

# Color of Money

## Funding Policies and Fiscal Law

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**Presented by:**

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# Objectives

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

# Major Appropriation Categories

<b>APPN CAT</b>	<b>SCOPE OF WORK EFFORT</b>	<b>FUNDING POLICY</b>	<b>OBLIGATION PERIOD</b>
<b>RDT &amp; E</b> Both	RDT&E Activities & Exp, AIS E/SW @ R&D Facilities	Incremental	2 Years
<b>PROC (SCN)</b> Investment	Production Labor/HW, Initial Spares, AIS E/SW $\geq$ \$250K	Full	3 Years 5 Years - SCN
<b>O&amp;M</b> Expense	Replenishment Spares, Civilian Salaries, Travel, Fuel, Supplies, Minor Const $<$ \$750K, AIS E/SW $<$ \$250K	Annual	1 Year
<b>MILPERS</b> Expense	Military Pay & Allowances, PCS Moves, Retired Pay Accrual	Annual	1 Year
<b>MILCON</b> 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>
<b>RDT&amp;E</b>	<b>2040</b>	<b>1319</b>		<b>3600</b>	<b>0400</b>
<b>Procurement</b>					<b>0300</b>
<b>Aircraft</b>	<b>2031</b>	<b>1506</b>		<b>3010</b>	
<b>Missiles</b>	<b>2032</b>			<b>3020</b>	
<b>Weapons</b>		<b>1507</b>			
<b>W &amp; TCV</b>	<b>2033</b>				
<b>SCN</b>		<b>1611</b>			
<b>Ammunition</b>	<b>2034</b>	<b>1508</b>		<b>3011</b>	
<b>USMC</b>			<b>1109</b>		
<b>Other</b>	<b>2035</b>	<b>1810</b>		<b>3080</b>	
<b>MILPERS</b>	<b>2010</b>	<b>1453</b>	<b>1105</b>	<b>3500</b>	<b>N/A</b>
<b>O &amp; M</b>	<b>2020</b>	<b>1804</b>	<b>1106</b>	<b>3400</b>	<b>0100</b>
<b>MILCON</b>	<b>2050</b>	<b>1205</b>		<b>3300</b>	<b>0500</b>

# 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 <b>Task 1</b> \$20M	\$5M	\$5M	\$5M	\$5M
CLS Contract <b>Task 2</b> \$350M	\$50M	\$100M	\$100M	\$100M
Environ. Assessment <b>Task 3</b> \$15M		\$10M	\$5M	
<b>O&amp;M Budget Authority</b>	\$55M	\$120M	\$105M	\$105M

*12 Month Effort*

# Incremental Funding Policy

## Applicable Appropriation:

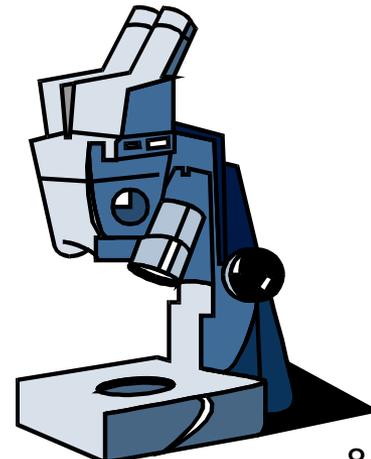
Research, Development, Test & Evaluation

## 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
<b>Support Ktr</b> <b>TASK 1</b> \$20M	\$5M	\$5M	\$5M	\$5M
<b>Prime EMD Kt</b> <b>TASK 2</b> \$400M	\$50M	\$100M	\$100M	\$150M
<b>TASK 3</b> \$15M <b>Lab Support</b>	\$10M	\$5M		
<b>RDT &amp; E</b> <b>Budget</b> <b>Authority</b>	\$65M	\$110M	\$105M	\$155M

# Full Funding Policy

## Applicable Appropriations:

**Procurement and Military Construction**

## Basic Budgeting Policy:

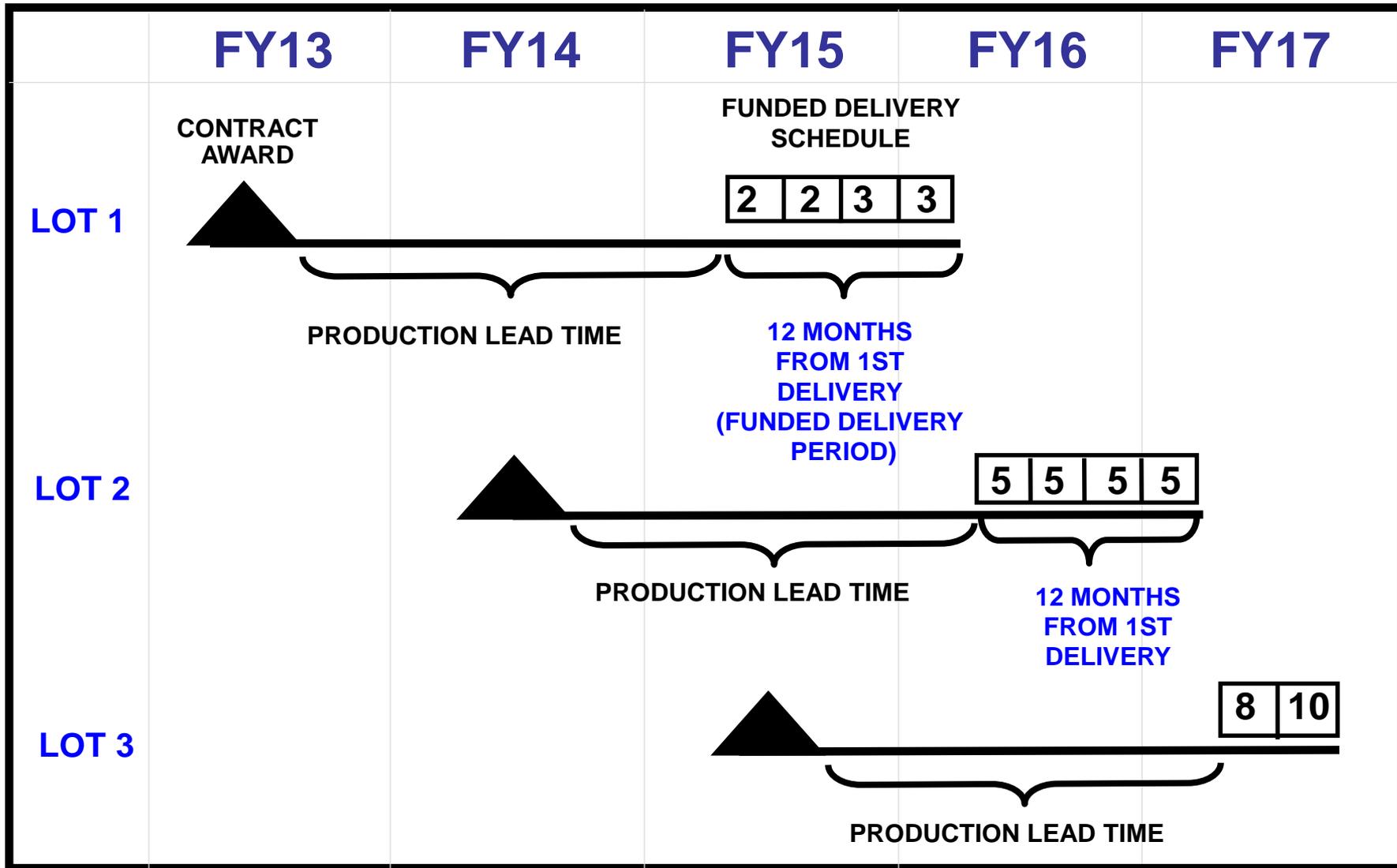
Annual budget request must cover the *total cost* to deliver a given quantity of complete, militarily usable end items in a 12 month funded delivery period.

## Governing Concepts:

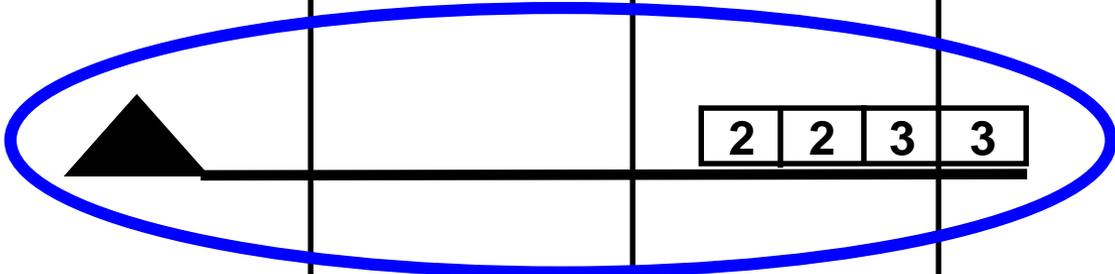
- ***Usable End Items*** - No piecemeal procurement of systems is permitted.
- ***Funded Delivery Period*** - 12 month period starting with delivery of first item.



# Funded Delivery Period



# Full Funding Policy

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

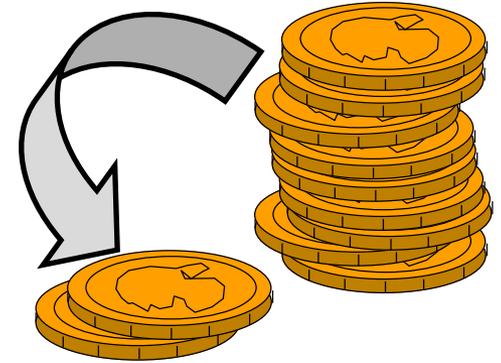
# Full Funding Policy

	FY13	FY14	FY15	FY16	FY17
<b>\$ 400 K</b> LOT 1 10 Items	\$70K 	\$140K	\$140K 2   2   3   3	\$50K	
<b>\$ 600 K</b> LOT 2 20 Items		\$120K 	\$200K	\$200K 5   5   5   5	\$80K
<b>\$ 500 K</b> 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**

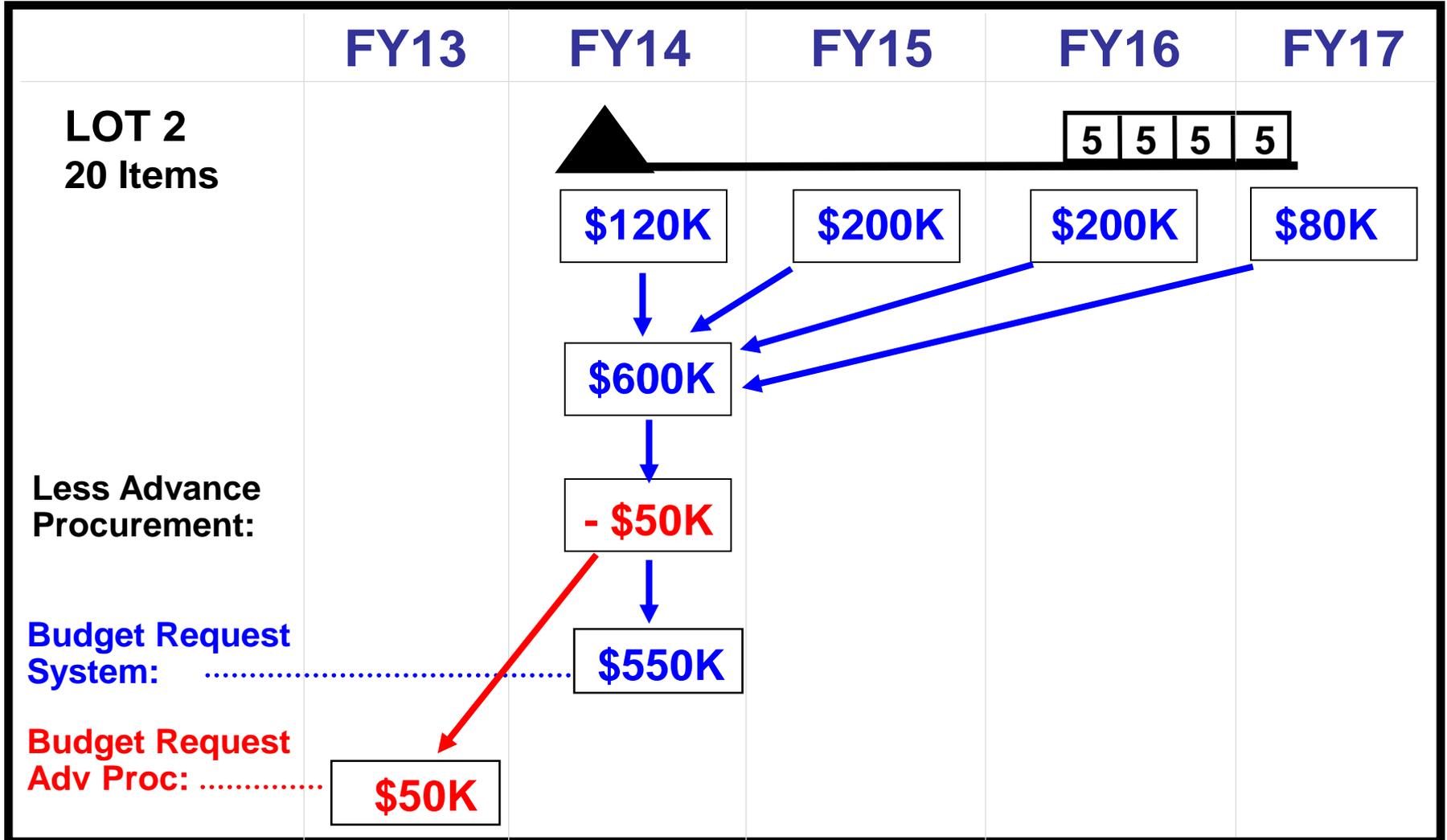
- To protect production schedule
- To maintain a critical skill in the workforce

- **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!***

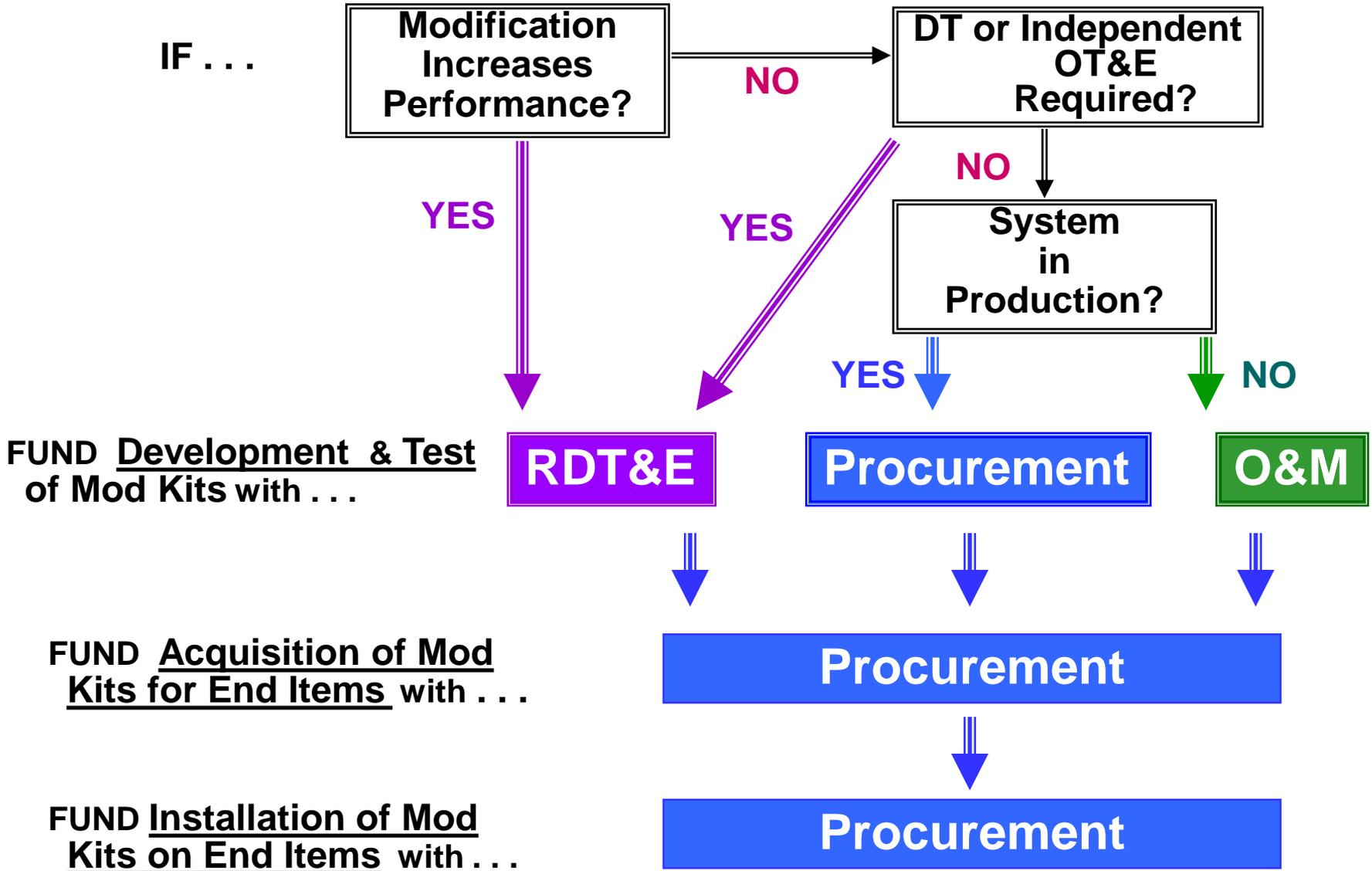
# Advance Procurement



# Advance Procurement (cont.)

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

# 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

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 30<sup>th</sup> of the 5<sup>th</sup> 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)

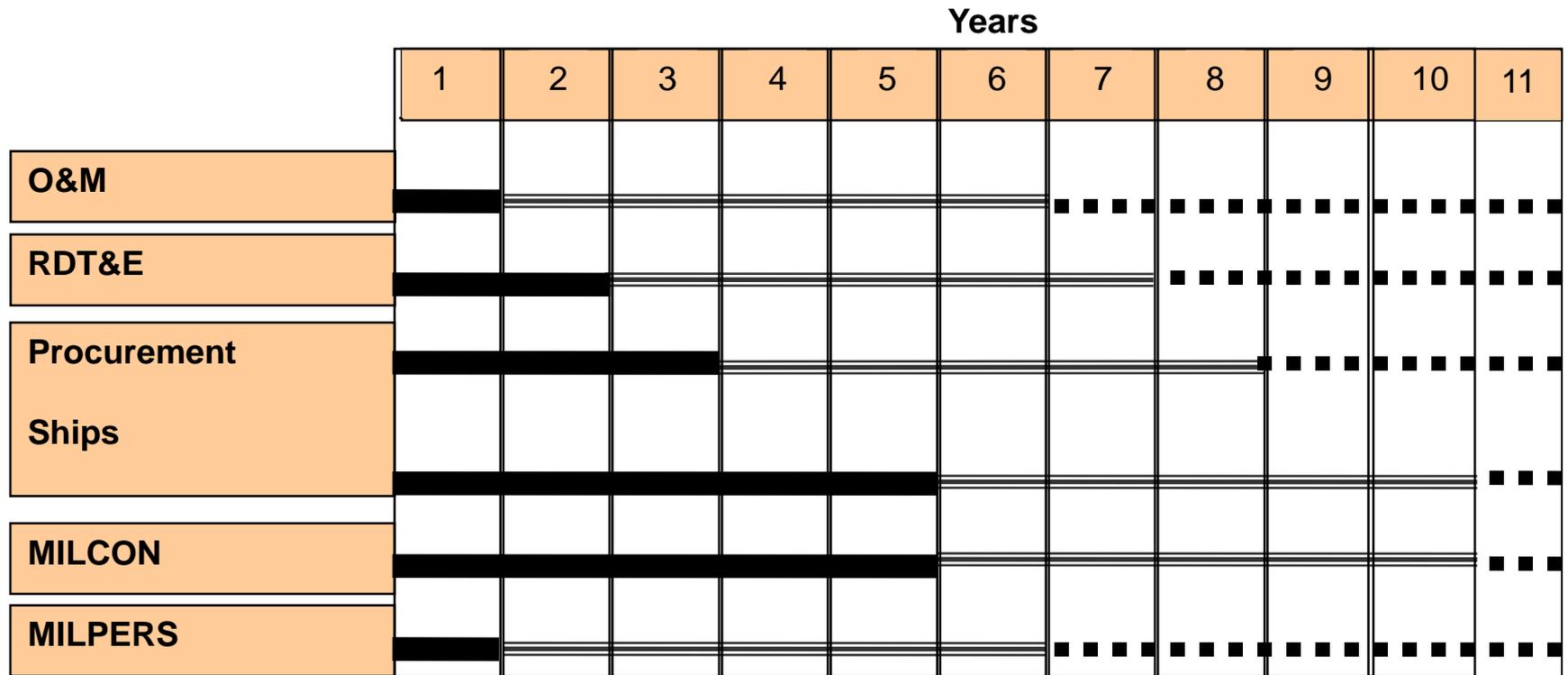
If the invoice is received during the “*expired*” status of the appropriation, pay with fiscal year funds cited for that original\* obligation (e.g. contract, contract mod)

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



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 Anti-deficiency 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 Anti-deficiency 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**

# 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 and Applied the proper funding policy to respective DoD appropriation categories
- Explained the exceptions to funding policies
- Explained funding product improvements
- Discussed Fiscal Laws

# Questions ?