Defense Acquisition University

Financial Management Hot Topics

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FM Hot Topics Outline

- **Program Funding Chart (AKA “Spruill Chart”) (1 chart)**
- **Continuing Resolutions (1 chart)**
- **Execution – OSD Benchmarks (1 chart)**

Program Funding & Quantities

Acquisition to O&S Cost Ratio			(BY yyyy)	Curr Est	Δ Current	Δ Original
Total Required Acq (BY$M):	4,456	30%	PAUC:	55.7M	+4.6%	+10.2%
Total Required O&S (BY$M):	10,358	70%	APUC:	50.4M	-3.2%	+60.2%

($ in Millions / Then Year)	Prior	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY18-22	To Comp	Prog Total
RDT&E											
Prior $ (PB 17)	108.0	32.4	44.2	45.1	37.9	12.4	5.3	3.2	103.9	-	288.5
Current $ (POM 18)	**108.0**	**32.4**	**44.2**	**45.6**	**38.3**	**12.5**	**5.4**	**3.2**	**105.0**	**-**	**289.6**
Delta $ (Current - Prior)	-	-	-	0.5	0.4	0.1	0.1	-	1.1	-	1.1
Required[1] $	**108.0**	**32.4**	**44.2**	**45.6**	**46.0**	**15.0**	**6.5**	**4.0**	**117.1**	**-**	**301.7**
Delta $ (Current - Required)	**-**	**-**	**-**	**-**	**(7.7)**	**(2.5)**	**(1.1)**	**(0.8)**	**(12.1)**	**-**	**(12.1)**
PROCUREMENT											
Prior $ (PB 17)	-	99.9	150.4	200.2	304.8	618.6	627.6	360.1	2,111.3	2,257.3	4,618.9
Current $ (POM 18)	**-**	**99.9**	**150.4**	**203.1**	**309.2**	**522.9**	**530.5**	**538.1**	**2,103.8**	**1,954.5**	**4,308.6**
Delta $ (Current - Prior)	-	-	-	2.9	4.4	(95.7)	(97.1)	178.0	(7.6)	(302.8)	(310.4)
Required[1] $	**-**	**99.9**	**150.4**	**203.1**	**312.3**	**528.1**	**535.8**	**543.5**	**2,122.8**	**1,974.1**	**4,347.1**
Delta $ (Current - Required)	**-**	**-**	**-**	**-**	**(3.1)**	**(5.2)**	**(5.3)**	**(5.4)**	**(19.0)**	**(19.5)**	**(38.6)**
MILCON											
Prior $ (PB 17)	-	-	1.3	1.6	-	2.1	2.3	3.0	9.0	15.3	25.6
Current $ (POM 18)	**-**	**-**	**1.4**	**1.7**	**-**	**2.0**	**2.1**	**3.0**	**8.8**	**12.6**	**22.8**
Delta $ (Current - Prior)	-	-	0.1	0.1	-	(0.1)	(0.2)	-	(0.2)	(2.7)	(2.8)
Required[1] $	**-**	**-**	**1.4**	**1.7**	**-**	**2.0**	**2.1**	**3.0**	**8.8**	**12.6**	**22.8**
Delta $ (Current - Required)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
SYSTEM O&M[2]											
Prior $ (PB 17)	-	6.1	8.3	10.4	26.5	37.8	55.0	91.4	221.1	-	235.5
Current $ (POM 18)	**-**	**6.1**	**8.3**	**11.4**	**29.2**	**41.6**	**60.5**	**98.6**	**241.2**	**-**	**255.6**
Delta $ (Current - Prior)	-	-	-	1.0	2.7	3.8	5.5	7.2	20.1	-	20.1
Required[1] $	**-**	**6.1**	**8.3**	**11.4**	**29.2**	**41.6**	**60.5**	**98.6**	**241.2**	**5,904.8**	**6,160.4**
Delta $ (Current - Required)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,904.8)**	**(5,904.8)**
TOTAL											
Prior $ (PB 17)	108.0	138.4	204.2	257.3	369.2	670.9	690.2	457.7	2,445.3	2,272.6	5,168.5
Current $ (POM 18)	**108.0**	**138.4**	**204.3**	**261.8**	**376.6**	**579.0**	**598.5**	**642.9**	**2,458.8**	**1,967.1**	**4,876.6**
Delta $ (Current - Prior)	-	-	0.1	4.5	7.4	(91.9)	(91.7)	185.2	13.5	(305.5)	(291.9)
Required[1] $	**108.0**	**138.4**	**204.3**	**261.8**	**387.4**	**586.7**	**604.9**	**649.1**	**2,489.9**	**7,891.4**	**10,832.0**
Delta $ (Current - Required)	**-**	**-**	**-**	**-**	**(10.8)**	**(7.7)**	**(6.4)**	**(6.2)**	**(31.1)**	**(5,924.3)**	**(5,955.4)**
QUANTITIES											
Prior Qty (PB 17)	0	2	3	4	6	12	12	0	34	41	80
Current Qty (POM 18)	**0**	**2**	**3**	**4**	**6**	**10**	**10**	**10**	**40**	**35**	**80**
Delta Qty (Current - Prior)	0	0	0	0	0	(2)	(2)	10	6	(6)	0
Required[1] Qty	**0**	**2**	**3**	**4**	**6**	**9**	**9**	**9**	**37**	**38**	**80**
Delta Qty (Current - Required)	**0**	**0**	**0**	**0**	**0**	**1**	**1**	**1**	**3**	**(3)**	**0**

Note 1. Requirement Source: *[e.g., OSD CAPE ICE, Oct 2015]*

Note 2. O&M requirement assumes *[e.g., a service life to 2050; includes ctr field mx, petro/oil/lube, spare/repair parts, depot mx, sustaining engineering & software mx.]*
This line *does not* include of $8.3M (FY18-22) of Acquisition-related O&M for program office expenses.

Continuing Resolution

- If Congress fails to pass appropriations *acts* prior to 1 October, it may pass a joint Continuing Resolution which must be signed by the President
- Continuing Resolution Authority is stopgap spending authority allowing federal government to continue operating
  - Allows obligation of funds at the lesser of:
    - Normal rate based on last year's appropriation
    - Normal rate based on lowest Congressional mark
  - New Start programs NOT PERMITTED
  - Congressional Special Interest programs may have specific direction
  - No initiation of MYPs or increase in production rates above last fiscal year's level
- CRA Anomaly

Execution - OSD Benchmarks

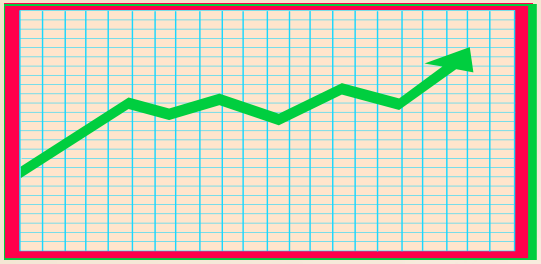
Obligation & Expenditure Execution Benchmarks

RDT&E	Yr1	Yr2	Yr3
Obligations	90%	100%	--
Expenditures	55%	90%	--

Focus: <u>Expenditures</u>

Procurement			
Obligations	80%	90%	100%
Expenditures	--	--	--

Focus: <u>Obligations</u>



-- No Specific Benchmark

Backups

Mid-Year Reviews

What’s your experience with mid-year reviews?

DoD Unqualified Opinion 2014/2017 (1/10) Outline

- What, When, and Who
- More on What it is
- How (i.e., What business systems are we relying on)
- Status of Readiness
- Lessons Learned
- The Role of Supervisors and PMs
- Sources (i.e., Where to go for more info)

DoD Unqualified Opinion 2014/2017 (2/10)
What

- What
  - AKA DoD Clean/Unmodified Opinion, Clean Audit, Audit Readiness
  - Audit includes a review of 4 Financial Statements
    - Statement of Budgetary Resources (SBR)
      - Schedule of Budgetary Activities (SBA)
    - Balance Sheet
    - Statement of Net Cost
    - Statement of Changes in Net Position

DoD Unqualified Opinion 2014/2017 (3/10)
When

- When
  - Audit Readiness is planned in 4 waves:
    - Waves 1 & 2 by 30 Sep 2014 - SBR audit readiness
    - Wave 3 by 30 Jun 2016 – Mission Critical Assets and Completeness audit readiness (includes property, equipment, and inventory)
    - Wave 4 by 30 Sep 2017 – Full Financial Statement Audit Readiness

DoD Unqualified Opinion 2014/2017 (4/10)
Who

- Who
  - Audit readiness is determined by an independent public accounting (IPA) firm hired by OSD
  - The audit will be done by the DoD IG or an accounting firm selected by the DoD IG/Comptroller (e.g., KPMG, Price-Waterhouse, Grant Thornton, etc.)
  - FY 14 contracts awarded Dec 2014
    - Army - $13M contract award to KPMG on 1 Dec 2014
    - Air Force - $14M contract award to Ernst & Young on 2 Dec 2014
    - Navy - $10M contract award to Cotton & Co. on 3 Dec 2014
    - SBA audits will start Jan 2015; results by Nov 2015
    - In Jan 2015, approx. 91% of FY 15 appropriations will be under audit

DoD Unqualified Opinion 2014/2017 (5/10)

More on What it is

- **Inputs of Financial Information to our Operations/Financial Systems**
  - **Appropriations/Funding**
  - **Contracts/Obligations**
  - **Invoices/Payables**
  - **Time & Attendance/Payroll**
  - **Property/Equipment**
  - **Inventory/Supplies**

- **Outputs from our Operations/Financial Systems**
  - **Management Reports**
    - **Funds Availability**
    - **Status of Obligations**
    - **Disbursements**
    - **Payroll**
    - **Location of Property/Equipment**
    - **Inventory/Supplies Counts**
  - **4 Financial Statements**

DoD Unqualified Opinion 2014/2017 (6/10)

How (i.e., What business systems are we relying on)

- **Systems we plan(ned) to use to help us with this audit:**
  - **Army: GFEBS (FM) – FD 4Q12, GCSS-A (Logistics) – FD 4Q18, LMP (Logistics) – FD 4Q13, AESIP (the hub), new Contract Writing System to replace SPS, IPPS-A – FD beyond FY 18**
  - **Air Force: DEAMS (FM) – FD 1Q17, ECSS (Logistics – program cancelled; in the interim, some legacy systems being modified), Air Force IPPS – FD beyond FY 18**
  - **Navy: ERP (FM and Logistics)- FD 4Q13; Navy IPPS**
  - **Marines: SABRS (legacy FM system), GCSS-MC – FD 3Q15**
  - **Fourth Estate: DAI (FM, Contracting, Logistics, HR)**
- **Auditors will be looking for**
  - **Accuracy**
  - **Internal Controls**
  - **Traceability**

DoD Unqualified Opinion 2014/2017 (7/10)
Status of Readiness

- 7 organizations have "unqualified opinions" as of Nov 2014
  - Marines received an unmodified opinion for FY 12 SBA in Dec 2013
    - They asserted audit readiness in 2010 for an SBR…took 3 years to get SBA
    - FY 13 SBA still under audit
  - 6 clean opinions for FY 13 SBAs
    - US Army Corps of Engineers – Civil Works
    - Defense Commissary Agency
    - Defense Contract Audit Agency (DCAA)
    - Defense Finance and Accounting System (DFAS)
    - Defense Health Agency – Contract Resource Management
    - Military Retirement Fund
- 4Q14, each Military Dept asserted audit readiness for an SBA
- Per May 2014 FIAR Status Report to Congress
  - SBA audits will happen 1Q15 through 4Q17
  - SBR audits will begin NLT FY18

NOTE: July 2012 E-2D at NAVAIR assessed as Audit Ready by Grant Thornton for FY 08 & FY09 RDT&E and FY 08, FY 09, & FY 10 APN-1

DoD Unqualified Opinion 2014/2017 (8/10)
Lessons Learned

- **Lessons Learned from Prior Audit Impediments**
  - **Appns/Funding:**
    - **Demonstrating funds distribution**
    - **Reconciling funding received**
  - **Contracts/Invoices/Disbursements:**
    - **Providing supporting documentation (Obligating documents, receiving reports, invoices)**
    - **Supporting the validity of Unliquidated Obligations (ULOs)**
  - **Time& Attendance/Payroll:**
    - **Providing signed time sheets**
    - **Demonstrating authorization of overtime and leave hours**
  - **Property/Inventory:**
    - **Demonstrating existence of property, equipment, inventory**
    - **Demonstrating that all P/E/I is recorded in the relevant systems**
  - **A financial audit is NOT a program audit**
    - **Need to provide as much information as possible to satisfy the auditor – will need hard copies of source documents**
    - **Have someone sit with the auditor to track the documents to the accounting records**

DoD Unqualified Opinion 2014/2017 (9/10)
The Role of Supervisors and PMs

The role of supervisors and PMs:

- **Set the tone at the top**
- **Commit appropriate and adequate resources**
- **Support audit readiness process**
- **Designate someone to be your lead on this**
  - **For PMs, suggest DPM or lead BFM or Program Control lead**
- **Establish accountability for results**
- **Establish metrics for you to monitor progress such as:**
  - **Suggest having your lead develop a POA&M**
  - **Suggest tracking ULOs for current and expired years**
  - **Suggest tracking number of errors in the accounting system and statusing current/largest actions**
  - **Status issues with property receipts**

DoD Unqualified Opinion 2014/2017 (10/10)
Sources (i.e., Where to go for more info)

- **Sources:**
  - **CFO Act**
  - **USD(C)/CFO Financial Improvement and Audit Readiness (FIAR) Guidance, Nov 2013 (initial was Dec 2011)**
  - **FIAR Plan Status Report, Nov 2014 (submitted semi-annually to Congress)**
  - **http://comptroller.defense.gov/fiar**
  - **For FIAR Training, contact FIAR-Training-Requests@osd.mil**
  - **Visit the FIAR Blog at https://www.milsuite.mil/book/groups/fiar**

Year-End Close-Out/Sweep

- 4th quarter of govt FY
- Primarily based on current and end-of-year (EOY) projected obligation and expenditure rates
- If you can't meet the end-of-year rates, now's the time to work a trade
- If you need/want more money and can still meet the EOY rates, now's the time to ask for money

New DoD FM Certification (1/2)

- Approved in Public Law 112-81, FY 12 NDAA

- Based on DAWIA certification

- All FM positions to be coded Level 1, 2, or 3
  - Level 1: GS-1 to 7 and E-1 to 8
  - Level 2: GS-5 to 13, E-5 to 9, and O-1 to 5
  - Level 3: GS-12 to SES and 0-4 to 9

- Includes military and civilian
  - All 5XX civilian grade series are included

- Requires: Courses, experience, education, developmental assignments (Level 3 only)

- Schedule:
  - Planned to be completed by 2014 –behind schedule
  - Expect a big push in CY 2014
  - DAWIA mapping completed (on next chart)

New DoD FM Certification (2/2)

Additional training expected to go from DAWIA BCEFM cert to DoD FM Cert:

- **Level 1 DAWIA (FM) to Level 1 DoD (FM) – 14 hours**
  - **3 hrs: Fundamentals and Operations of Primary Track (Prof. Level 1)**
  - **1 hr: Intro to DoD**
  - **2 hrs: Accounting**
  - **2 hrs: Finance**
  - **3 hrs: Audit Readiness**
  - **1 hr: Ethics**
  - **2 hrs: Auditing**
- **Level 2 DAWIA (FM) to Level 2 DoD (FM) – 6 hours**
  - **3 hrs: Audit Readiness**
  - **3 hrs: Ethics**
- **Level 3 DAWIA (FM) to Level 3 DoD (FM) – 20 hours**
  - **4 hrs: Fin Mgt Systems (Proficiency Level 5)**
  - **4 hrs: Accounting (Proficiency Level 5)**
  - **6 hrs: Leadership (Proficiency Level 3: Leading People)**
  - **3 hrs: Audit Readiness**
  - **3 hrs: Ethics**

Source: DoDI 1300.26, 20 Nov 2013, Operation of DoD Financial Mgt Certification Program

Better Buying Power 2.0 (Apr 2013)

Achieve Affordable Programs
- Mandate affordability as a requirement
- Institute a system of investment planning to derive affordability caps
- Enforce affordability caps

Control Costs Throughout the Product Lifecycle
- Implement "should cost" based management
- Eliminate redundancy within warfighter portfolios
- Institute a system to measure the cost performance of programs and institutions and to assess the effectiveness of acquisition policies
- Build stronger partnerships with the requirements community to control costs
- Increase the incorporation of defense exportability features in initial designs

Incentivize Productivity & Innovation in Industry and Government
- Align profitability more tightly with Department goals
- Employ appropriate contract types
- Increase use of Fixed Price Incentive contracts in Low Rate Initial Production
- Better define value in "best value" competitions
- Only use LPTA when able to clearly define Technical Acceptability
- Institute a superior supplier incentive program
- Increase effective use of Performance-Based Logistics
- Reduce backlog of DCAA Audits without compromising effectiveness
- Expand programs to leverage industry's IR&D

Eliminate Unproductive Processes and Bureaucracy
- Reduce frequency of higher headquarters level reviews
- Re-emphasize AE, PEO and PM responsibility, authority, and accountability
- Reduce cycle times while ensuring sound investment decisions

Promote Effective Competition
- **Emphasize competition strategies and creating and maintaining competitive environments**
- **Enforce open system architectures and effectively manage technical data rights**
- **Increase small business roles and opportunities**
- **Use the Technology Development phase for true risk reduction**

Improve Tradecraft in Acquisition of Services
- **Assign senior managers for acquisition of services**
- **Adopt uniform services market segmentation**
- **Improve requirements definition/prevent requirements creep**
- **Increase small business participation, including through more effective use of market research**
- **Strengthen contract management outside the normal acquisition chain – installations, etc.**
- **Expand use of requirements review boards and tripwires**

Improve the Professionalism of the Total Acquisition Workforce
- **Establish higher standards for key leadership positions**
- **Establish stronger professional qualification requirements for all acquisition specialties**
- **Increase the recognition of excellence in acquisition management**
- **Continue to increase the cost consciousness of the acquisition workforce – change the culture**

"Will Cost" vs "Should Cost" (1/6)

USD (AT&L) and USD(C) 22 Apr 11 Memo

- **Will Cost**
  - **Used for programming and budgeting**
  - **Used for acquisition program baselines (APBs)**
  - **Used for all reporting requirements external to DoD**

- **Should Cost**
  - **Scrutinize every element of govt and contractor costs**
  - **3 ways to develop should cost estimates:**
    - **Bottoms –Up estimate**
    - **Determine specific discrete and measurable items**
    - **Use competitive contracting and contract negotiations to identify should cost savings (old FAR definition)**

Should Cost is NOT (2/6)

- **Army Affordability Initiatives memo, 10 Jun 2011**
  - Broad challenge by management to reduce cost by a specified percentage or dollar value
  - Most items outside the control of the program office and inconsistent with the current program of record
  - Anything requiring significant investment for completion and an increase to the budget
- **Air Force Should Cost memo, 15 Jun 2011**
  - Arbitrary reductions against the will cost estimate
  - Choosing a lower confidence level from your will cost range
  - Most items outside the control of the program office and inconsistent with the current program of record
  - Anything requiring significant investment for completion and an increase to the budget
  - FFP contracts should only be reopened if there is a clear benefit to do so
- **Navy Should Cost memo, 19 Jul 2011**
  - Arbitrary reductions against the will cost estimate
  - Choosing a lower confidence level from your will cost range
  - FFP contracts should only be reopened if there is a clear benefit to do so

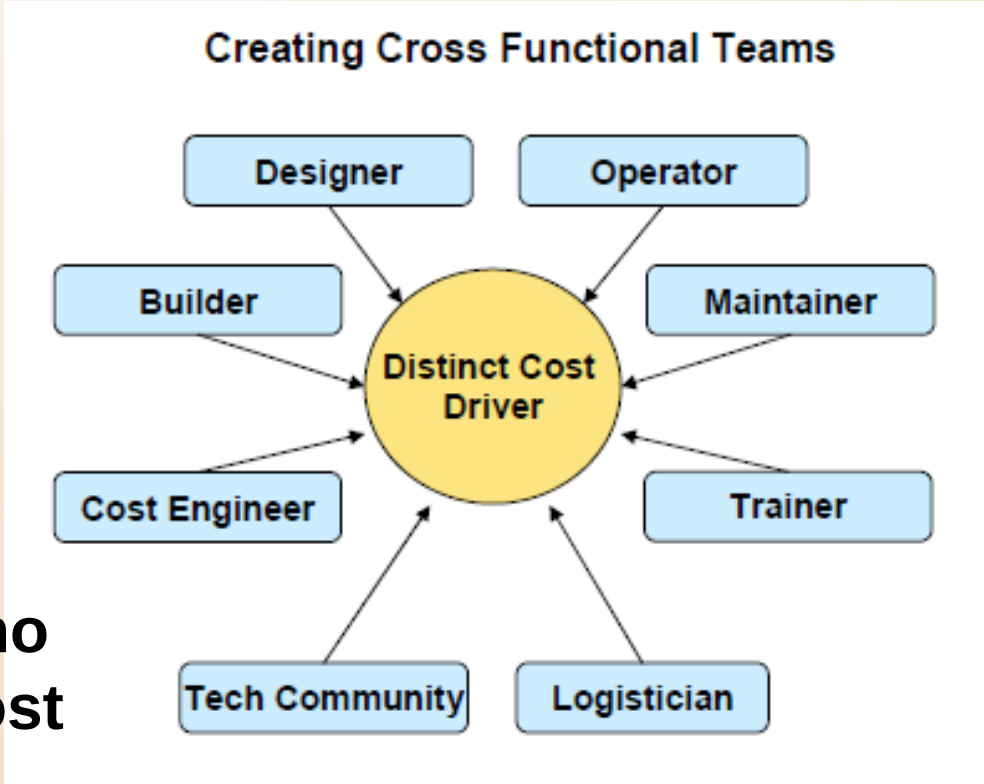
"Should Cost and Affordability" (3/6)

USD (AT&L) 24 Aug 11 Memo

- "Should Cost" vs "Affordability as a Requirement"
  - Not the same
- Affordability as a Requirement
  - Emphasis prior to MS B
  - Define and achieve affordability targets
  - Affordability targets are recorded in the MS A ADM
    - Nominally the average unit acquisition cost* and average annual O&S cost per unit (* could be PAUC or APUC)
  - MDA expects them to be achieved
- Should Cost (SC)
  - Emphasis is post MS B (need to define the design)
  - Focused on controlling the cost of actual work we are doing and expect to do
  - We must continuously fight to lower all our costs, wherever that makes sense
  - Intended to control the final product and sustainment costs
  - Find ways to beat the ICE or program estimate (i.e., the "Will Cost")
  - Expected to be
    - Based on real opportunities
    - Challenging to execute
    - Unrealistic to always achieve every SC initiative and/or at the full value

PM's Should Cost Team (4/6)

- **Seek outside assistance**
  - **The Service's Cost Analysis Agency**
  - **DCMA**
  - **SAE**
- **Collaborate with appropriate center level functional organizations**
- **Engage with personnel who developed Independent Cost Estimate and/or other previously defined should-cost estimates**



SCM: 5 Step Process (5/6)

- Step 1: Identify Cost Drivers
- Step 2: Identify & Prioritize Opportunities
  - Consider each of the following:
    - Investment Cost
    - Ease of Implementation
    - Time to Implement/Realize
    - Unit Cost Benefit
- Step 3: Develop Discrete “Should Cost” POA&M
- Step 4: Establish Measurable Targets
- Step 5: Disposition of Realized Cost Savings with Higher Hqs

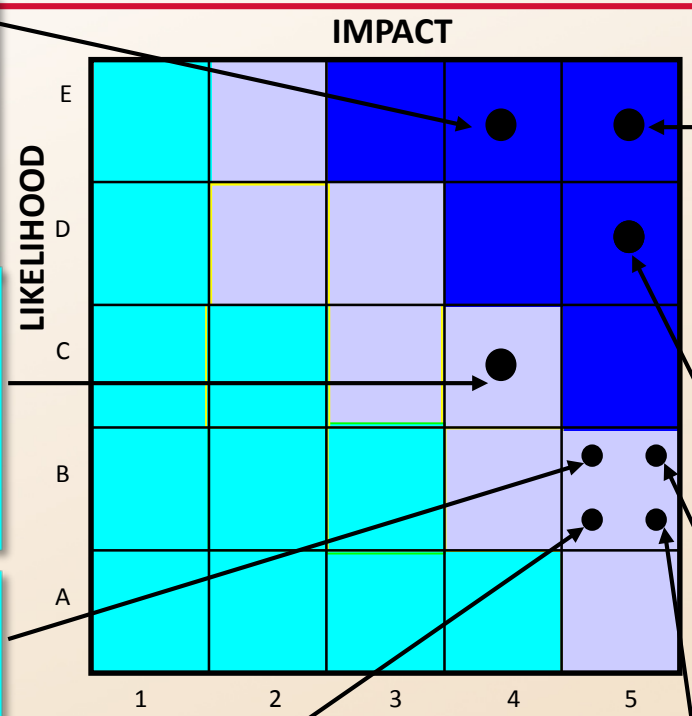
CVN 79 PARM Review: High Impact Opportunities (6/6)

RAM
- Opportunity: IF there is a Reduction of Spares Costs, THEN a Cost savings can be realized
- **Driver**: PMS 378 CVN 79 PARM Progress Reviews
- **Action:** IWS 3.0 will continue to review to realize cost savings
- **Proposed:** FY16

CV-TSC
- Opportunity: IF increased processing w/ CPS TI16 can reduce the racks from 2 to 1, THEN Cost savings can be realized
- **Driver**: PMS 378 CVN 79 PARM Progress Reviews
- Action: IWS 5.0 will continue to review to realize cost savings
- Proposed: FY13/14

RLGN
- Opportunity: IF EOQ Pricing based on multiple system procurement is realized, THEN Cost savings can be realized
- **Driver**: PMS 378 CVN 79 PARM Progress Reviews
- Action: IWS 6.0 will continue to review to realize cost savings
- Proposed: FY15

DBR
- Opportunity: IF a 2-lot System buy concurrent with DDG 1002 occurs , THEN Cost savings can be realized
- Driver: PMS 378 CVN 79 PARM Progress Reviews
- Action: IWS 2.0 will continue to review to realize cost savings
- Proposed: FY13



Likelihood Scale:
B: 25% C: 50%
D: 75% E: 90%

Impact Scale:
4: Savings from $100k-$1m
5: Savings >$1m

GMLS
- Opportunity: IF EOQ Pricing could reduce shipset equipment cost; based upon FY12 production shipset costs negotiated for CVN 78, THEN Cost savings can be realized
- **Driver**: PMS 378 CVN 79 PARM Progress Reviews
- **Action:** IWS 3.0 will continue to review to realize cost savings
- **Proposed:** FY15

MK 38 MGS
- Opportunity: IF Requirements for MK 38 are fully defined allowing the ROM unit cost to be refined, THEN Cost savings can be realized
- **Driver**: PMS 378 CVN 79 PARM Progress Reviews
- Action: IWS 3.0 will continue to review to realize cost savings
- Proposed: FY15

DBR
- Opportunity: IF a H/W reduction to ECP and Equipment Refresh is realized, THEN Cost savings can be realized
- Driver: PMS 378 CVN 79 PARM Progress Reviews
- Action: IWS 2.0 will continue to review to realize cost savings
- Proposed: FY13

DBR
- Opportunity: IF there is a reduction to the cost of Interim Spares, THEN Cost savings can be realized
- Driver: PMS 378 CVN 79 PARM Progress Reviews
- Action: IWS 2.0 will continue to review to realize cost savings
- Proposed: FY16

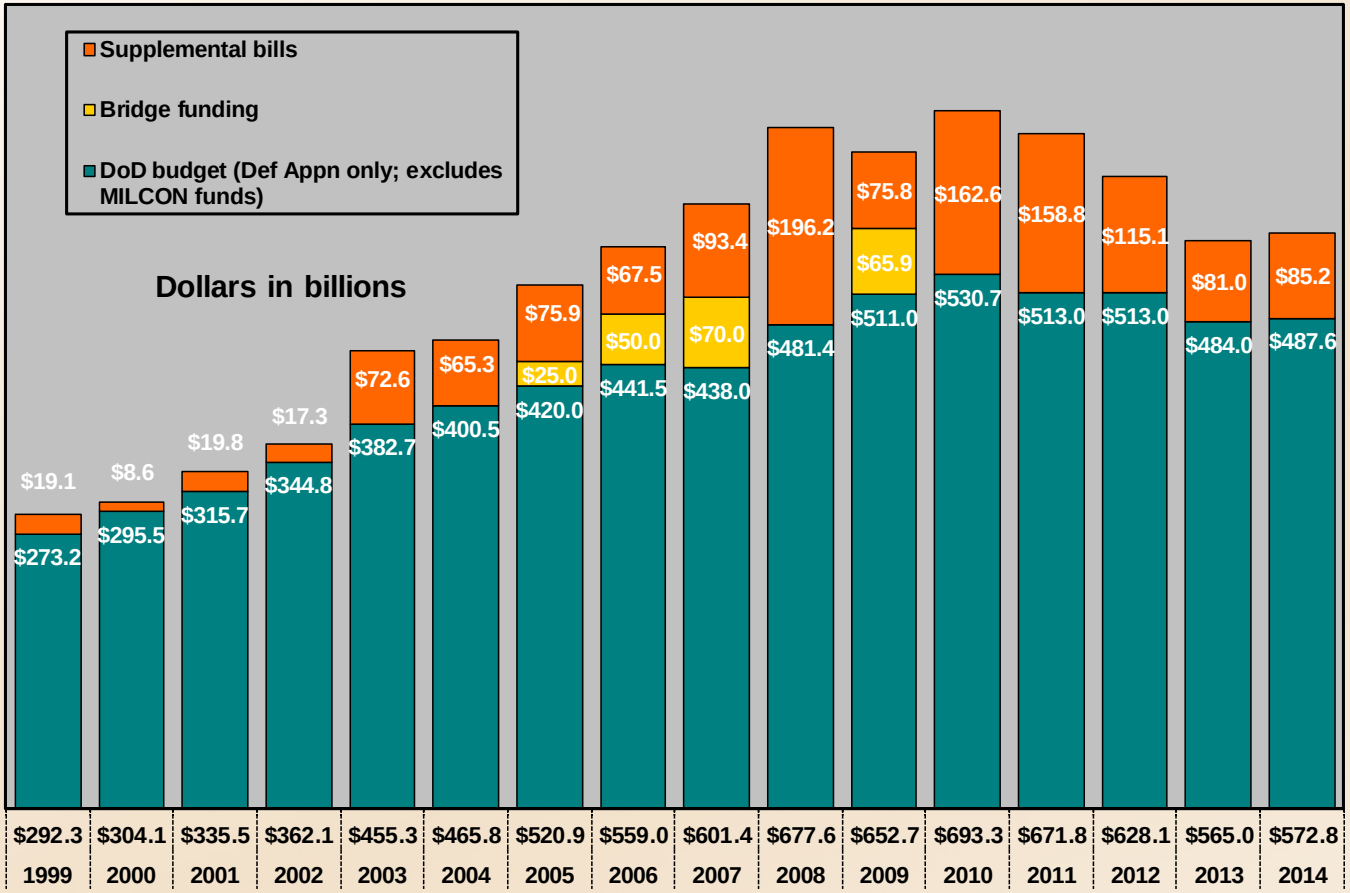
BBA vs BCA

- **Bi-Partisan Budget Act (BBA) – Dec 2013**
  - **Only applies to FY 14 and FY 15 for DoD**
  - **Increases FY 14 by $21B from BCA**
    - **Thus, decrease of $31B from PB 14**
    - **Thus, about the same as CRA levels (FY 13 post-sequestration)**
  - **Increases FY 15 by $9B from BCA**
    - **Thus, decreases FY 15 POM ("POM High") by $43B**
    - **Thus, increases FY 15 Alt POM ("POM Low") by $9B**

- **Budget Control Act (BCA) - Aug 2011**
  - **Applies to FY 2012 – 2021**
  - **DoD cut is $50-55B per year for 10 years**
  - **BBA only changed FY 14 and FY 15**
  - **Thus, in FY 16, BCA kicks in again**

Defense Topline Budget

DoD Supplemental Appropriations



Total Yearly Spending

6 Obligation Rate Tenets

USD(C) & USD(AT&L) 10 Sep 2012 memo

1. **Obligate and expend funds in the taxpayer's best interest and if best value for the warfighter**

2. **Obligation rates should not be the "determinative" measuring stick for program execution and must not be regarded as failure**

3. **Late obligations don't mean that funds aren't needed or that future budgets should be reduced**

4. **Providing savings as early as possible in the fiscal year should be encouraged and rewarded**

5. **Savings will not be reallocated at any higher level than necessary to fulfill shortfalls in priority requirements**

6. **Managers who release unobligated balances will not automatically be penalized in their next year's budget and may be candidates for additional funding**

FY 14 Sequestration?

- **Likely to Occur**
  - **House Budget Resolution, Senate Budget Resolution, and PB14 request unlikely to be reconciled**
  - **Debt limit**
    - **Forcing function to work the issue now**
  - **"Grand Bargaining" planned for summer 2013 didn't happen**
  - **Will need a new piece of legislation from Congress to avoid it**
- **How much?**
  - **$52B from Defense (Defense Appn w/OCO and MILCON Appn)**
- **If it happens, when will it happen?**
  - **Per law, the 15th day of the new session of Congress in January**
- **Does it matter if we are under CRA in January?**
  - **No**
- **Does it have to be a line-by-line cut?**
  - **No. Congress is open to providing flexibility on where to take the cuts**

Bloomberg GOVERNMENT

Defense Sequestration, Fiscal Year 2013 Summary

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June 27, 2013

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Executive Summary

Background

- Sequestration required cuts in fiscal 2013 to every Program, Project or Activity (PPA), except military personnel funds
- Prior year unobligated balances are subject to cuts
- Defense Department had discretion on how to distribute cuts between fiscal 2013 funds and unobligated balances

Impact

- DOD total budgetary resources of $677.4 billion was cut by $37.2 billion, or a
  5.5% overall reduction*
- O&M, Procurement and RDT&E paid 97% of the defense sequestration bill
  - DOD data available on BGOV
- Navy budget was cut the most in total dollars
- Biggest losers in procurement were classified programs with $1.4 billion in cuts
- 10 largest non-classified procurement cuts were 29% of total procurement cuts
- 16% of cuts were taken from prior year funds

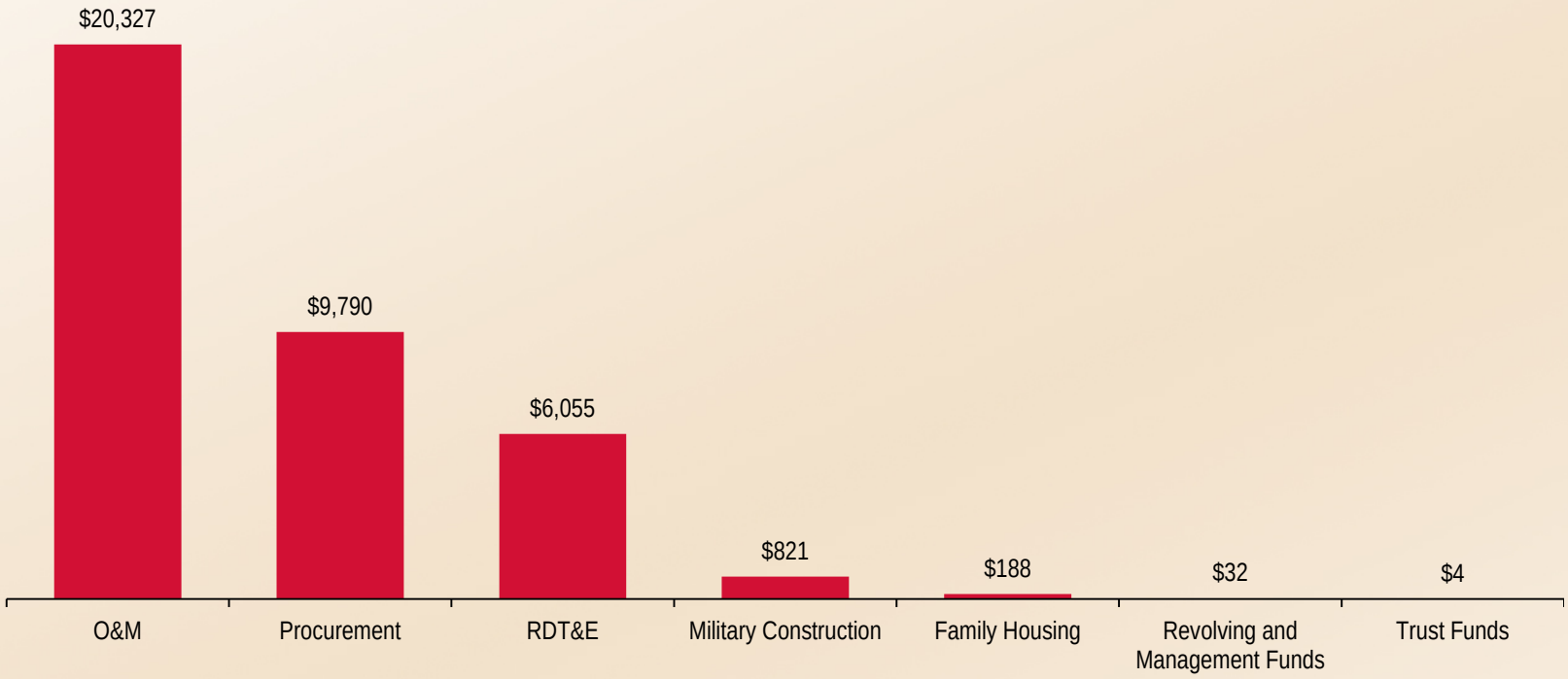
* Includes prior year unobligated balances

Source: Department of Defense, Bloomberg Government analysis

Operation and Maintenance, Procurement and RDT&E absorbed 97% of the cuts

Defense Cuts by Account

Dollars in millions

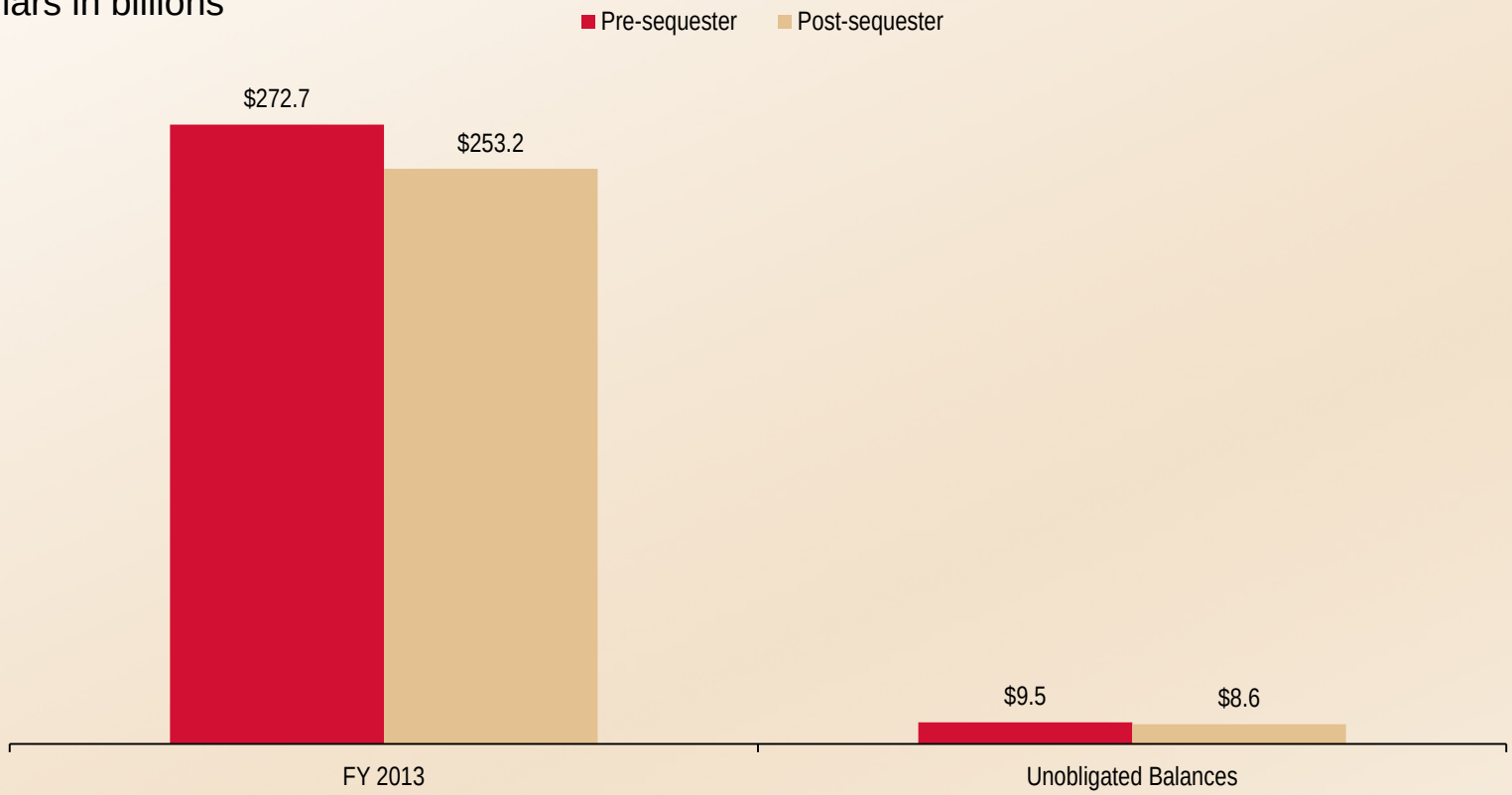


Note: Cuts include funds from fiscal 2013 and prior year funds
Source: Department of Defense

O&M cuts were more than half of sequestered funds; most impact on FY2013 money

Pre- and Post-Sequestration Funding Totals, O&M

O&M cuts have greatest impact in 2013 – account is mostly one-year funds
Dollars in billions



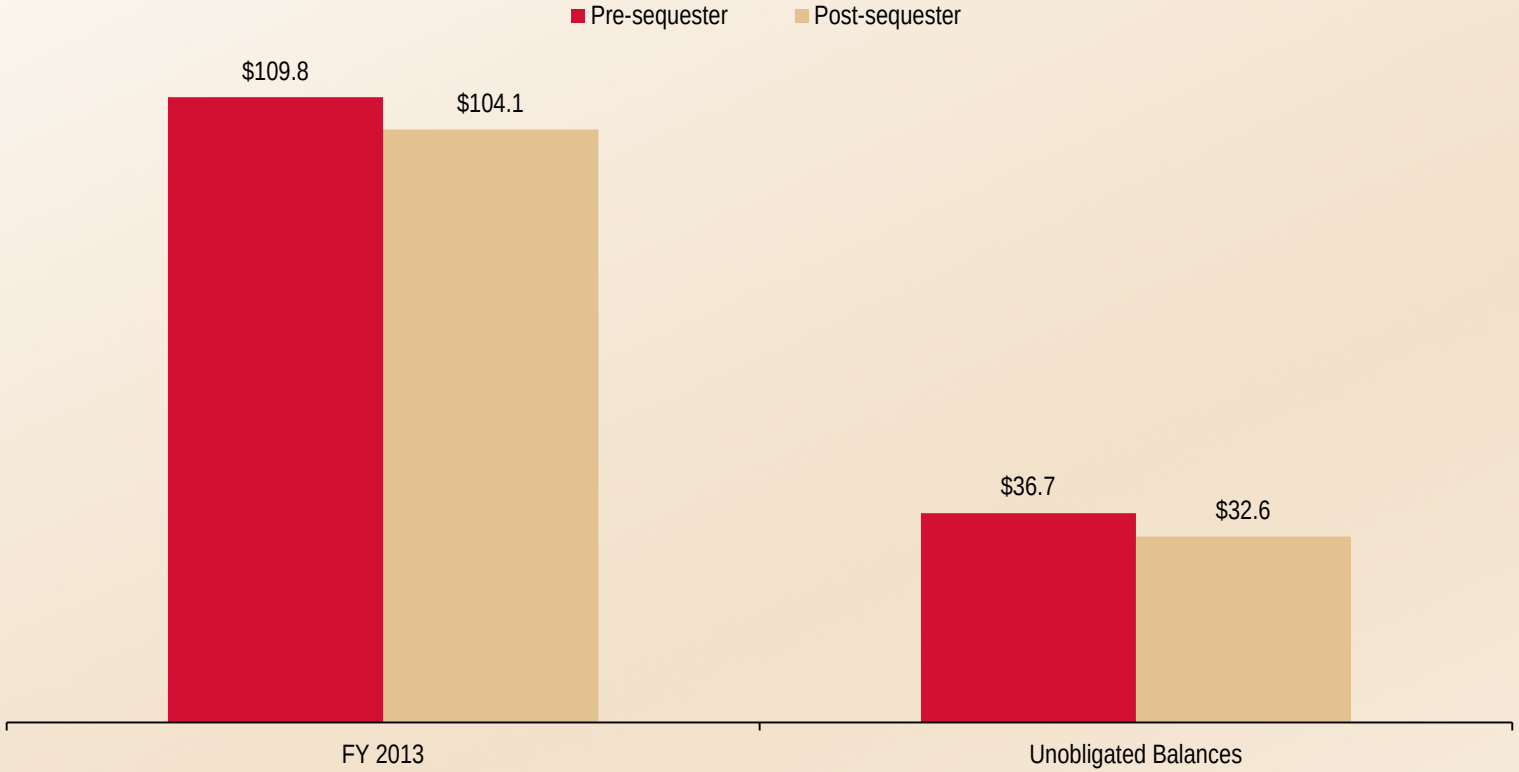
Percentage Cut	**7%**	**9%**

Note: Unobligated balances are not broken down by fiscal year
Source: Department of Defense

Procurement programs were cut a total of $9.8 billion 766

Pre- and Post-Sequestration Funding Totals, Procurement

248 programs were not cut; reasons unclear. 26 advanced procurement line items also not cut.
Dollars in billions



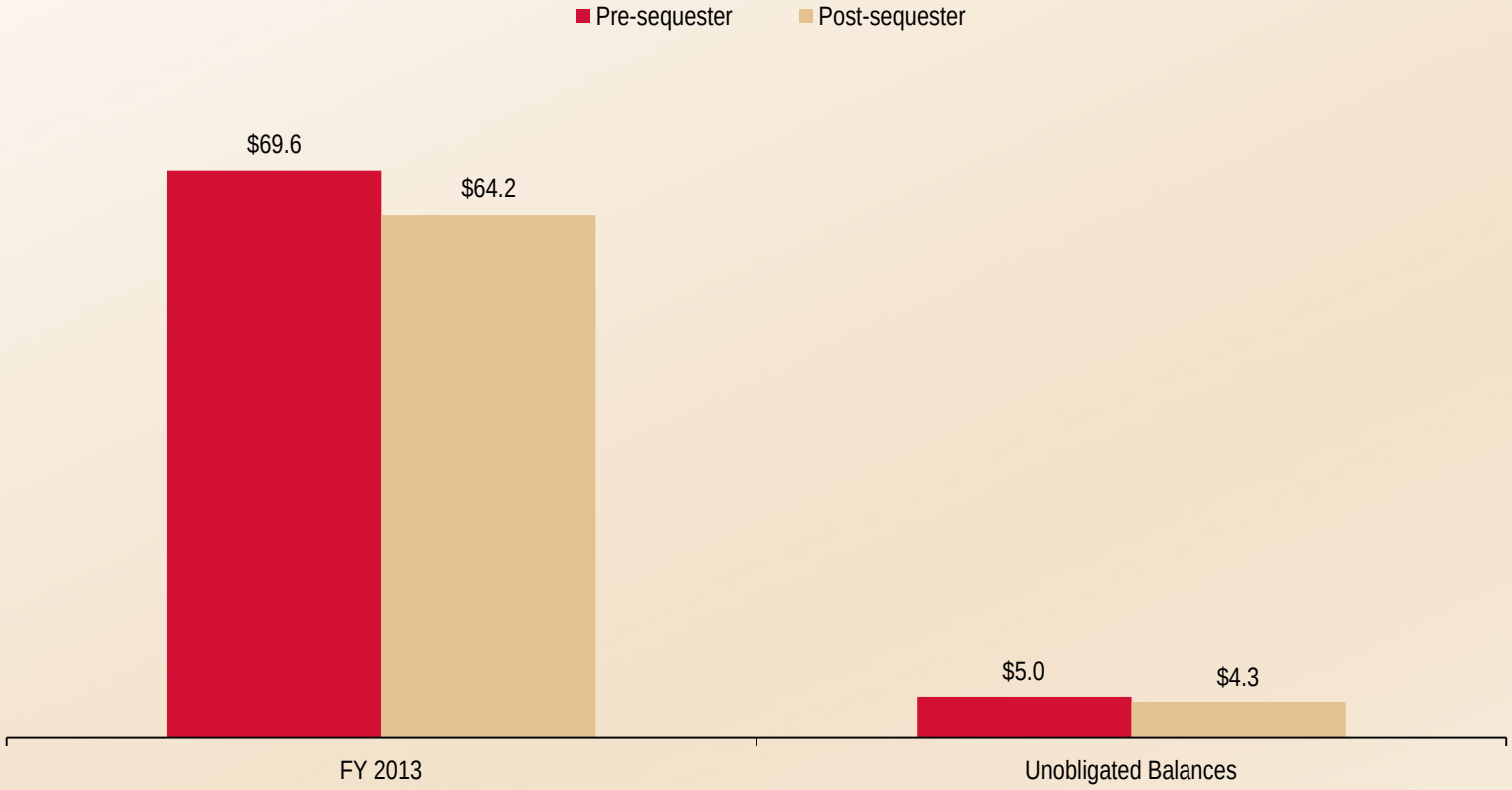
Percentage Cut	**5%**	**11%**

Note: Procurement funds historically are spent over many years and so have large unobligated balances from prior years
Source: Department of Defense

RDT&E fiscal 2013 funds cut by 8%

Pre- and Post-Sequestration Funding Totals, RDT&E

Dollars in billions



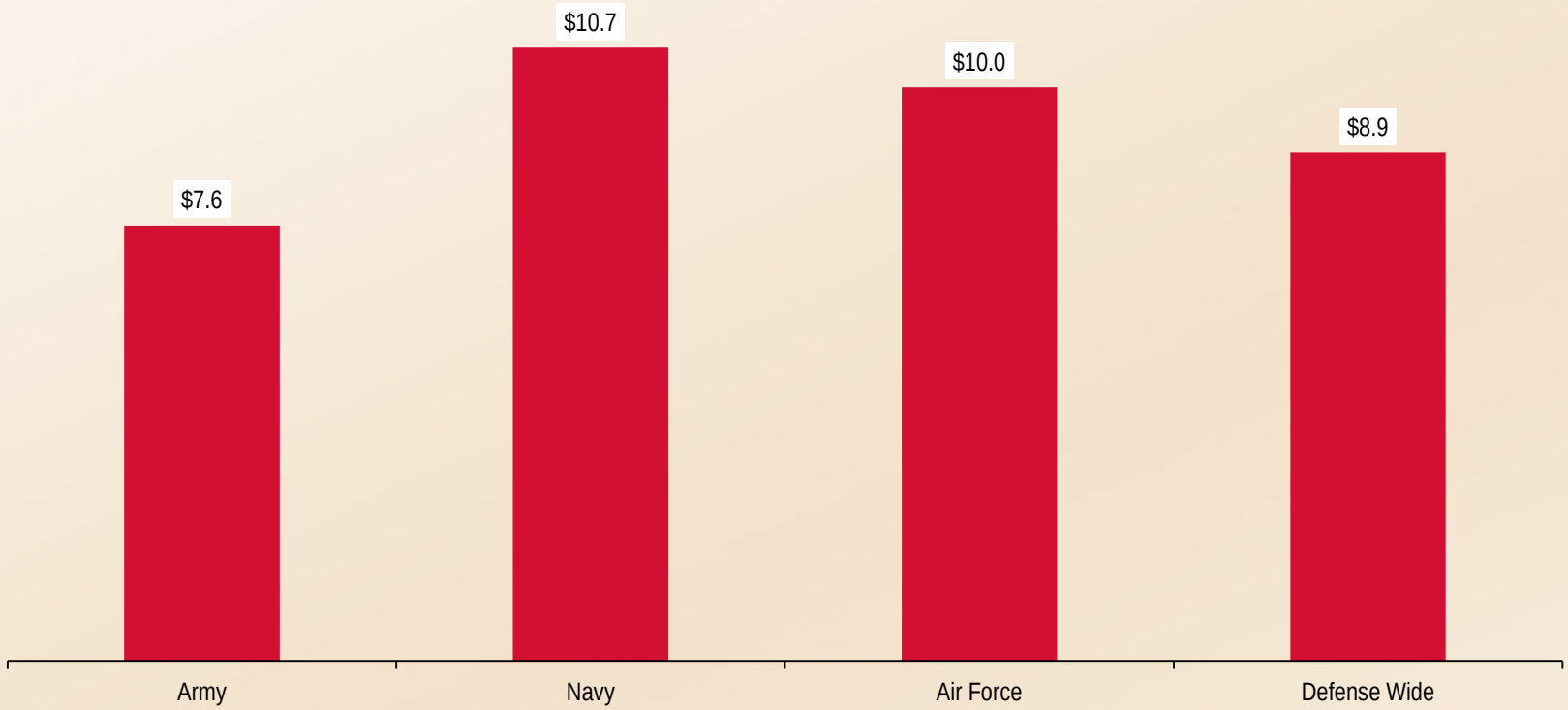
Percentage Cut	**8%**	**13%**

Note: RDT&E funds historically are spent over many years and so have large unobligated balances from prior years
Source: Department of Defense

Navy and Air Force cut by most in absolute; Defense-wide funds cut by highest percentage

Cuts by Service Category

Dollars in billions



	Army	Navy	Air Force	Defense Wide
Percentage Cut	4%	6%	6%	7%

Note: Available funds includes prior year funds; Navy includes Marine Corps funding.
Source: Department of Defense

Ten Largest Cuts Account for 29% of cuts to Procurement

Cuts to Major Procurement Programs

Air Force aircraft and Navy ships hit hardest, with small cuts to Air Force missiles, Guard and Reserve equipment

Dollars in millions, ordered by program cut

Program	FY 2013 Enacted Funds	FY 2013 Funds Cut	Prior FY Available Funds	Prior FY Funds Cut	Total Cut to All Funds	Total % Cut to Available Funds
DDG-51	$4,031.3	-$28.1	$3,029.6	-$513.2	-$541.2	7.7%
Air Force F-35	$3,035.3	-$502.7	$2,855.1	$0	-$502.7	8.5%
Virginia Class Submarine	$3,213.4	-$353.9	$1,619.5	-$138.4	-$492.3	10.2%
P-8 Poseidon Aircraft	$2,382.1	-$122.1	$422.5	-$112.0	-$234.2	8.3%
F/A-18E/F Hornet	$2,578.2	$0	$325.3	-$221.3	-$221.3	7.6%
Littoral Combat Ship	$1,782.6	-$43.6	$671.9	-$140.6	-$184.2	7.5%
CVN Refueling Overhauls	$1,746.1	-$93.3	$282.0	-$83.0	-$176.3	8.7%
Navy F-35	$964.7	-$158.6	$1,110.4	-$0.7	-$159.2	7.7%
Marine Corps F-35	$1,240.0	-$153.6	$687.1	-$0.015	-$153.6	8.0%
UH-60 Blackhawk	$1,304.4	-$8.4	$334.8	-$120	-$128.3	7.6%
Total*	$22,277.9	-$1,464.2	$11,338.2	-$1,329.0	-2,793.3	8.2%

* Does not include classified programs in totals

Source: Department of Defense

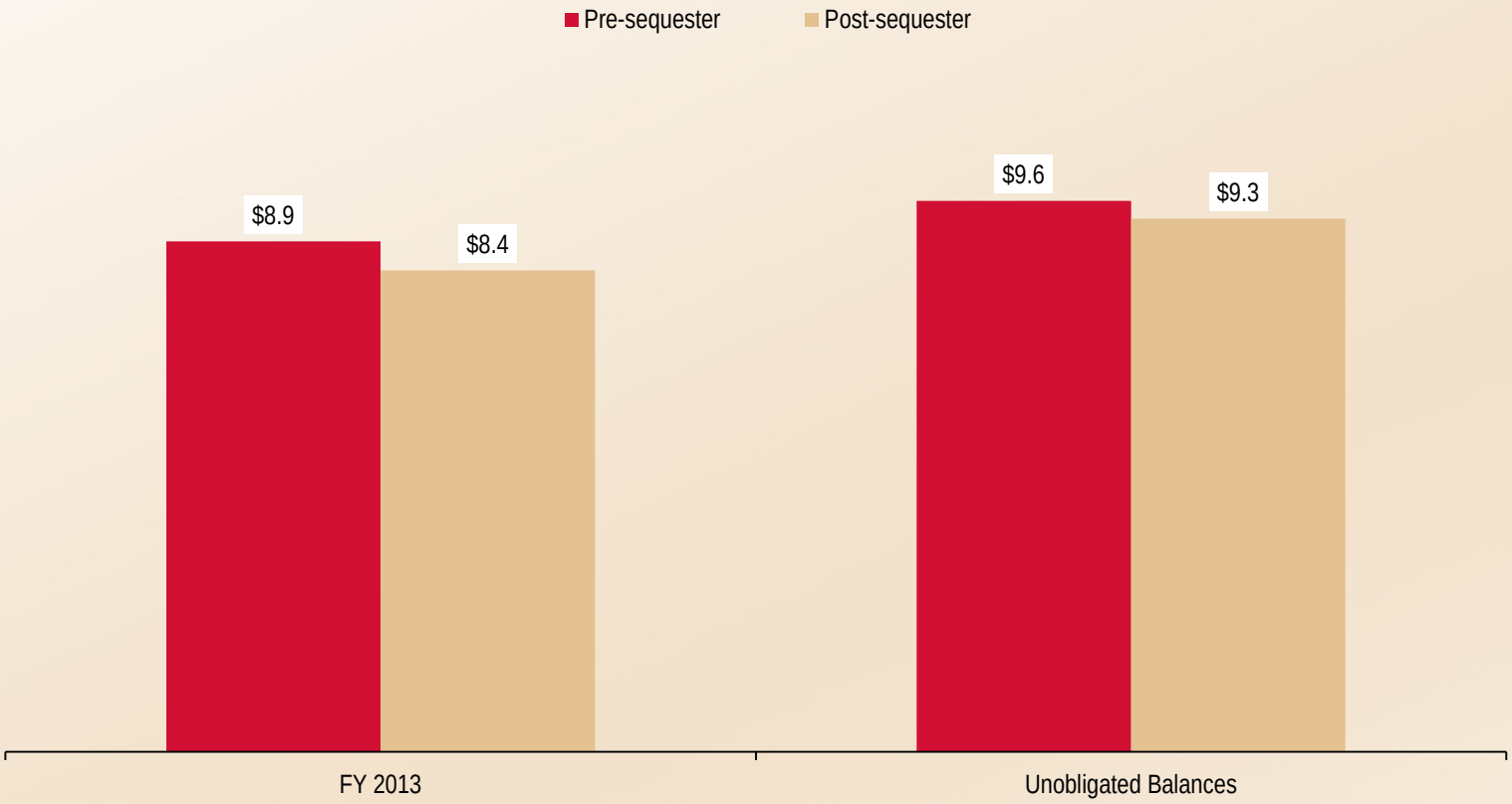
What this means for contractors

- Contractors providing services paid for with O&M funds are being hit the hardest in fiscal 2013
- DOD apparently used some discretion to shift the allocation of cuts between fiscal 2013 and prior year funds in various programs to mitigate disruptive impact of across-the-board cuts
- Army funds were cut the least because of protected funds for Afghanistan
- Every PPA was not cut by the same amount, but Congress is unlikely to challenge
  - DOD's justification for variance across programs isn't clear
  - Congressional silence implies consent to DOD's choices; cuts probably will stand

About 40% of cuts to Military construction came from prior year funds

Pre- and Post-Sequestration Funding Totals, Military Construction

Dollars in billions



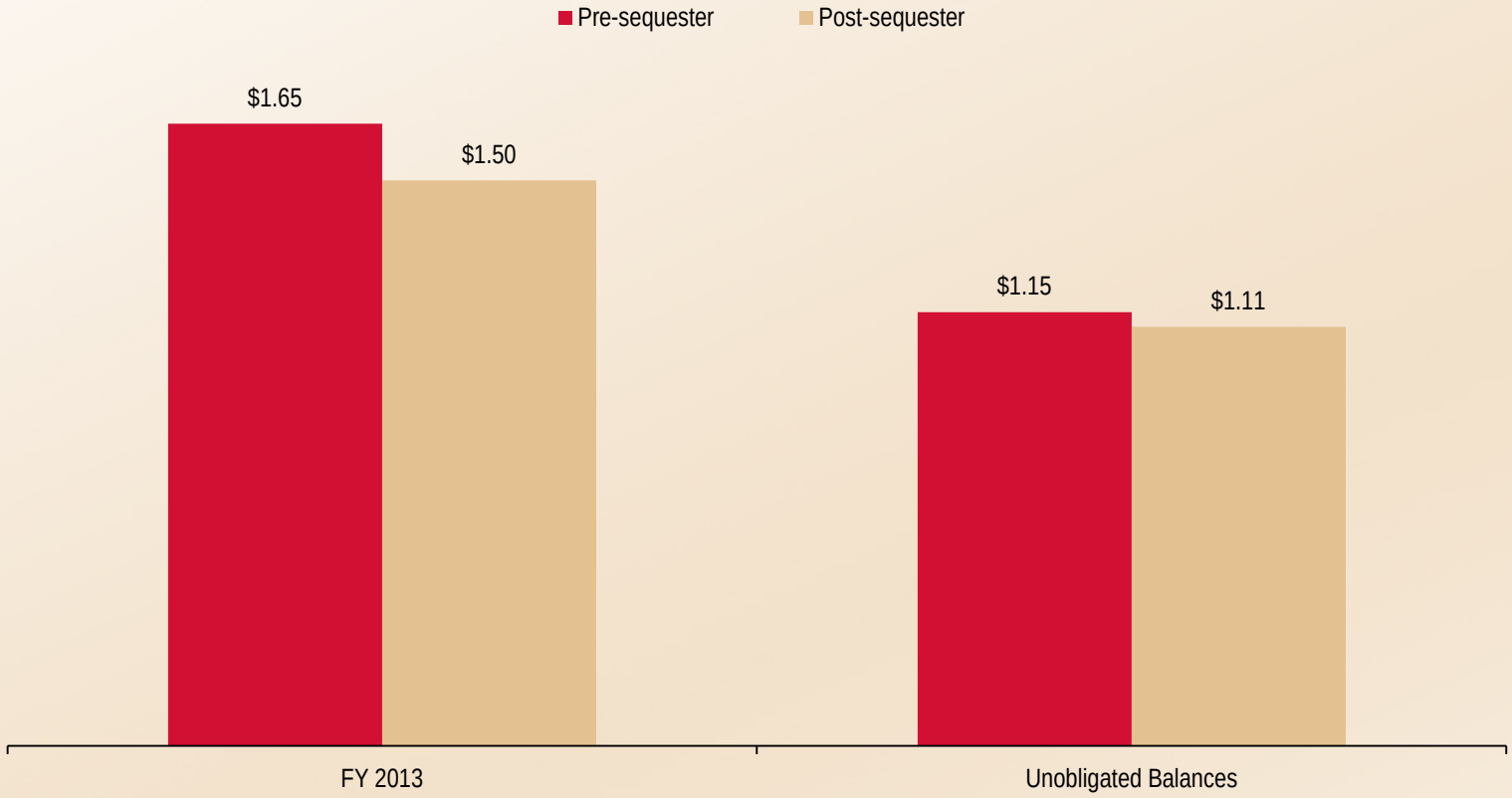
Percentage Cut **6%** **3%**

Note: Military construction funds historically are spent over many years and so have large unobligated balances from prior years
Source: Department of Defense

Family Housing had large prior year balances; includes both construction and o&M funds

Pre- and Post-Sequestration Funding Totals, Family Housing

Dollars in billions



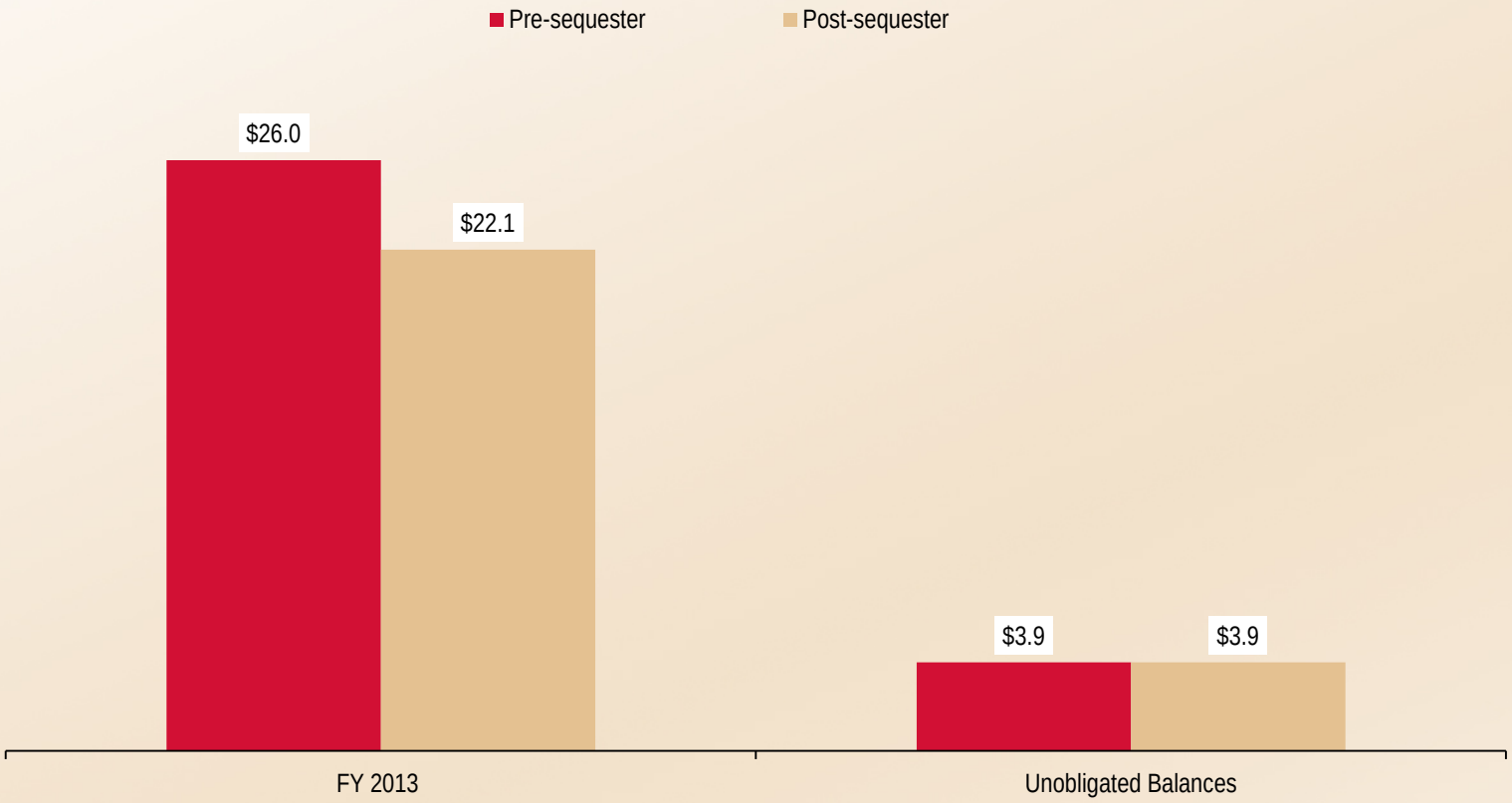
Percentage Cut	**9%**	**3%**

Source: Department of Defense

Trust funds cut by 15%, with no cuts to prior year funds

Pre- and Post-Sequestration Funding Totals, Trust Funds

Dollars in millions



Percentage Cut	**15%**	**0%**

Source: Department of Defense

About the analysts

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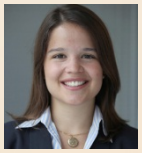

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Contracts Intelligence Tool

Major Procurement Programs Dashboard

Spending Dashboard

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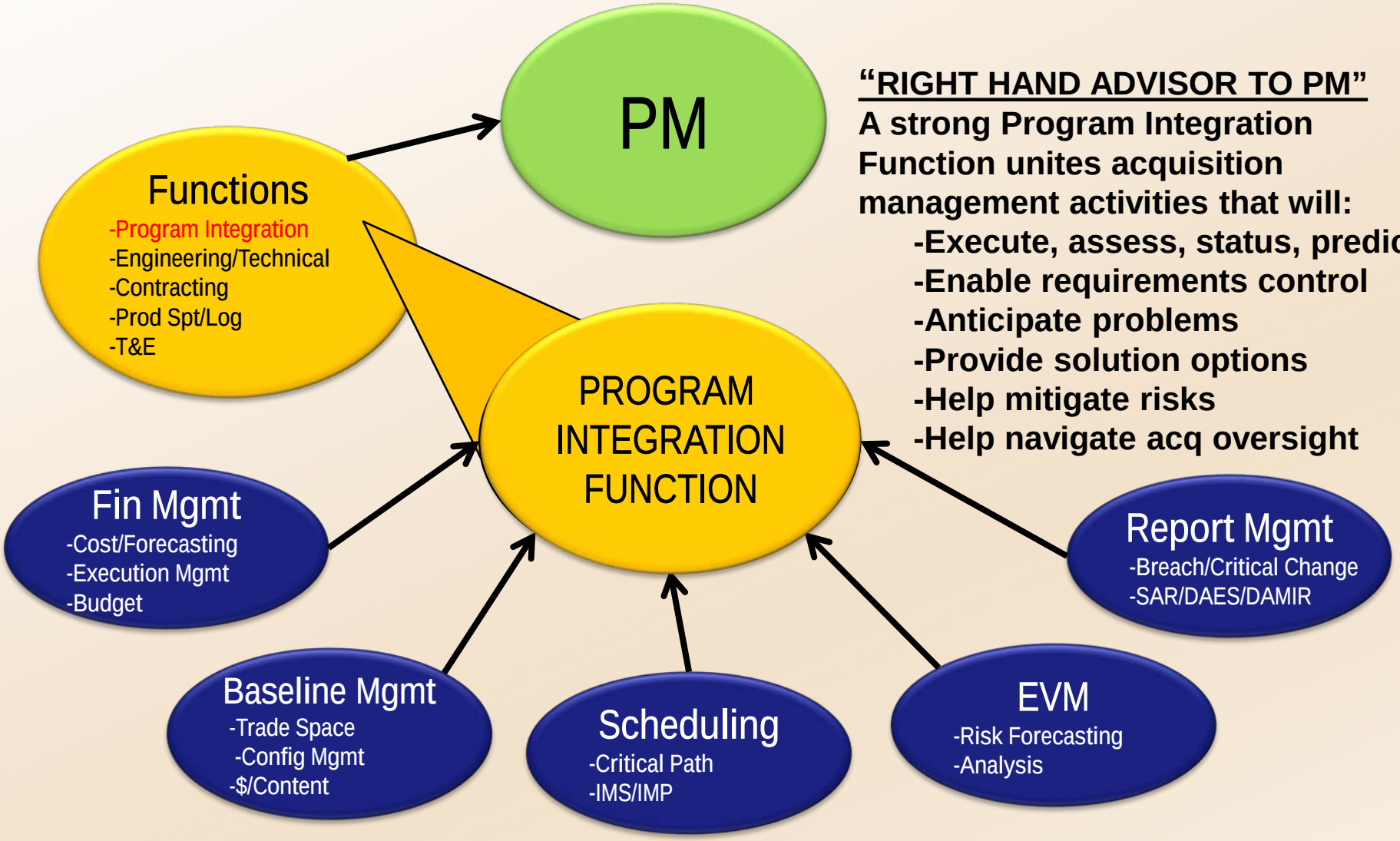
Program Integration Function



"RIGHT HAND ADVISOR TO PM"

A strong Program Integration Function unites acquisition management activities that will:

- **Execute, assess, status, predict**
- **Enable requirements control**
- **Anticipate problems**
- **Provide solution options**
- **Help mitigate risks**
- **Help navigate acq oversight**

Burn Rate

- **Program Burn Rate**
- **Contract Burn Rate (possible sources)**
  - **Contract Funds Status Report (CFSR)**
  - **EV ACWP (then add 10% for fee)**
  - **Budget data**
  - **Accounting Data**
- **Normally use monthly burn rate**

Fiscal Law (1/3)
Misappropriation Act

(Title 31, U.S. Code, Section 1301)

- **Requires that funds be used only for the programs and purposes for which the appropriation is made.**

NOTE: Be careful of ethical issues here; violation of this law can lead to an ADA

Fiscal Law (2/3)
Anti-Deficiency Act

(Title 31, U.S. Code, Sections 1341 and 1517)

- **Prohibits any officer or employee from making or authorizing an obligation in excess of the amount available in an appropriation or in excess of the amount permitted by agency regulations.**
- **Forbids the involvement of the government in any contract or obligation to pay money in advance of appropriations.**
- **Requires agency regulations to ensure obligations are kept within the apportioned amount and to fix responsibility for violations of the act.**

Fiscal Law (3/3)
Bona-fide Need

(Title 31, U.S. Code, Sec 1502)

- **Requires that appropriated funds be used only for those needs and/or services that arise in the year/s of the appropriation's obligation availability period.**

NOTE: Comp Gen decision, 68 Comp Gen 170; File # B-232024, 4 Jan 1989

Congressional Appeals: Definition

- **Appeal Process – A request for reconsideration of an action taken to adjust, reduce, or delete funding for an item during the congressional review of the defense budget (authorization and appropriation).**

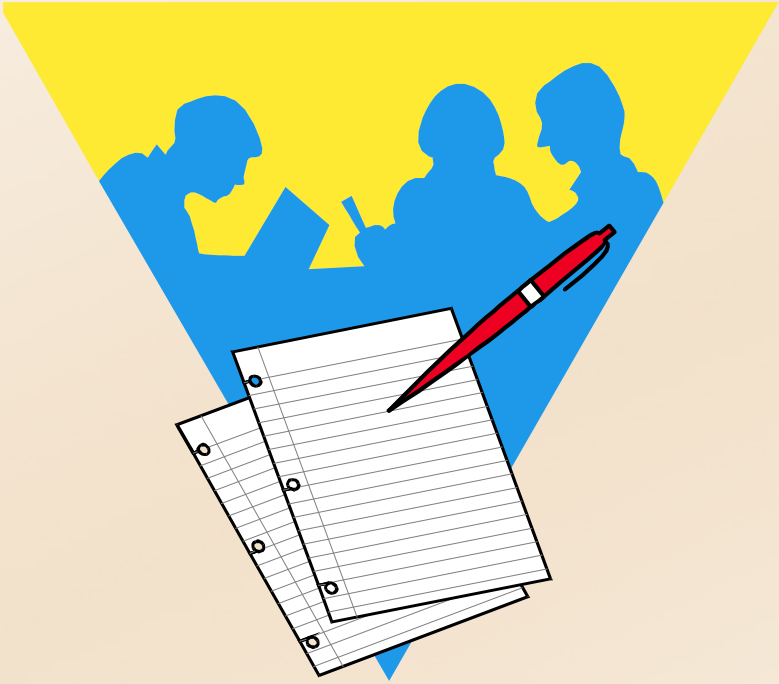
- **Reclama – A formal appeal to the Service Comptroller or the Secretary of Defense's (SECDEF's) tentative budget decision on the Service budget estimates.**

Source: DAU Glossary, 14th Edition, July 2011

Congressional Enactment Process

3-Step Enactment Process

- **Budget Resolution**
- **Authorization Act**
- **Appropriation Act**



Appeals To Congressional Marks

General Rules Between Congress And DoD

- Each phase (i.e., Authorization and Appropriation) is separate
- Appeal to next Committee of that phase considering the budget request (e.g., appeal to the SASC, SAC and/or the appropriate conference committee)
- Appeal to amount closest to President's Budget of the prior two marks
- Acceptable to appeal language, production quantities, and end strength as well as dollar amounts

Appeals Process Example 1/3

[Assume President's Budget = $ 100 M]

AUTHORIZATION			APPROPRIATION		
	MARK			MARK	
HASC	$ 95		HAC	$ 80 M	
Appeal to:	SASC	$100 M	Appeal to:	SAC	$100 M
SASC	$ 60 M		SAC	$70 M	
Appeal to:	Auth Conf	$ 95 M	Appeal to:	Approp Conf	$ 80 M
AUTH ACT:	$ 78 M		APPN ACT:	$ 75 M	

Rules:
(1) Appeal to SASC, SAC & Conference Committees
(2) Appeal amount closest to President's Budget
(3) Appeal prior two marks

Appeals Process Example 2/3

[Assume President's Budget = $ 80 M]

AUTHORIZATION			APPROPRIATION		
	MARK			MARK	
HASC	$ 70		HAC	$ 72 M	
Appeal to:	SASC	$80 M	Appeal to:	SAC	$80 M
SASC	$ 75 M		SAC	$80 M	
Appeal to:	Auth Conf	$ 75 M	Appeal to:	Approp Conf	$ 80 M
AUTH ACT:	$ 72 M		APPN ACT:	$ 76 M	

Rules:
(1) Appeal to SASC, SAC & Conference Committees
(2) Appeal amount closest to President's Budget
(3) Appeal prior two marks

Appeals Process Example 3/3

[Assume President's Budget = $ 50 M]

AUTHORIZATION			APPROPRIATION		
	MARK			MARK	
HASC	$ 45		HAC	$ 40 M	
Appeal to:	SASC	$50 M	Appeal to:	SAC	$50 M
SASC	$ 50 M		SAC	$40 M	
Appeal to:	Auth Conf	$ 50 M	Appeal to:	N/A	$ N/A M
AUTH ACT:	$ 50 M		APPN ACT:	$ 40 M	

Rules:
(1) Appeal to SASC, SAC & Conference Committees
(2) Appeal amount closest to President's Budget
(3) Appeal prior two marks

Congressional Staffer Day Briefs

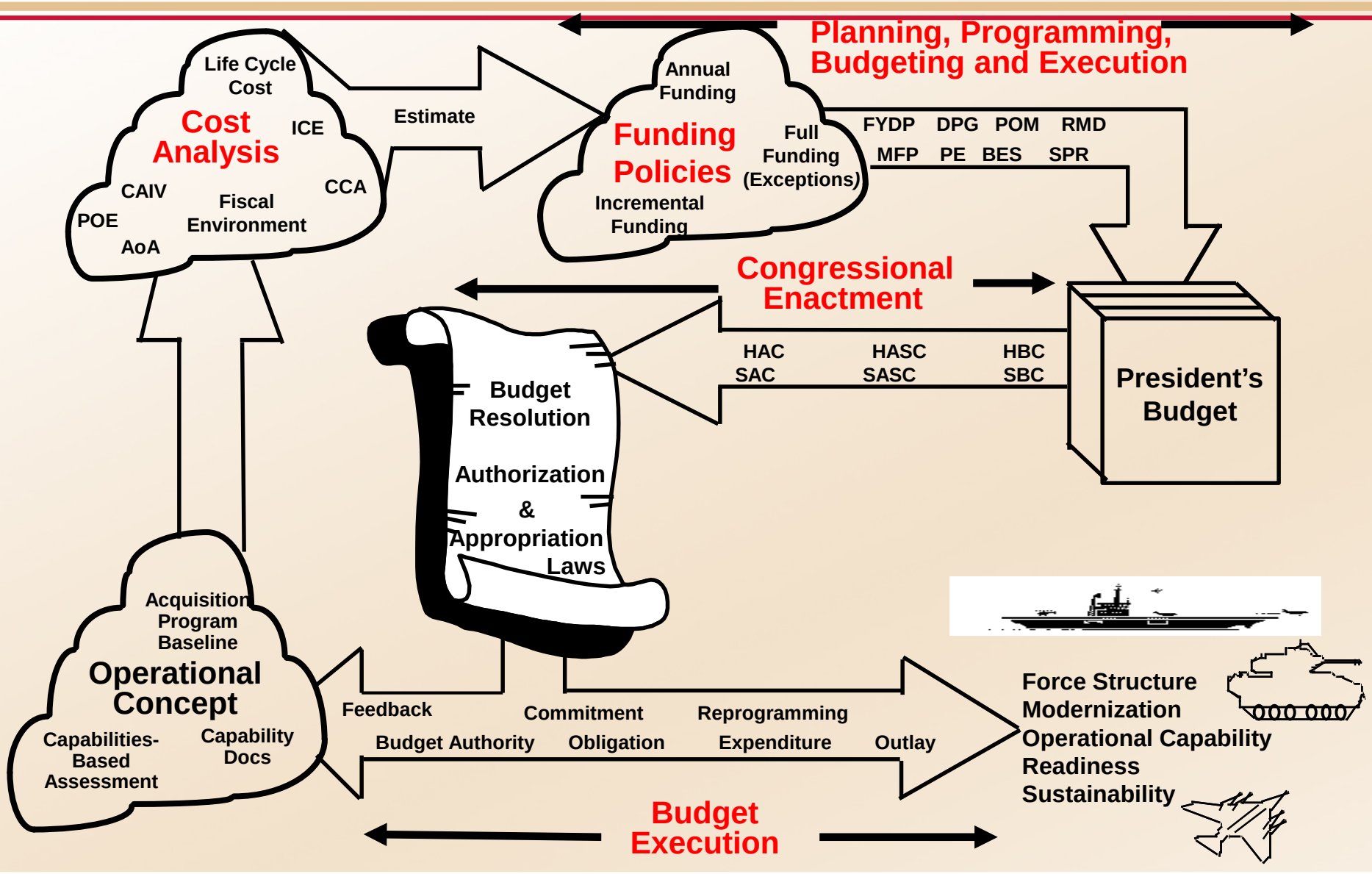
- When do they occur?
- When do you prepare?
- How do you prepare?
- How much time do you put into it?
- Do you attend the brief?
- What’s your experience with staffer day briefs?

“March Madness”

- **Sequestration in affect as of 1 Mar 2013**
- **CRA expires 27 Mar 2013**

NOTE: Default on national debt expected mid-May 2013, if no new action is taken

From Requirement to Capability



Reasons for Poor RDT&E Expenditure Rates

- **Funding budgeted for incorrectly**
  - **Not based on incremental funding policy**
- **Something has happened to change the phasing of the funding requirements**
  - **CRA**
  - **Contract award has slipped**
  - **Technical problems have slowed down contractor's work**
  - **Contractor having staffing problems**
- **The contractor has performed the work but it's not posted in the accounting system**

What should the PM do?

What will the comptroller (service and OSD) do?

What will the staffers do?

Sequestration and the "The Perfect Storm"

FY 2013 Budget Continuing Resolution

Debt Ceiling Breached

December 31, 2012

Expiration of Bush Tax Cuts

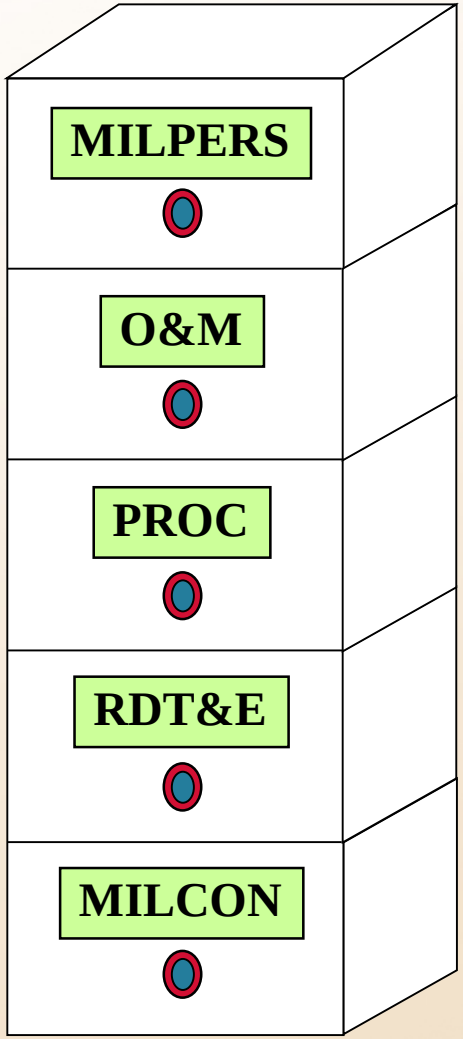
Election
Nov 6, 2012
Lame Duck Congress

Sequester takes effect Jan 2, 2013

Below Threshold Reprogramming

Appropriation	Max Into	Max Out	Level of Control
Research, Development, Test & Evaluation (RDT&E)	Lesser of $10 million Or 20%	Lesser of $10 million Or 20%	Program Element
Procurement (PROC)	Lesser of $20 million Or 20%	Lesser of $20 million Or 20%	Line Item
Operations & Maintenance (O&M)	$15 million	No Limit, Unless specified	Budget Activity
Military Personnel (MILPERS)	$10 million	No Congressional Restrictions	Budget Activity
Military Construction (MILCON	Lesser of $2 million Or 25%	No Congressional Restrictions	Project

Defense Appropriations
"Colors of Money"



Military Personnel (MILPERS)

- Active & Reserve Forces

Operation & Maintenance (O&M)

- Active & Reserve Forces (civilian Salaries, supplies, spares, fuels, travel, etc…)
- Environmental Restoration
- Former Soviet Union Threat Reduction
- Overseas Humanitarian, Disaster, & Civic Aid

Procurement

- Aircraft
- Missiles
- Weapons
- Weapons & Tracked Combat Vehicles
- Ammunition
- Other Procurement
- Shipbuilding & Conversion
- Marine Corps
- Defense wide procurement
- National Guard & Reserves

Research, Development, Test & Evaluation (RDT&E)

- Basic Research
- Applied Research
- Advanced Technology Development
- Advanced Component Development & Prototypes
- System Development & Demonstration
- RDT&E Management Support
- Operational Systems Development

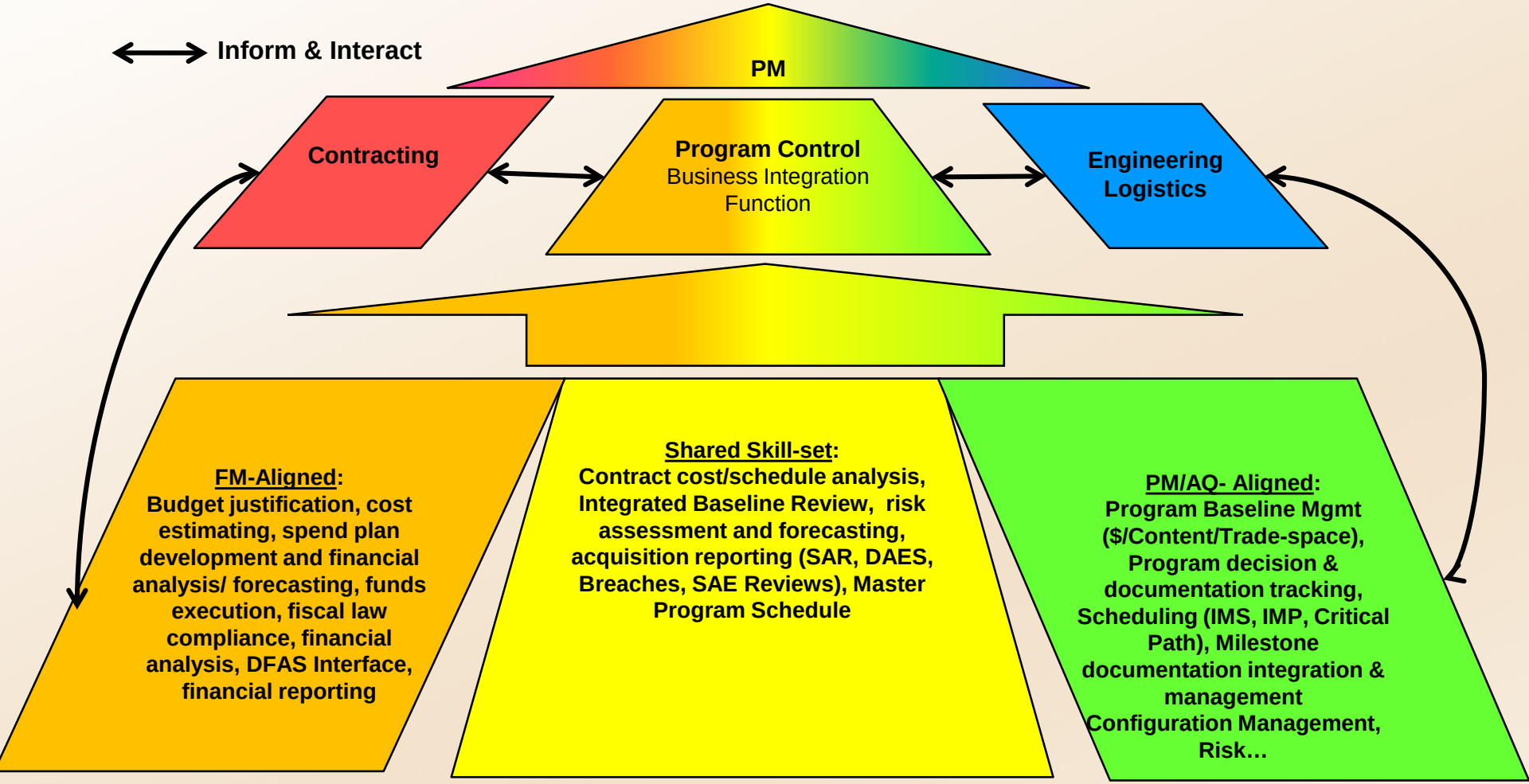
Military Construction (MILCON)

- Facilities
- Family Housing
- Base Realignment & Closure (BRAC)

Other

- Defense Health Program
- Chemical Agents & Munitions Destruction
- Drug Interdiction & Counter-Drug Activities
- Joint Improvised Explosive Device Defeat Fund
- Rapid Acquisition Fund
- Office of the Inspector General

Program Control Revitalization: Spectrum of Functions



Program Control is the GLUE that holds the Program together…
AQ ties it all together through policy!

OSD Comptroller Truths

1. You don’t want a comptroller to solve your problems
2. Requirements without resources is a hallucination
3. Money in motion is money at risk
4. Resources not justified are resources lost
5. If it’s not in the database, it didn’t happen
6. If you don’t execute it, someone will take it – now and probably in the future
7. Comptrollers have long memories, and perception equals reality
8. Requirements should lead resourcing – but in the end the books must balance
9. If everything is a priority, then nothing is a priority
10. It takes creativity to make the complex simple

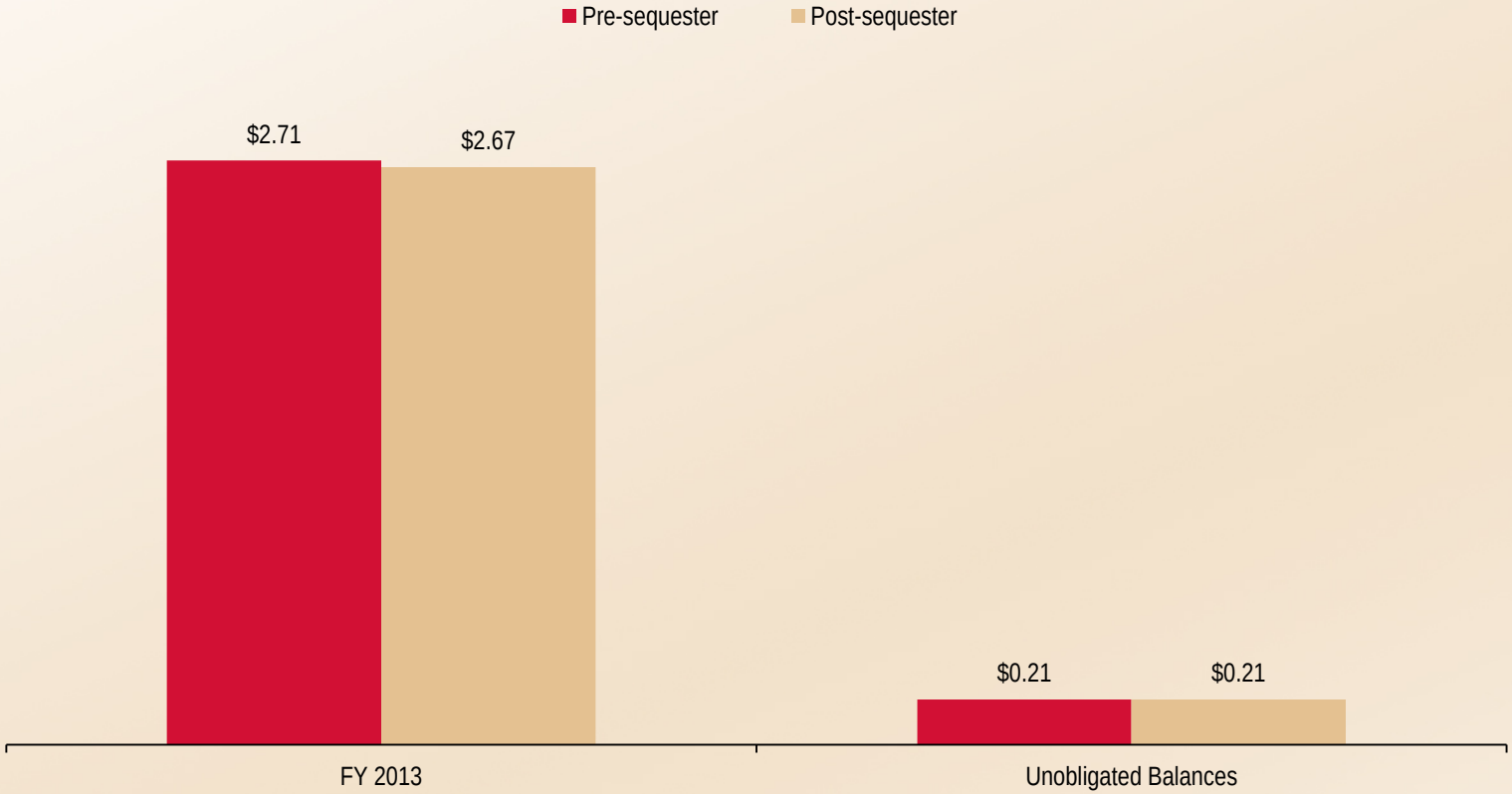
Funding Need to Knows

1. What is the requirement?
2. When do you need it?
3. Why do you need it?
4. Where do you need it?
5. Can you use it when you get it?
6. Will you need more?
7. What appropriation is needed?
8. Do you have a source?
9. Are you a source?
10. Is it legal?

Revolving Funds in 2013 only cut by 1%, with no cuts to prior year money

Pre- and Post-Sequestration Funding Totals, Revolving Funds

Dollars in billions



Percentage Cut	**1%**	**0%**

Source: Department of Defense