congressional restriction</td>
<td>BUDGET ACTIVITY</td>
<td>1 YEAR</td>
</tr>
<tr>
<td>MILCON</td>
<td><strong>Lesser of $2M or 25%</strong></td>
<td>No Specific Congressional restriction</td>
<td>PROJECT</td>
<td>5 YEARS</td>
</tr>
</tbody>
</table>

Reference Source: DoDFMR 7000.14-R, Volume 3, Chapter 6 (Sept 2015) and Chapter 7 (Mar 2011)
Reprogramming Actions Cont’

• BTRs

  – “Rules” (not law) have recently been contained in annual report language for each appropriation

  – Thresholds are applied at RDT&E program element & PROC line item level of control

  – New starts cannot be initiated with BTR authority

  – Authority does not apply to Congressional special interest items (SIs) and previous Congressionally denied items

  – Thresholds/Congressional guidance modified in FY15 - Current guidance DoDFMR 7000.14-R, Volume 3, Chapter 6 (Sept 2015) and Chapter 7 (Mar 2011)
Reprogramming Actions – Cont’

• Congressional Prior Approval:
  – Congressional special interest items (SI)
  – Use of general transfer authority (GTA) between appropriations or legal subdivisions
  – Increase in major end item quantities
  – Exceeding BTR amounts
  – Exceeding “new start” RDT&E or PROC thresholds
  – Program terminations exceeding RDT&E & PROC thresholds
  – Requires HAC/SAC & HASC/SASC letter approval; intelligence actions require House/Senate Intelligence Committees approval
The Financial Management Perspective: From Requirement to Capability

- Life Cycle
- Cost
  - Analysis
  - ICE
  - Fiscal
  - Environment

- Cost
  - ICE
  - Estimate

- Estimate
  - Annual Funding
  - Full Funding
  - Incremental Funding
  - Exceptions

- Budget Authority
  - Budget Resolution
  - Authorization & Appropriation Laws

- Budget Execution
  - Commitment
  - Obligation
  - Expenditure
  - Outlay
  - Reprogramming
  - Feedback

- Congress
  - Congressional Enactment
  - Modernization
  - Operational Capability
  - Readiness
  - Sustainability

- Force Structure

- Acquisition
  - Program Baseline
  - Baseline

- Operational Concept
  - Capability Docs

- Capability
  - Based Assessment

- Acquisition Program Baseline

- President’s Budget
  - MFP
  - PE
  - BES

- Annual Funding
  - FYDP
  - DPG
  - POM
  - RMD

- Incremental Funding
  - MFP
  - PE
  - BES

- Full Funding

- President’s Budget

- Planning, Programming, Budgeting and Execution

- Congress

- Budget Execution

- Integrated
  - Prog Mgmt
  - IMS

- Risk Mgmt
  - Reporting

- Capability Docs

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