

# CHAPTER 10

## RESOURCE MANAGEMENT

*“Mr. Chairman,*

*I want to thank the members of this committee for your support of our soldiers and of our vision for the future, especially The Army’s Transformation initiative, which will be so critical to our readiness in the decades to come. With your support, that effort is well underway.*

*...Achieving...force readiness has taken significant effort... We have fully funded training and taken risk elsewhere... The price for achieving that kind of readiness in our early deploying units has been to accept risk elsewhere in the force. First, we have diverted soldiers from other organizations to fill our high priority war fighting formations. Second, we have for years mortgaged our future readiness -- our modernization programs -- in order to assure that our soldiers had, in the near-term, what it takes to fight and win decisively...*

*For a number of years now, we have focused resources into these high priority units at the expense of non-divisional and reserve component units and the institutional Army. We also deferred revitalization of our facilities. The DOD benchmark calls for complete renewal of facilities every fifty-seven years. With current funding, it will take The Army 157 years to fully revitalize our infrastructure... In addition, our current real property maintenance backlog exceeds \$15 billion today. That is the result of migrating funds to pay for near-term readiness, and that problem compounds with each passing year.*

*Likewise, most of our legacy force equipment -- our major combat systems -- is aging. Over 75% of them exceed the half-life of their expected service. As a result, operations and maintenance costs have grown 30% over the past four years...”*

Testimony of the Chief of Staff, Army, General Eric K. Shinseki, before the House Armed Services Committee on 27 September 2000

### **SECTION I**

#### **INTRODUCTION**

#### **10-1. The need for resource management**

**a.** General Shinseki’s testimony to the House Armed Services Committee illustrates the need for effective resource management throughout the Army. He mentions past strategic resource management decisions that have had a profound effect on the Army in the field. Because the Army has a large and complex set of missions to execute and a limited set of resources with which to accomplish its missions and supporting tasks, the necessity to maximize the spending power of every dollar the Congress appropriates to the Army becomes paramount. Further, because the Army is vested with the public’s trust and confidence for defending our Nation, all Army leaders have an incumbent responsibility to exercise effective and responsible stewardship for all the resources that have been entrusted to them. As such, responsible,

effective and efficient resource management is an integral part of all Army leaders' duties and functions and is essential for maintaining the Army's readiness to accomplish its assigned missions.

**b.** Resource management at the strategic level must address the issues of affordability, required force capabilities, and the entire supporting structure. Resource managers at this level must also deal with the larger questions of whether particular programs are needed, how they serve the specific missions assigned to the Army, and whether the strategies designed to accomplish the mission are correct and necessary. Programmatic and financial resource perspectives examine the efficiency with which funds are allocated and spent, and with how effectively particular programs are managed and integrated. At the program level this process encompasses the ways in which the soldiers, civilians, facilities, equipment, information, time, and funds are integrated into the Army.

**c.** Implicit in this programmatic resource management perspective is the recognition that all of us participate in a resource decision stream that requires some of these decisions, once made, to remain unalterable. For example, placing a new facility at an installation requires a minimum of four years. Training instructors and then troops on a new piece of equipment requires three years. Ordering the secondary spares for new end items requires at least two years. Integrating all three of these resourcing decisions requires that we consider them to be "irreversible," otherwise we will find new facilities being completed at one installation, while we have resourced new equipment and soldiers trained on that equipment to be serving on another installation.

**d.** More importantly, this "unalterable decision base" will have created "a receivables stream" such as aircraft, training packages, equipment shops, displaced equipment, and so forth of substantial proportion. Reconfiguring these "receivables" into one's own conception without considering the previous decision rationale may well create resource management disconnects which tend to surface in OSD resource review forums and Congressional hearings.

## **10-2. Resource management—a definition**

Resource management is the direction, guidance, and control of financial and other resources. It involves the application of programming, budgeting, accounting, reporting, analysis, and evaluation.

## **10-3. Resource management terms**

Throughout this chapter, there are a number of unique terms associated with resource (specifically financial or fiscal) management that if understood will enable you to more readily understand and use this chapter.

**a. Obligation.** Any act that legally binds the United States Government to make a payment is an obligation. The concept of the "obligation" is central to resource management in the Government. From the central concept of "obligating the U.S. Government to make a payment" springs forth the foundation of our fiscal law and the legal parameters under which the Army must operate as a part of the U.S. Government. The obligation may be for a service rendered by a contractor, the acquisition of material items (for example, a tank), the construction or repair of a facility, salary for a soldier or civilian, and so forth

**b. Congressional authorization.** A law passed by the Congress and signed by the President that establishes or continues a Federal program or agency, and sets forth guidelines to which it must adhere. Generally for every fiscal year, the Congress passes a DOD authorization act (for example, Public Law 106-554, *National Defense Authorization Act for Fiscal Year 2001*), which directs by law what can be purchased, what manpower resource levels each Service

can have, and how many weapon and other materiel systems can be bought. It also provides additions and changes to Title 10 of the United States Codes that, among other laws, guide the management of the Army and the other activities of the Department of Defense. An authorization act however does not provide the budget authority to draw funds from the U.S. Treasury to pay an obligation.

**c. Congressional appropriation.** A law passed by the Congress and signed by the President that provides budget authority for the specific purpose(s) stated in the law. In the case of the annual DOD appropriations acts (for example, Public Law 106-259, *Department of Defense Appropriations Act, 2001*; and Public Law 106-246, *Military Construction Appropriations Act, 2001*), budget authority is provided for a number of appropriations (for example, Operations and Maintenance, Army (OMA); Military Personnel, Army (MPA); Research, Development, Test and Evaluation, Army (RDT&E,A); Military Construction, Army (MCA), and so forth) for a specified period of time for the Army to incur legal obligations as it executes the programs authorized by Congress and other laws that guide Army operations.

**d. Budget authority.** Budget authority is the authority to incur a legal obligation to pay a sum of money from the U.S. Treasury. Budget authority is not “money.” The U.S. Treasury actually disburses cash only after an agency (for example, Army, Defense Finance and Accounting Service (DFAS) accounting office activity, and so forth) issues a U.S. Treasury Check withdrawing money from the Treasury and thus disburses the money to pay a previously incurred obligation.

**e. Disbursement.** Payment of an obligation of the U.S. Government.

**f. Fiscal year (FY).** The fiscal year is the Government’s accounting period. For the Federal Government it begins on 1 October and ends on 30 September. The fiscal year is designated by the calendar year in which it ends. For example, Fiscal Year 2001 begins on 1 October 2000 and ends on 30 September 2001.

**g. Outlays.** Outlays are the amount of money the Government actually disburses in a given fiscal year.

#### **10-4. Key players in Army resource management**

There are a number of different actors who play in the Army’s resource management arena:

**a. Congress.** Central to the function of obligating the Government to make a payment is the power invested by the U.S. Constitution to the Congress for the following: Congress has the power to raise revenue and borrow money (U.S. Constitution Article I, Section 8, Clause 1-2); Congress has the power to raise and support armies and a navy (U.S. Constitution Article I, Section 8, Clause 12-13); and no money shall be drawn from the Treasury, but in consequence of appropriations made by law (U.S. Constitution Article I, Section 9, Clause 7). For Congress to meet these requirements they pass authorization and appropriation acts as described above.

**b. Office of Management and Budget (OMB).** OMB assists the President of the United States in overseeing the preparation of the Federal budget and in supervising its administration in Federal agencies. It evaluates, formulates, and coordinates management procedures and program objectives within and among Federal departments and agencies. It also controls the administration of the Federal budget, while routinely providing the President with recommendations regarding budget proposals and relevant legislative proposals. Additionally it plans, conducts, and promotes evaluation efforts that assist the President in assessing Federal program objectives, performance, and efficiency. Finally, OMB also oversees and coordinates the Administration's procurement, financial management, information, and regulatory policies.

Further details on the OMB organization and its functions can be viewed on-line at: “<http://www.whitehouse.gov/OMB/>”.

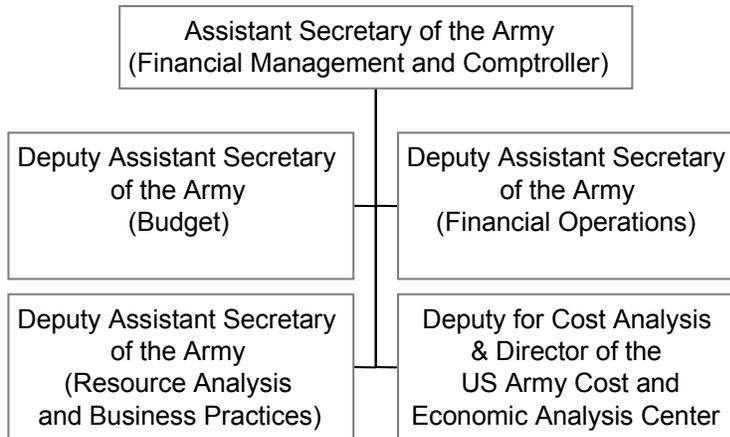
**c. Under Secretary of Defense (Comptroller) (USD(C)).** Within the Office of the Secretary of Defense (OSD) there is appointed an Under Secretary of Defense (Comptroller). The USD(C) advises and assists the SecDef in exercising the SecDef’s budgetary and fiscal powers. As such the USD(C) supervises and directs the preparation of DOD budget estimates, establishes and supervises the execution of policies and procedures to be followed in connection with organizational and administrative matters relating to: preparation of budgets; fiscal, cost, operating, and capital property accounting; and progress and statistical reporting. Finally the USD(C) establishes and supervises the execution of policies and procedures relating to the expenditure and collection of funds administered by DOD, and establishes uniform fiscal terminology, classifications and procedures used in the DOD’s fiscal management. The USD(C) is the DOD Chief Financial Officer. Further details on the Office of the USD(C) organization and its functions can be viewed on-line at: “<http://www.dtic.mil/comptroller/>”.

**d. Secretary of the Army (SECARMY).** Subject to the authority, direction, and control of the Secretary of Defense (SecDef) and subject to the provisions of chapter 6 of Title 10, United States Code, the SECARMY is responsible for, and has the authority necessary to conduct all affairs of the Department of the Army, including the following functions:

- (1) Recruiting.
- (2) Organizing.
- (3) Supplying.
- (4) Equipping (including research and development).
- (5) Training.
- (6) Servicing.
- (7) Mobilizing.
- (8) Demobilizing.
- (9) Administering (including the morale and welfare of personnel).
- (10) Maintaining.
- (11) The construction, outfitting, and repair of military equipment.
- (12) The construction, maintenance, and repair of buildings, structures, and utilities and the acquisition of real property and interests in real property necessary to carry out the responsibilities specified.

(13) Further, subject to the authority, direction, and control of the SecDef, the SECARMY is also responsible to the SecDef for: the functioning and efficiency of the Department of the Army; the effective and timely implementation of policy, program, and budget decisions and instructions of the President or the SecDef relating to functions of the Department of the Army; and the performance of the functions of the Department of the Army so as to fulfill (to the maximum extent practicable) the current and future operational requirements of the unified and specified combatant commands. As such the SECARMY can be considered the Army’s top resource manager because of the position’s inherent decision-making authority over the affairs of the Department of the Army.

e. **Assistant Secretary of the Army (Financial Management & Comptroller) (ASA(FM&C))**. Within the Office of the Secretary of the Army (OSA) there is appointed an Assistant Secretary of the Army (Financial Management and Comptroller). The ASA(FM&C) exercises the comptroller functions of the Department of the Army and advises the SECARMY on financial management as directed by the *Goldwater-Nichols Department of Defense Reorganization Act of 1986* (Public Law 99-433). To execute this mission, the Office of the ASA(FM&C) is organized as follows:



**Figure 10-1. Office of the Assistant Secretary of the Army (Financial Management and Comptroller)**

(1) *Deputy Assistant Secretary of the Army (Budget) (DASA(B))*. The DASA(B) is responsible for the Army’s budget formulation, the presentation and defense of the budget through the congressional appropriation process, budget execution and analysis, reprogramming actions, and appropriation/fund control and distribution. The DASA(B) is a co-chairman of the HQDA Planning Programming and Budgeting Committee (PPBC). To accomplish its missions and functions, the Office of the DASA(B) is organized into four directorates (Operations and Support; Investment; Business Resources; and Management and Control). Additionally, the Army’s Congressional Budget Liaison Office is under control of the DASA(B).

(2) *Deputy Assistant Secretary of the Army (Financial Operations) (DASA(FO))*. The DASA(FO) is responsible for: policies, procedures, programs and systems pertaining to finance and accounting activities and operations; Army financial management systems and data integration activities; Army programs for management control, internal review and audit compliance, the Government Travel Charge Card, and fraud, waste and abuse; and other management evaluation activities. To accomplish its missions and functions, the Office of the DASA(FO) is organized into three directorates (Management Services and Internal Review; Financial Reporting; and Finance and Accounting Oversight). Additionally, the U.S. Army Finance Command, a HQDA field operating agency, is under the control of the DASA(FO).

(3) *Deputy Assistant Secretary of the Army (Resource Analysis & Business Practices) (DASA(RB))*. The DASA(RB) is responsible for providing: discrete independent resource analysis for the purpose of recommending changes to policy, procedures and systems; policy and oversight of management improvement and productivity functions within the Army; HQDA level assessments of mission accomplishment through the Quarterly Army Performance Review (QAPR); development and review of alternative financing initiatives including lease finance, privatization, public-private ventures, and asset exchange; and financial management oversight

of non-appropriated funds (NAF). To accomplish its missions and functions, the Office of the DASA(RB) is organized into a Resource Analysis Team and a Business Practices Team.

(4) *Deputy for Cost Analysis.* The Deputy is responsible for implementing the Army Cost and Economic Analysis Program through the development and promulgation of cost and economic analysis policy, cost estimating models, and cost databases for Army wide use. The Deputy is dual-hatted as the Director of the U.S. Army Cost and Economic Analysis Center (CEAC), a HQDA field operating activity. CEAC conducts component cost analysis for weapons and automated information systems and manages the Army Cost Review Board and Army Cost Position Process. CEAC is responsible for conducting force structure, operations and support, personnel, and installation cost analyses. Other functions include implementation of the Army Activity Based Costing/Management Strategic Plan and management of the Army Cost Research Program.

(5) *Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA(FM&C)) web site.* Further details on the OASA(FM&C) organization and its functions can be viewed on-line at: “[www.asafm.army.mil/](http://www.asafm.army.mil/)”.

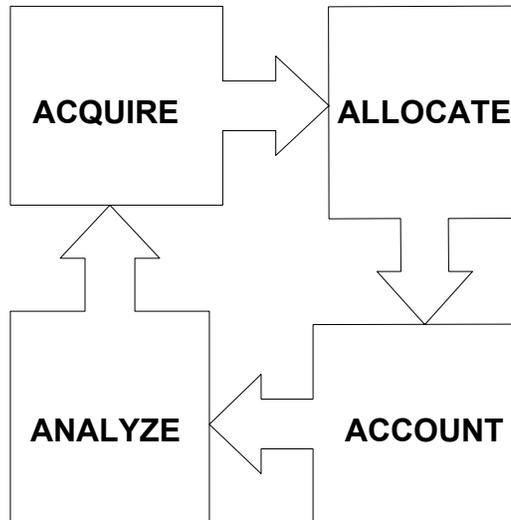
**f. Commanders of major Army commands (MACOM) & heads of other operating agencies.** Commanders of major commands and commanders and heads of operating agencies (for example, program executive officers (PEO), program managers (PM), President, National Defense University) are responsible for developing, justifying, presenting and defending programs supporting their assigned missions and responsibilities. Further, they are accountable for ensuring approved program budgets are properly executed and certified. This responsibility includes ensuring accounting and fund status reporting for appropriated and non-appropriated funds is accomplished in accordance with fiscal law and governing regulations and policies.

#### **10-5. A framework to help study resource management**

**a.** For our study of the internal workings of the Army’s Resource Management System and how it functions, it helps to use a model called the “Four A’s”:

- **Acquire** resources.
- **Allocate** those resources according to the priorities generally considered in terms of dollars and manpower.
- **Account** for those resources with a system that provides a decision support and tracking capability for the program and budget functions, and a system that performs accounting for fiscal compliance required by statutes.
- **Analyze** the execution of those resources and implement course corrections as required.

**b.** As illustrated in Figure 10-2, these functions are performed in a closed-loop process. Though it is recognized that there are other models that describe the elements of resource management, for our discussion the “4-A’s” model meets our needs.



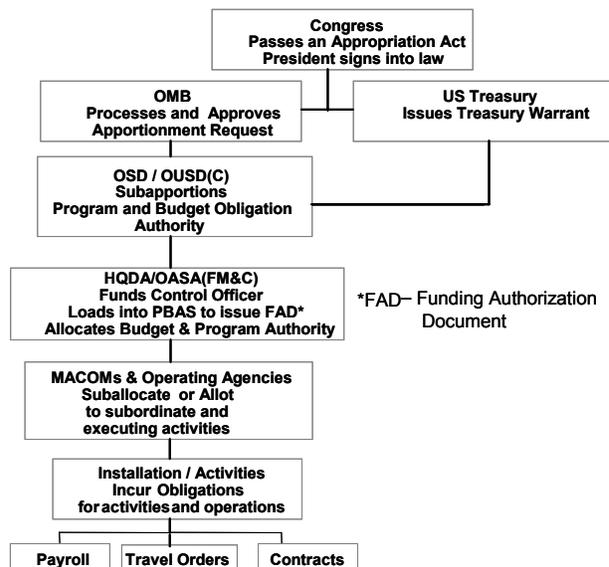
**Figure 10-2. Resource Management’s “4-A’s”**

**SECTION II  
ACQUIRE RESOURCES**

**10-6. Getting the fiscal resources for the Army to use**

Extensively described in detail in Chapter 9, the Army’s PPBES provides the means by which the Army justifies and acquires its resources from Congress. After passage and signing into law of the authorization and appropriation acts, several interrelated functions are performed by OMB, the U.S. Treasury, OUSD(C) and OASA(FM&C) to acquire the Army’s financial resources and distribute them to the field for execution. Figure 10-3 graphically portrays this process of getting resources to the Army.

**a. Apportionment requests.** Apportionment is a process for the administrative control of appropriations and funds. It is also a distribution of a specified “amount of obligation authority” in an appropriation/fund that is available for specified time periods (for example, fiscal quarter), activities, projects or a combination thereof as approved by the Office of Management and Budget (OMB). The amounts so apportioned limit the obligations that may be incurred by the Army. After Congress passes an appropriation act and the President signs it into law, the OASA(FM&C) submits an apportionment of funds request through OUSD(C) to OMB. OMB reviews the request, adjusts the amounts as may be necessary based on their analysis of prior



Army spending patterns, approves the request, and transmits the approved request back down through OUSD(C) to the OASA(FM&C). Within OASA(FM&C), the HQDA Funds Control Officer loads the approved apportioned amounts into the Program-Budget Accounting System (PBAS). PBAS is the official funds control management system of the Department of Defense and is used throughout the Army financial management community to control the fund distribution process.

### **Figure 10-3. Fund Distribution Process**

**b. Program documents.** In addition to the approved apportionment mentioned above, OUSD(C) may issue further restrictions on using the obligation authority provided in the apportionment document by withholding amounts for specific programs. These restrictions come to HQDA via an Obligation Authority (OA) letter (for O&M, MILPERS, and AFHO appropriations), a DD Form 440 (for Procurement and RDTE appropriations), or a DD Form 460 (for the military construction appropriations).

#### **10-7. Treasury warrants**

After the President signs the appropriations act(s), the U.S. Treasury issues appropriations warrants to establish “bank accounts” on the books of the U.S. Treasury for each appropriation. The Treasury Warrant is a financial controlling mechanism and gives the Army the authority to disburse funds (“cut a check to pay for an obligation”) from those accounts. Without this authority, the Army cannot make any payments citing the non-warranted appropriation.

## **SECTION III**

### **ALLOCATE RESOURCES TO THE FIELD**

#### **10-8. Fund distribution and control**

“Pass funds through command channels and make the commander responsible for their control.” This is the basic tenet by which the Army’s funding distribution system operates. In this case the use of the term “funds” implies that the authority to create obligations, for which the U.S. Government has to pay, has been granted. Distribution of funds is any documented action that makes funds available for obligation. This distribution is made in a stated amount for specific purposes and to a specific organization for a specific time period. The commander’s authority to incur obligations is received on a funding document, which specifies the appropriation and budget program for which the funds may be used, and identifies applicable statutory limitations. This process is used to facilitate control over funds and the reporting of violations of laws (see below about *Anti-deficiency Act* violations) and directives.

**a. The distribution procedure.** After obtaining obligation authority from OMB and OUSD(C), HQDA directs major commands and other subordinate operating agencies to execute their approved budgeted programs (see Figure 10-3). Using the Program-Budget Accounting System (PBAS), the HQDA Funds Control Officer in the OASA(FM&C) allocates program and obligation authority to MACOMs and operating agencies. Major commands and operating agencies in turn sub-allocate or allot to the appropriate subordinate organization (for example, installation, major unit, program manager, and so forth) where the program will be actually executed by obligating for such things as payroll, travel orders, contracts, purchase orders, and so forth. Although this funds distribution system is a means of controlling obligations and fixing responsibility, the policy is to minimize the formal distribution and to fund an operation at the highest practical level. As an example, the Military Personnel, Army (MPA) appropriation is

held and controlled centrally at HQDA, whereas the Operations and Maintenance, Army (OMA) appropriation is decentralized through the Major Commands to the installations.

**b. Funding Guidance.** Along with program and budget authority moved out to Army activities through the PBAS, HQDA normally issues additional specific spending guidance at the beginning of the fiscal year. The appropriation sponsors for Operation and Maintenance, Army (OMA) and the Army Family Housing (Operations) (AFHO), issue annual funding letters to MACOMs with required or specialized fiscal guidance that is to be used in the execution of the budget for the fiscal year. MACOMs and Operating agencies may also issue specific funding guidance to their subordinate commanders and activities for the execution of their programs and budgets. The Chief of the Army Reserve issues a funding guidance letter to subordinate Army Reserve activities, for executing the Operations and Maintenance, Army Reserve (OMAR) appropriation and the Reserve Personnel, Army (RPA) appropriation. Likewise, the Director of the Army National Guard issues a funding guidance letter to subordinate Army Guard activities, principally the State adjutants general, for executing both the Operations and Maintenance, Army National Guard (OMARNG) appropriation and the National Guard Personnel, Army (NGPA) appropriation.

#### **10-9. Fund Authorization Document (FAD)**

Using the Program Budget Accounting System (PBAS), the HQDA Funds Control Officer issues Funding Authorization Documents (FADs) to allocate obligation authority and program authority to MACOMs and operating agencies. The MACOMs and operating agencies in turn use PBAS to issue FADs to their subordinate activities (for example, installations) to allot obligation authority and program authority. For the procurement and RDTE appropriations, an approved program document accompanies the FAD to provide further administrative limitations on the use of those funds.

#### **10-10. Fund allowance system**

Some MACOMs and operating agencies have implemented a fund allowance system whereby the lowest formal distribution of funds is at the MACOM/Operating Agency level with funding allowances being issued to subordinate installation commanders or activity heads. The advantages of this system are that it allows more flexibility in fund control and lessens the possibilities of reportable statutory violations. Commanders are still responsible for assuring the execution of their mission remains within the provided fund allowance and violations of that guidance may warrant administrative disciplinary action. Exceeding this funding allowance does not constitute a statutory violation but could cause an over-obligation or over-expenditure of the MACOM allotment provided on the Funding Authorization Document. Nevertheless, individuals responsible for exceeding their allowances will be named responsible for any resultant *Anti-deficiency Act* violations (see paragraph 10-17).

#### **10-11. Delegation of funding authority**

Commanders to whom funds are made available may delegate authority to establish and maintain such administrative controls as may be necessary to comply with the provisions of Federal fiscal law and Department financial management regulations. This may be done keeping these key points in mind—

- Delegation of authority must be in writing. (Verbal or telephonic authorizations will not be recognized except in emergency circumstances— those jeopardizing health and/or safety of the command—and must be confirmed in writing as soon as possible.)

- Authority may be delegated to a named individual or a position so long as the authority is vested in a readily identifiable person at all times.
- Delegation of authority does not relieve commanders of their fiscal responsibilities under the law.

### **10-12. Special classified programs**

Classified programs, which are sensitive "need to know," may be compartmentalized for security reasons. Specific funding distribution procedures have been created to accommodate the unique security requirements of such programs. Generally, the Vice Chief of Staff of the Army must approve the use of the procedures.

### **10-13. Secretary of the Army Representation Funds**

Congress gives the SECARMY a specific level of authority to be utilized for emergency and extraordinary expenses from within the Operation and Maintenance, Army (OMA) appropriation. These authorities are identified under limitations entitled with the limit codes .0012, .0014, .0015, .0017, and .0019. They are described in AR 37-47, *Representation Funds of the Secretary of the Army*. The utilization of these authorities are very closely monitored and fall under audit responsibilities of the Army Audit Agency to ensure that funds used under these authorities are solely for the purposes intended and approved by the SECARMY. The rules for using the authorities are very specific and exceptions to deviate should be obtained from higher headquarters. A brief description of these authorities is provided below.

**a. Limitation .0012 (Miscellaneous Expenses, Category A).** For official representation expenses, as authorized by the SECARMY, in connection with official functions at times of national holidays; dedication of facilities; visits of distinguished guests; purchase of floral wreaths, decorations, and awards upon occasions of national holidays and similar observances in foreign countries; and gifts and mementos by the authorized host, costing not more than \$200 each, used in connection with official ceremonies or functions. Commanders of MACOMs, their subordinate commanders, and installation commanders are authorized to present gifts or mementos in circumstances that they personally document as being a necessary part of the event or occasion being observed.

**b. Limitation .0014 (Miscellaneous Expenses, Category B).** For miscellaneous expenses, other than for official representation, which are not provided for in other appropriations. Examples of these expenses are awards for emergency rescues, witness fees for the Armed Services Board of Contract Appeals, and settlement of meritorious claims.

**c. Limitation .0015 (Criminal Investigation Activities, AR 195-4).** For emergency and extraordinary expenses in support of the worldwide expenses of the U.S. Army Criminal Investigation Command's activities.

**d. Limitation .0017 (Intelligence Contingency Funds, AR 381-141).** For expenses related to worldwide intelligence activities.

**e. Limitation .0019 (Compartmented Special Operations, SECARMY Letter of Instruction (proponent ODCSOPS)).** For emergency and extraordinary expenses related to worldwide-compartmented operations.

## **SECTION IV**

### **ACCOUNT FOR THE USE OF THE RESOURCES**

#### **10-14. Legally using the resources to accomplish the mission**

This section gives a brief overview of the controlling principles used in accounting for the use of fiscal resources. Title 31, United States Code, Section 1301(a) states that “Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law.” Congress initially enacted this statutory control in March, 1809. The act, generally referred to as the “Purpose Statute,” was passed as a part of a reorganization of the War, Navy and Treasury Departments to limit the discretion of the executive branch in spending appropriations. Thus it becomes abundantly evident that the Congress, for close to two hundred years, has taken a keen interest in how the Army spends the funds that have been appropriated to it. To preclude the misappropriation/mispending of funds, a body of laws, regulations, court decisions and rules have evolved over many years to direct how fiscal resources will be used to accomplish the Army’s missions and tasks. Because Congress provides funds in specific amounts for specific purposes through the enactment of public law, the expenditure of those funds must be within the boundaries established by the law. The term “administrative control of funds,” as required by law is used to identify those actions, events or systems that are required to ensure essentially three things:

- Funds are used only for the purposes for which they were intended.
- Amounts of funds in excess of that available are neither obligated, disbursed nor further distributed.
- The agency head is capable of fixing responsibility in the event of violations of either of the first two.

#### **10-15. Availability of appropriations for obligations**

Congress determines how long an appropriation or fund may be used, that is, new obligations may be made against the specified appropriation or fund. Most appropriations used by the Army have a limited time period for which new obligations can be made against them. (Note: In recent years Congress has made exceptions to the normal periods of availability of appropriations such as making two year or “X” year O&M appropriations, three year RDTE appropriations, and so forth, as well as continuing with the “normal” periods of availability.)

**a. Annual appropriations.** These appropriations, generally having a one-year period of availability, include:

- Operation and maintenance appropriations like Operation and Maintenance, Army (OMA); Operation and Maintenance, Army National Guard (OMARNG); Operation and Maintenance, Army Reserve (OMAR); and Army Family Housing, Operation and Maintenance (AFHO).
- Military personnel appropriations like Military Personnel, Army (MPA), National Guard Personnel, Army (NGPA) and Reserve Personnel, Army (RPA).

**b. Multi-year appropriations.** These appropriations having a multi-year period of availability include—

- The Research, Development, Test and Evaluation, Army (RDTE) appropriation is available for two years.

- Procurement appropriations (Aircraft Procurement, Army; Missile Procurement, Army; Procurement of Weapons and Tracked Combat Vehicles (WTCV), Army; Procurement of Ammunition, Army; and Other Procurement, Army (OPA)) are available for three years.
  - Military construction appropriations (Military Construction, Army (MCA); Military Construction, Army National Guard (MCARNG); Military Construction, Army Reserve (MCAR); and Army Family Housing Construction (AFHC)) are available for five years.
- c. “No-year” appropriations.** These appropriations and funds have an unlimited period of availability. Examples include the appropriation for Base Realignment and Closure, and the Army Working Capital Fund.
- d. Expired appropriations.** Once an appropriation’s period of availability is over for incurring new obligations, it is considered “expired.” For five years after the period an appropriation expires for incurring new obligations, both obligated and un-obligated balances of that appropriation shall be available for adjusting and liquidating (that is, disbursing against a previously incurred obligation) obligations properly charged to the account. As an example, the FY 01 Operations and Maintenance, Army (OMA) appropriation has a period of availability of 1 October 2000 through 30 September 2001. The appropriation has a five year expiration period of 1 October 2001 through 30 September 2006.
- e. Canceled appropriations.** After the fifth year of expiration an appropriation is canceled on the books of the U.S. Treasury. The appropriation is no longer available for any purpose, for example, accounting adjustments. Obligated and un-obligated balances are canceled. Using the FY 01 OMA example above, it would cancel on 30 September 2006. (Special note: If an obligation adjustment, such as a final settlement to a disputed contract, has to be made from what is now a canceled appropriation, then the payment is made out of the activity’s current year appropriation.)

## 10-16. Properly obligating the resources

An obligation is the action taken to establish a liability against the U.S. Government that will ultimately result in a disbursement from the U.S. Treasury. There are several principles that must be followed in executing and accounting for obligations. The foundations for these principles are contained in Title 31 of the United States Code. While only the most important “obligating” principles are outlined here, the entire listing is provided in the Department of Defense Financial Management Regulation 7000.14-R or in DFAS-IN Regulation 37-1 (Finance and Accounting Policy Implementation).

**a. Bona fide need of the current fiscal year.** A determination must be made that supplies or services required pursuant to contracts entered into or orders placed obligating an annual appropriation are intended to fill a bona fide need of the current fiscal year. There are provisions when lead-time is an important factor to obligate funds in the current year for a subsequent year delivery.

**b. Intent of performance.** Contracts entered into or placed for supplies or services are executed only if there is a bona fide intent on the part of the contractor (or other performing activity) to commence work promptly or to perform the contract in accordance with its terms and conditions (to include beginning date).

**c. Assure availability.** The responsible official must ensure that proper funds are available before binding the U.S. Government in an agreement with a second party, which will result in an obligation for which the Government is required to pay.

**d. Documentary evidence.** Each obligation recorded in the official record must be supported by proper documentary evidence. These may be originals, duplicates, or copies of appropriate documents so long as signatures are visible. A memorandum of telephone conversation or an electronically received written message may be used temporarily until the actual document is received.

**e. Charge immediately.** Obligations, when incurred, must be charged immediately to the applicable account. The recording of obligations incurred cannot be deferred until additional funds are received. The obligation must be recorded even if there are insufficient funds to cover it, thereby incurring a statutory violation, which must then be reported through command channels. Failure to record an obligation will not obviate a suspected violation of the *Anti-deficiency Act* statute.

**f. Prompt adjustment.** Any adjustment to previously recorded obligations, either as an increase or decrease, must be entered in the accounts as soon as the necessity for an adjustment is evident and the amount can be determined.

### **10-17. The Anti-deficiency Act (ADA)**

Chapters 13 and 15 of United States Code Title 31 contain prohibitions with respect to the legal use of funds and establish punitive provisions in the event there are violations. When the *Anti-deficiency Act* was codified into the United States Code, its provisions were incorporated into a number of sections of Title 31. The sections that are most frequently cited are sections 1341, 1342, and 1517.

**a. How Anti-deficiency Act violations occur.** Generally, ADA violations may occur when:

- Funding authority is issued in excess of the amount available and the excess amount is obligated or expended.
- There are violations of the special and recurring statutory limitations or restrictions on the amounts for which an appropriation or fund may be used.
- There are violations of statutory or regulatory limitations on the purposes for which an appropriation or fund may be used.
- Obligations are authorized or incurred in advance of funds being available.
- Obligations or expenditures of funds do not provide for a bona fide need of the period of availability of the fund or account and corrective funding is not available.

**b. Administrative and criminal penalties for ADA violations.** The person who caused the violation may be subject to discipline, to include suspension without pay or removal from office (31 USC 1349 and 1518). The Army's implementation procedures of these statutes are contained in DFAS-IN Regulation 37-1(Finance and Accounting Policy Implementation). If an action is taken knowingly and willfully and results in a conviction for violating the ADA, the person may be fined up to \$5000, imprisoned for not more than two years, or both (31 USC 1350 and 1519).

### **10-18. Accounting for the obligation**

**a. Legal mandate to account for funds.** By law the DOD is required to maintain accounting systems that provide:

- Complete disclosure of the financial results of the Department's activities.
- Adequate financial information the Department needs for management purposes.

- Effective control over, and accountability for, assets for which the Department is responsible.
- Reliable accounting results that will be the basis for—
- Preparing and supporting the Department’s budget requests.
- Controlling the Department’s budget execution.
- Providing financial information the President requires.
- Suitable integration of the Department’s accounting with the central accounting and reporting responsibilities of the Secretary of the Treasury.

**b. Defense Finance and Accounting Service (DFAS).** As can be surmised, if the Department of Defense is required to account for the ways it spends its funds, so too does the Army have to account in the same way for how it uses its funds. Most of the financial management accounting required by the Army is performed by DFAS. This organization was established in January 1991 to reduce the cost and improve the overall quality of Department of Defense financial management through consolidation, standardization and integration of finance and accounting operations, procedures and systems. DFAS took over responsibility for five finance and accounting centers and 338 installation finance and accounting offices that belonged to the military services and Defense agencies. Through its mandated consolidation efforts, DFAS now consists of a headquarters located in Washington, five centralized sites located in Indianapolis (formerly the U.S. Army Finance and Accounting Center), Cleveland, Columbus, Denver, Kansas City, and 20 field sites or operating locations (OPLOCs). Personnel staffing levels were reduced from 31,000 in 1992 to the current level of 18,000. Since 1991 DFAS has consolidated and standardized 324 finance and accounting systems down to 109 systems in 1998. By 2003 DFAS expects to reduce down to 32 systems.

**c. Accounting systems used by the Army.** The Army and its subordinate activities use a number of the remaining Army accounting systems operated by DFAS. The principal system used is the Standard Finance System (STANFINS). This system performs the accounting for the majority of Army installations. It records funding authorization, accumulates and reports on obligations and disbursements against fund authorizations for control purposes, and provides standardized accounting reports for the installation, MACOM, and HQDA financial managers. STANFINS serves as the Army’s primary formal record of account at the installation level for installation-level appropriation accounting. Other accounting systems are used by the Research, Development and Acquisition activities, the U.S. Army Corps of Engineers, and the Army National Guard.

### **10-19. The Army management structure (AMS)**

The AMS provides a resource management language and coding structure that is based on congressional appropriations. It relates program dollars and manpower to a standard classification of activities and functions required and used by Congress as they deliberate on Army programs and budget requests. AMS codes (AMSCO) help record data in the detail needed for budgeting, execution and accounting. Army activities use the AMS to record obligations and disbursements in the requisite accounting system. The details for constructing the accounting and classification codes for all funds received by the Army are contained in DFAS-IN Manual 37-100-xx, the Army Management Structure (AMS), where the “xx” indicates the last two digits of the fiscal year. For instance the AMS for FY 2002 would be outlined in DFAS-IN Manual 37-100-02. Using the AMS coding structure assists Army activities to fulfill Federal accounting requirements. A simple illustration translating an accounting classification code (as one could see on a purchase request, a set of TDY orders, and so forth) would be the

following accounting fund cite on a supply purchase transaction at Fort Sill: 21 2 2020 57-3106 325796.BD 26FB QSUP CA200 GRE12344019003 AB22 WORNAA S34031.

<b>Table 10-1. Translating an accounting code.</b>		
<b>Code</b>	<b>Data Element</b>	<b>Translation</b>
	Treasury Symbol:	
21	Department Code	Department of the Army
2	Period Availability	FY 2002
2020	Basic Symbol	OMA Appropriation
57	Operating Agency	TRADOC
3106	Allotment Serial Number	(a locally assigned code)
325796.BD	AMS Code (AMSCO) or Project Account	Base Operations (-), Director of Logistics
26FB	Element of Resource	Supplies – Army Managed / DWCF item
QSUP	Management Decision Package (MDEP)	Installation Supply Operations
CA200	Functional Cost Account	Commercial Activities – contract furnished supplies
GRE1234019003	Standard Document Number	(a locally assigned code)
AB22	Account Processing Code	(a locally assigned code)
WORNAA	Unit Identification Code (UIC)	Fort Sill Garrison
S34030	Fiscal Station Number	DFAS OPLOC, Lawton, OK

#### **10-20. Year end certification of accounts**

Since DFAS was established, the subordinate Defense Accounting Office (DAO) has had the responsibility for preparing and monitoring “accounting reports” at the installation. Commanders who receive FADs authorizing them to incur obligations not in excess of certain amounts and for specific purposes have a legal requirement to “certify the status” of those funds as of 30 September, that is, the end of fiscal year. Commanders may delegate the authority to certify fiscal year-end reports to the Deputy Commander, Chief of Staff, Garrison Commander, or Director of Resource Management.

- a. The DAO will make the certification on the “accounting reports” substantially as follows:

*“I hereby certify that the attached reports and associated schedules include all transactions received which have been properly recorded and are supported by subsidiary accounting records.”*

- b. The DAO will forward the certification to the Commander or a designated representative, who, in turn, will make the following certification:

*“I hereby certify that the attached reports and schedules include all known transactions. Those meeting the criteria of 31 USC 1501(A) have been obligated and are so reported. All reports and schedules for all transactions for the fiscal year ended September 30, \_\_\_\_\_, are correct and are supported by subsidiary accounting records. All individual upward obligation and open allotment disbursement adjustments in excess of \$100,000 of expired appropriations have been properly approved and are on file for audit purposes.”*

- c. Certifications are required for all appropriations and for any reimbursable activity performed by the command or agency. The ASA(FM&C) certifies all Army appropriations to the U.S. Treasury.

## **SECTION V ANALYZE THE USE OF RESOURCES**

### **10-21. 1981 - A change in responsibilities**

The Army Chief of Staff renamed the Army’s Planning, Programming, and Budgeting System (PPBS) in 1981, adding “Execution” to the process title—PPBES. This constituted a marked change from the prior decentralized concept in which PPBS execution responsibility was transferred to the field commanders. The CSA charged Army leaders with the responsibility to evaluate or analyze and report on the effectiveness of program and budget accomplishment. These evaluations and reports relate funds and personnel inputs in output terms to the Army’s Title 10 responsibilities.

### **10-22. Execution reviews.**

Using the information presented by the accounting systems and other data feeder systems, functional, programmatic and fiscal managers along with commanders track the course of program and budget execution in their organization or functional area. Inherent in this analysis is the need to judge program performance and effectiveness, to consider the need for more resources to accomplish the specified program, and finally to consider reallocation of resources to high priority missions and programs. This process takes place at all of the resourcing echelons of the Army.

### **10-23. HQDA Reviews—Quarterly Army Performance Review (QAPR)**

The QAPR is a tool that Army senior leaders use to monitor program performance in accomplishing Army major goals and objectives. The QAPR cycle begins with identification of the core performance measures that relate to explicit goals and objectives by the Secretariat and Army Staff principals. Each quarter these performance measures are monitored to determine the progress made towards accomplishing these goals. In addition, other critical issues that may be of immediate interest and impact for the Army can be presented. This review, managed by the ASA(FM&C), is presented directly to the SECARMY and CSA personally by the Secretariat and Army Staff principals.

#### **10-24. Shifting resources**

During the course of analyzing the execution of resources, there often arises the need to shift resources outside the boundaries of programs for which Congress authorized and appropriated funds. Examples of such real life events may be an emerging contingency operation, storm damage to installation, increasing cost of installation utilities, accelerating the procurement of an item to achieve an economic savings, new bills resulting from a newly assigned mission, and so forth. The congressional committees concerned with DOD's operations have generally accepted the view that rigid adherence to the amounts justified for budget activities, appropriations, or for subsidiary items or purposes may unduly jeopardize the effective accomplishment of planned programs in a businesslike and economical manner.

**a.** Transfer procedures have been worked out with the congressional committees (House and Senate Appropriations and Authorization Committees (and for intelligence related items, the House and Senate Select Intelligence Committees)) to accommodate different degrees of interest in the transfer of funds; that is, certain transfers require prior approval by the appropriate committees of Congress, while others require advance notification, and still others are provided after the fact. Reprogramming reapplies funds from one project to another or transfers funds from one appropriation to another to resolve financial shortfalls or to adjust programs to meet unforeseen requirements. The process is subject to designated dollar thresholds and congressional requirements for advance approval or notification. No shifts between appropriations are allowed without prior consent of Congress and must be requested in writing, by the submission of the Congressional Reprogramming Request (DD 1415).

**b.** Other flexibility is obtained through additional laws, committee reports, administrative actions such as reprogramming, or by requesting supplemental appropriations. The OASA(FM&C) manages the reprogramming process for Army appropriations.

#### **10-25. Analyzing the “accounting books”—Joint Reconciliation Program**

The Joint Reconciliation Program is an effort combining the skills and expertise of accountants, budget and program analysts, contracting professionals, logisticians, internal review auditors, and DFAS personnel for the purpose of verifying the validity of un-liquidated obligations, contractor work in progress, billing status, and validating the continued need for goods and services that have not yet been delivered. The reconciliation must be performed by all commands and, when performed properly, will result in real dollar savings through the identification and cancellation of nonessential goods and services, reconciliation of current appropriations to ensure the correctness of amounts obligated, and liquidation of appropriations expiring at the end of the fiscal year.

**a.** The primary objectives of the Joint Reconciliation Program are to “harvest” obligation authority by—

- De-obligating funds supporting invalid obligations
- Eliminating the use of current funds to pay liabilities arising from appropriations that expired.
- Reconciling and liquidating delinquent travel advances.
- Eliminating and avoiding unmatched disbursements (UMD)
- Eliminating and avoiding negative un-liquidated obligations (NULO)

**b.** As a result of performing effective joint reconciliation, commands increase their purchasing power, which directly enhances mission accomplishment. Purchasing power is increased in that:

- Canceled account liabilities are reduced
- Current obligation authority is harvested for reutilization.
- Erroneous payments and over payments are identified and eliminated.
- Visibility over contractor work in process (WIP) and contract in process (CIP) is increased.
- Delinquent travel advances are eliminated.

c. Additionally, joint reconciliation increases the Army’s stewardship credibility with Congress. The integrity and accuracy of financial records has improved and the cycle time for processing financial transactions has been reduced. History has proven that using a thorough and intense joint reconciliation program is an excellent investment of time and resources and adds value to financial management, logistics, and procurement activities.

## **SECTION VI IMPROVING MANAGEMENT AND BUSINESS PRACTICES IN THE ARMY**

### **10-26. Efforts to improve Army management**

Over the last ten years, major legislative and Army management initiatives have introduced an unprecedented focus on performance and results. These initiatives all point to the transition to more outcome-oriented program management and performance budgeting.

### **10-27. Federal Manager’s Financial Integrity Act (FMFIA) of 1982**

- a. This act requires all Federal agencies to establish and maintain effective accounting and administrative controls to provide “reasonable assurance” that—
- Obligations and costs are in compliance with applicable laws.
  - Funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation.
  - Revenues and expenditures are properly recorded and accounted for.
- b. The Act also requires agency heads to submit an annual statement to the President and the Congress indicating whether agency management controls are reasonable and, where they are not, material weaknesses are identified and corrective actions are taken.

### **10-28. Chief Financial Officers (CFO) Act of 1990**

a. The *CFO Act* was enacted to implement more effective financial management practices in the Federal Government. Its key purpose is to provide more accurate, timely, and reliable financial information for decision-makers through improved accounting systems, integrated functional and financial management, and strengthened internal controls. The law also establishes initial requirements for the “systematic measurement of performance” by shifting the management focus from resource acquisition to resource execution—not in terms of obligation and outlay rates, but in how well taxpayer dollars are spent.

b. A major provision of the Act mandated the preparation of audited annual financial statements for revolving funds, trust funds, and substantially commercial activities. The law designated ten Federal agencies— including the Department of the Army—as pilots for comprehensive, agency-wide financial statements covering all operations and activities. As the first DOD pilot under the *CFO Act*, the Army broke new ground in a number of important areas—for example, physical inventory policy, valuation of assets, interface between military pay and personnel systems, the incorporation of outcome-oriented program performance

measures in financial reports, and the restructuring of the management control process. The GAO and Congressional committees have acknowledged Army efforts and improvements. However, the Army cannot by itself achieve full compliance with the standards of the *CFO Act*. The resolution of long-term problems with financial systems is a DOD-wide effort, and there must be government-wide accounting principles and standards to support both management decision-making and public accountability.

#### **10-29. Government Management Reform Act (GMRA) of 1994**

a. GMRA implements the requirements for audited annual financial statements “covering all accounts and associated activities of each office, bureau, and activity of the agency” for all Federal agencies. Beginning in 1998, and annually thereafter, the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, is required to submit to the President and Congress government-wide audited financial statements that cover all accounts and associated activities of the executive branch of the Federal Government. With the end of the *CFO Act* pilot project and full implementation of reporting under the *Act*, the Army continues working to implement the letter and the spirit of the legislation and to improve all aspects of Army financial management and stewardship.

b. The most recent financial report for the U.S. Government can be viewed online at “[www.gao.gov/index.htm](http://www.gao.gov/index.htm)”.

c. The most recent financial report for the Army can be viewed online at “[www.asafm.army.mil/](http://www.asafm.army.mil/)” in the publications section.

#### **10-30. Government Performance and Results Act (GPRA) of 1993.**

a. GPRA is major management reform legislation and a critical step in the inevitable transition to more outcome-oriented program management and performance budgeting. As noted above, the *CFO Act* intended to integrate financial and functional systems to provide better information for decision makers and shift management focus to how well taxpayer dollars are spent. Although implementation of the *CFO Act* and audited financial statements have led to significant improvements in financial reporting, the law itself provided only limited guidance with regard to its provisions for “the systematic measurement of performance.

b. The GPRA builds on the *CFO Act* and establishes the framework for full integration of financial and functional data in all phases of the resourcing cycle. GPRA was implemented to improve government-wide programs by linking resource expenditures to results achieved. OSD has implemented GPRA by establishing corporate and annual performance goals, and linking specific performance measures to each goal. The most recently completed Quadrennial Defense Review serves as DOD's strategic plan in accordance with the GPRA requirements.

c. The purpose of the GPRA is to increase public confidence in the Federal Government, and improve program effectiveness and public accountability, by systematically holding agencies accountable for achieving program results. The law also is intended to improve congressional decision-making by providing more objective information on the relative effectiveness and efficiency of Federal programs and spending.

d. OSD has decided that DOD GPRA requirements will be processed at the DOD corporate level. DOD used the results of the 1997 Quadrennial Defense Review (QDR) to meet the GPRA strategic plan requirement. The QDR was a comprehensive examination of defense strategy from 1997 to 2015. It included force structure, modernization plans, infrastructure, readiness posture, and other elements of defense programs and policies. For GPRA, DOD corporate goals are—

- Shape and Respond — Shape the international environment and respond to the full spectrum of crises by providing appropriately sized, positioned, and mobile forces.
  - Prepare — Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key war-fighting capabilities. Transform the force by exploiting the Revolution in Military Affairs and reengineer the Department and achieve a 21st century infrastructure.
- e. Through its PPBES the Army reviews and monitors its strategic plans and mission objectives. The PPBES process supports the Army’s implementation of GPRA by using the—
- Army Strategic Planning Guidance that amplifies The Army vision then in force and helps promulgate Army goals and strategies, and the objectives to achieve them.
  - Army Planning Guidance that leads to the preparation of capabilities-based action plans and, where needed, the allocation of resources to carry them out.
  - Army Programming Guidance that links operational tasks and their associated resources to the Department of the Army’s Title X functions.
- f. The annual Army Program Objective Memorandum that results from the PPBES programming phase allows the Army to balance program resources based upon more definitive resource objectives. Management decision packages used to build the Army program are linked to objectives, sub-objectives, and tasks and prioritized. Program resources that govern levels of accomplishment are adjusted according to affordability.
- g. Appropriations approved by Congress in the budget phase are applied in the execution phase. Execution of programs is constantly monitored to insure Congressional and other legally mandated requirements are met.
- h. The DOD GPRA report is contained in Appendix I of the Secretary of Defense’s annual Defense report (ADR) to the President and Congress. The ADR can be viewed online at: “[www.dtic.mil/execsec/adr\\_intro.html](http://www.dtic.mil/execsec/adr_intro.html)”.

### **10-31. Federal Financial Management Improvement Act (FFMIA) of 1996**

This law builds upon and compliments the acts discussed above. It requires auditors to report as part of their report on agencies’ annual financial statements whether the agencies’ financial management systems comply substantially with three requirements: (1) Federal financial management systems requirements; (2) applicable Federal accounting standards; and (3) the U.S. Government Standard General Ledger at the transaction level. These requirements are critical for ensuring that agency financial management activities are consistently and accurately recorded, and timely and uniformly reported throughout the Federal Government.

### **10-32. Management controls**

a. Management controls are the procedures we establish to ensure that we accomplish our objectives and guard Army resources against fraud, waste, and abuse. Numerous audit and inspection reports, however, continue to find serious management control deficiencies in DOD and the Army. This damages our reputation as stewards of public resources and hinders our ability to compete effectively in Congress for additional resources. Congress has made clear that their emphasis on management controls will continue.

b. Army Regulation 11-2, *Management Control*, establishes policies and guidelines for implementing the provisions of the *Federal Financial Management Improvement Act*. It describes the Army’s current management control process which was restructured effective in FY 95 to reduce the administrative burden, to provide commanders and managers with greater

flexibility in scheduling and conducting their evaluations, and to make them directly accountable for the effectiveness of their management controls. The restructured process requires management control evaluations only for the most critical controls (the “key management controls”) and encourages commanders and managers to use existing review and oversight processes wherever possible to accomplish evaluations.

### **10-33. Improving business practices**

**a.** An essential element of Resource Management is the process of reviewing, revising and reengineering the business practices of the Army to increase efficiency and reduce costs. Several tools have been developed to assist in furthering business practices improvements:

- The Waiver Program facilitates preparation, coordination, and submission of waiver requests to gain exceptions to certain policies or regulations on a case-by-case basis to improve processes.
- The Legislative Program expedites processing of viable, high payoff reengineering legislative proposals through OSD, OMB, and Congress.
- The Non-appropriated Fund (NAF) Financial Oversight prepares policy guidance and conducts reviews of NAF finances and encourages NAF activities to operate more like a business.
- The Business Practices Initiatives focus on Army operations to avoid or reduce costs, generate and collect revenues, streamline and consolidate functions, form partnerships, and use the latest technology to help the Army better utilize diminishing resources.

**b.** The Army is implementing new and improved business practices to bridge the gap between Army resources and Army requirements. Many private sector business practices “make sense” for the DOD and can potentially be applied to optimize the use of Army resources. The overall objective is to stretch available resources by generating revenues, reducing costs, and improving the delivery of service.

**c.** A major example of the successful use of business practices to bridge the gap between Army resources and requirements is in the area of real property assets (land and facilities). Historically, the Army relied primarily upon appropriated funds (Military Construction Funds) to build, modify, and upgrade Army facilities. The Army also relied upon appropriated funds (Operating Funds) to maintain and repair the real property assets. The lack of sufficient funds allows construction of only the most critical facilities and causes a backlog of maintenance and repair that ultimately reduces the useful life of Army assets. As the size of the Army was reduced over the last decade, the Army began to dispose of real property assets that were underutilized and no longer needed. There is a significant cost associated with maintaining assets, even when the assets are maintained at a minimal level. This effort is continuing. The problem arose when facilities are needed, but there are insufficient appropriated funds to construct, modify, or maintain them.

**d.** To address this problem, the Army began using a new private sector tool - public private partnerships (PPP’s). PPP’s may take many forms - the Residential Housing Initiative (RHI Program); Armament Retooling and Manufacturing Support Program (ARMS); leasing initiatives that use Title 10, Section 2267 authority; Morale, Welfare, and Recreation Program initiatives; utilities privatization; and energy saving projects. What is unique about PPP’s is (1) they involve a significant contribution of private capital and expertise to meeting Army resource needs; and (2) the private sector requirements for successful business ventures must also be met. With the PPP approach, the Army is not buying a specified product in the traditional sense. The

Army is selecting a partner to work jointly on a solution, which will line up both with Army requirements and those for commercial success.

e. The past several years have witnessed a quantum leap forward in the planned use of PPP's as a tool to bridge the gap between Army resources and requirements for real property assets. The Congress has repeatedly shown its general support for using this tool by passing very significant enabling legislation in areas such as housing privatization, utilities privatization, energy savings, and enhanced lease authority. These PPP efforts will have a prominent role in the way the Army manages its real property assets in the future. We will succeed if we (1) use PPP's as part of a sound strategic plan; (2) adequately weigh the long-term implications of our actions; and (3) realize that PPP's make new and different demands on program and financial managers.

f. The Army also is wrestling with similar resource management issues for activities supported by non-appropriated funds (NAF). Base closures, troop realignments, and declining appropriated fund support create a challenging environment for NAF. Policy decisions for NAF must take into account a resource management strategy that considers the interrelationship between appropriated funds and NAF. Coordination between the NAF and appropriated fund communities is essential to ensure appropriate execution of both the appropriated and NAF programs. For example, a facility built as a NAF major construction project may be authorized appropriated funds for maintenance and repair support. In such instances, a one-time NAF expenditure could result in a significant and continuing appropriated fund operating expense. Conversely, reduction of appropriated fund support for NAF activities can force dramatic changes in the level of quality-of-life programs available to soldiers and their families.

g. Improving business and operating practices is complimentary to financial reform and is in the spirit of reinventing government. Enabling and encouraging improved operating efficiency, better use of information, implementation of private sector practices, and enhanced utilization of Army resources is essential to maximizing the use of the Army's increasingly scarce resources to carry out its mission in a volatile world.

## **SECTION VII NON-APPROPRIATED FUNDS**

### **10-34. Non-appropriated funds definitions**

a. **Non-appropriated funds (NAF).** Non-appropriated funds are monies that are not appropriated by Congress. NAFs are used for the collective benefit of authorized patrons who generate them. These funds come primarily from the sale of goods and services to authorized patrons - DOD military and civilian personnel and their family members, and are used to support Morale, Welfare, and Recreation (MWR) programs. NAFs are government funds, though they are separate and apart from appropriated funds that are recorded on the books of the U.S. Treasury.

b. **Non-appropriated fund instrumentality (NAFI).** A U.S. Government and fiscal entity that performs essential government functions. It acts in its own name to provide, or assist other DOD organizations in providing, MWR and other programs for military personnel, their families, and authorized civilians.

### **10-35. NAFI management**

a. Every NAFI is legally constituted as an "instrumentality of the United States." Funds in NAFI accounts are U.S. Government funds and NAF property including buildings and real estate

is U.S. Government property. NAFs are not commingled with appropriated funds and are managed separately, even when supporting a common program or activity. This means that:

- Each NAFI operates under the authority of the U.S. Government in accordance with applicable Federal laws and departmental regulations.
- Because NAFIs operate under the authority of the Federal Government, they are entitled to the same sovereign privileges and immunities as the U.S. Government accorded by Federal law.
- Applicable DOD directives and implementing Army regulations have the force and effect of law.

**b.** A NAFI is administered and managed by military or civilian personnel acting in an official capacity. The NAFI is generally immune from Federal taxes and exempt from most direct State, local, and host country taxes. It must account for and report financial operations through command and department channels. NAFI operations are subject to review by Congress. AR 215-1, *Morale, Welfare, and Recreation Activities and Non-appropriated Fund Instrumentalities*, provides more information on management of Army NAFIs.

### **10-36. Fiduciary responsibility for NAF (10 United States Code 2783).**

NAFs are U.S. Government funds entitled to the same protection as funds appropriated by the Congress.

**a. Individual responsibility.** There is an individual fiduciary responsibility to use NAFs properly and prevent waste, loss, mismanagement, or unauthorized use. This responsibility extends to all DOD personnel, to include members of the Armed Forces and appropriated funded and non-appropriated funded civilian employees.

**b. Violations.** Commanders are responsible for the prompt detection and proper investigation of possible violations, and instituting appropriate corrective action. Individuals reporting NAF violations are protected from reprisal. Commanders will take appropriate administrative action against violators. Where evidence indicates criminal conduct, commanders will refer the matter to the appropriate criminal investigative organization. Penalties for violations of waste, loss, mismanagement, or unauthorized use of NAFs apply to military, appropriated funded civilian personnel and NAF civilian personnel. They include the full range of statutory and regulatory sanctions, both criminal and administrative, and are the same as those under provisions of Federal law that govern the misuse of appropriations. Reporting of suspected violations at the lowest organizational level possible is encouraged. However, reports may be made to senior management, organizational inspectors general, or to the Defense Hotline.

### **10-37. HQDA oversight of non-appropriated funds**

Applying various methods, the ASA(FM&C) provides HQDA level financial management oversight of Army controlled non-appropriated funds. One method is by participating on the Morale, Welfare, and Recreation (MWR) Board of Directors. A representative from the Office of the Deputy Assistant Secretary of the Army (Resource Analysis and Business Practices) participates in all MWR working group meetings where major MWR financial policy issues are addressed. The Deputy Assistant Secretary of the Army (Budget) is the Chairman of the MWR Finance Committee and a voting member of the MWR Executive Committee. In addition, the Deputy Assistant Secretary of the Army (Financial Operations) co-chairs the Audit Committee and the Deputy Assistant Secretary of the Army (Resource Analysis and Business Practices) serves on the Investment Subcommittee. The Deputy Assistant Secretary of the Army (Budget) is also a voting member of the Army and Air Force Exchange System Finance Committee. The

Army and Air Force Exchange System is a major revenue contributor to Army MWR. Through these positions, the ASA(FM&C) influences all aspects of MWR financial policy. As part of the responsibility of overseeing non-appropriated funds, the ASA(FM&C) participates in addressing non-appropriated fund issues to the SECARMY and CSA for decision.

## **SECTION VIII SUMMARY AND REFERENCES**

### **10-38. Summary**

a. Resource management in our Army continues to evolve. New legislation, new requirements, new management initiatives, new missions and the proviso to get the “biggest bang for the buck” out of Army resources continually forces resource managers to develop new approaches to resource management. On top of this, the application of information technology has literally revolutionized the resource management community. The power of the computer and its sophisticated software has provided decision makers at all levels with powerful tools to maximize the allocation and application of resources.

b. The real innovation lies, however, in the thrust of the entrepreneurial approaches being advocated in the resource management community. Recognition that Army budget levels in the 1990s were declining forced us to reexamine business practices, to integrate in a far more comprehensive manner programming and budgeting, and to look seriously at ways of enhancing the productivity of the people that constitute the Army team. The management decision package (MDEP) concept was a forerunner of this integration effort.

c. Third-party financing, value engineering, charge-back/direct-customer payment, self-sufficiency, organizational efficiency reviews, and output focus based on unit cost are some of the concepts that allow us to examine the way we manage our Army in a more productive way to enhance the efficiency and effectiveness of the resources that Congress and the American taxpayer provide to us to forge combat capabilities.

d. This chapter summarized the more pertinent features of resource management systems using a minimum of the complex terms associated with the process. We have identified the major players, the major steps they must take, and the various controls, which guide their actions in the resource management process particularly during the execution stage.

### **10-39. References**

- a. United States Code, titles as follows:
- (1) Title 5 USC, *Government Organization and Employees*.
  - (2) Title 10 USC, *Armed Forces*.
  - (3) Title 31 USC, *Money and Finance*.
  - (4) Title 32 USC, *National Guard*.
  - (5) Title 41 USC, *Public Contracts*.
- b. DOD Regulation 7000-14.R, *Financial Management Regulation (FMR)*, consisting of fifteen volumes.
- c. Army Regulation 5-1, *Army Management Philosophy*.
- d. Army Regulation 11-2, *Management Control*.
- e. Army Regulation 37- 14, *Representation Funds of the Secretary of the Army*.

- f.** Army Regulation 215-1, *Morale, Welfare, and Recreation Activities and Non-appropriated Fund Instrumentalities*.
- g.** DFAS-IN Regulation 37-1, *Finance and Accounting Policy Implementation*.
- h.** DFAS-IN Pamphlet 37-100-\*\*, Army Management Structure (AMS) Fiscal Year 20\*\*