



## Budget Execution

Version 5.2 26 MAR 2025 3.1.4 Budget Execution

TIME: 1.0 HR

**TOPIC LEARNING OBJECTIVES**

Upon successful completion of this topic, the student will be able to:

1. Identify the definitions of the following financial terms: budget authority, commitment, obligation, expenditure, outlay, reprogramming, obligation plan, and expenditure plan.
2. Given a scenario, track budget execution through the commitment, obligation and expenditure process.
3. Recognize the apportionment process, and major provisions and intent of the Misappropriation Act, Anti-Deficiency Act and Bona Fide Need Rule.
  - a. Select the appropriate public law that applies to the use of appropriated funds under specific circumstances.
4. Identify the use and importance of obligation and expenditure plans.
5. Assess the impact of the failure to execute funds in accordance with program plans.
6. Recognize why DoD is allowed reprogramming authority.
7. Identify the definition and requirements of the four major types of reprogramming used by the DoD.
8. Given a funding shortfall, apply the rules governing reprogramming of appropriated funds in each appropriation category to resolve the problem.
9. Identify the proper response to a program funding cut and identify the potential impacts on industry.

**STUDENT PREPARATION**

Student Support Material

1. None

Primary References

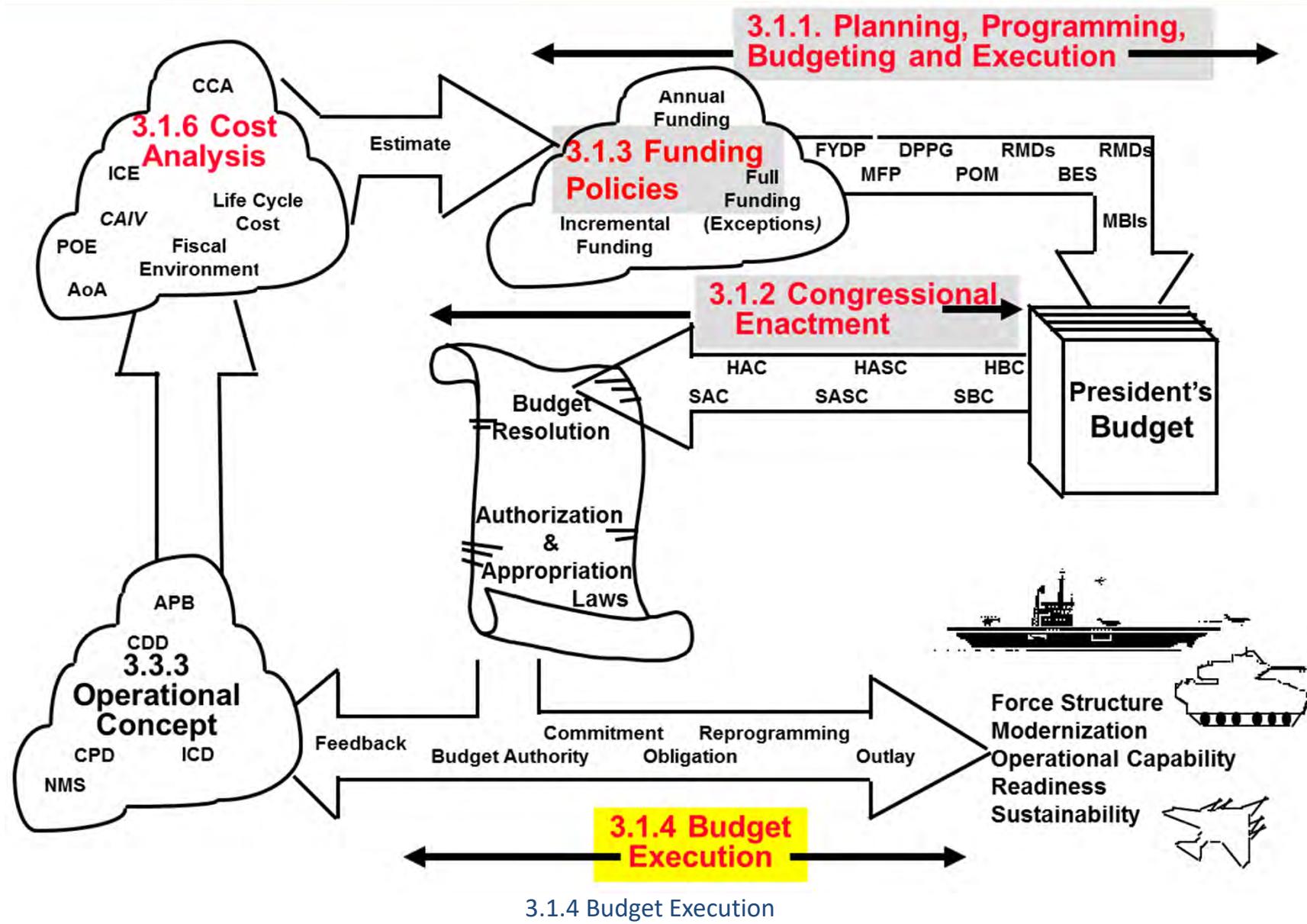
1. DOD 7000.14-R Financial Management Regulation  
<https://comptroller.defense.gov/FMR/>
2. OMB Circular A-11 (latest version AUG 2021)  
[www.whitehouse.gov](http://www.whitehouse.gov)
3. Budget and Impoundment Control Act of 1974  
<https://www.congress.gov/bill/93rd-congress/house-bill/7130>

Additional References

1. DAU WSB 002 – Budget Execution
2. DAU BFM 0050 - PPBE
3. ASN FM&C Budget Execution Course Material
4. Congressional Research Service: DOD Transfer and Reprogramming Authorities 22 JAN 2021:  
<https://fas.org/sgp/crs/natsec/IF11243.pdf>



# From Requirement to Capability





# Overview

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- Financial Terminology
  - Example
- Execution Laws
- Spend Plans
- Reprogramming
  - Congressional Prior Approval
  - Congressional Notification
  - Internal
  - Below Threshold
- Funding Cuts

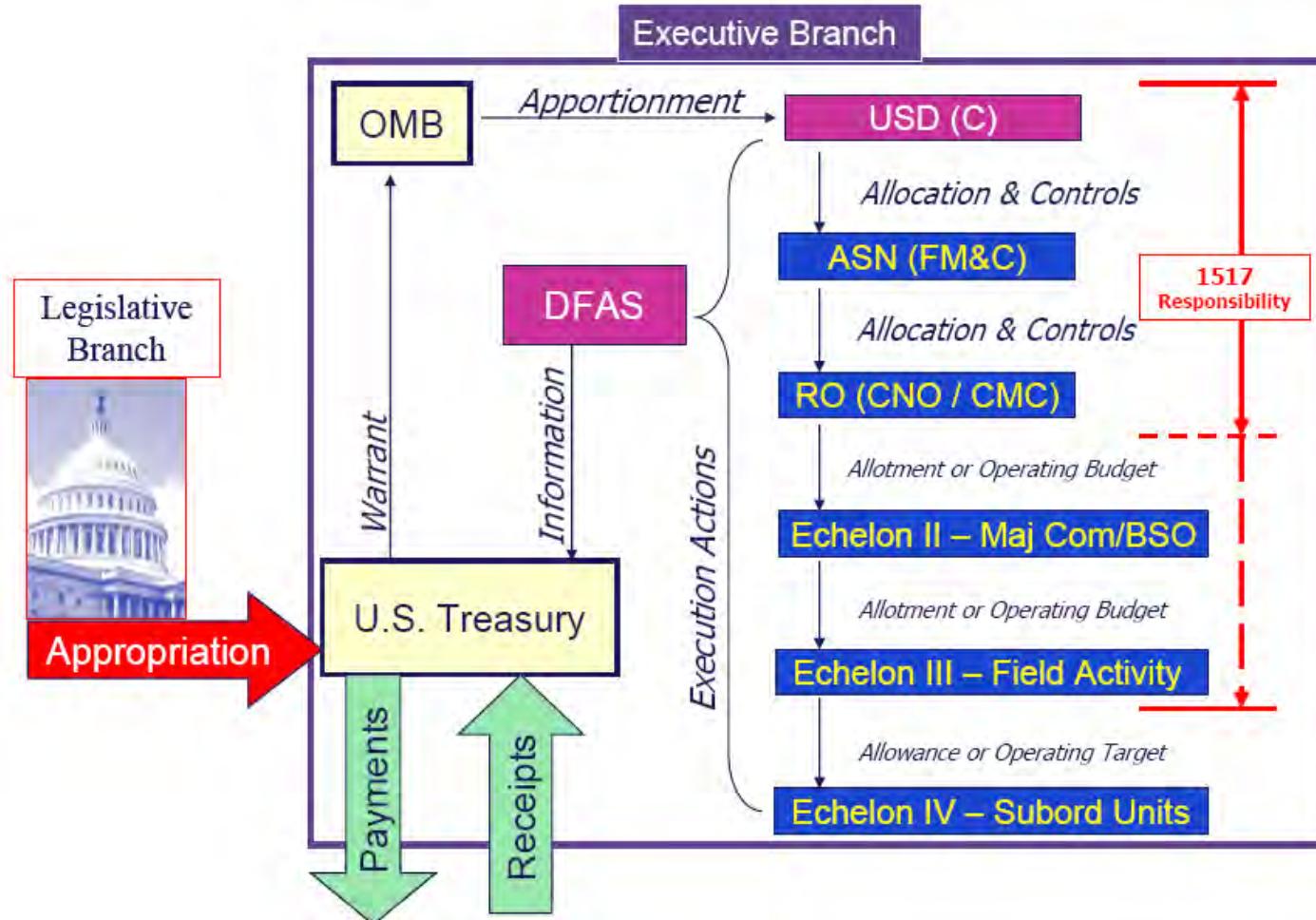


# Financial Terms

- Budget Authority
  - Authority granted by appropriation law to enter into obligations that will result in immediate or future outlays
- Commitment
  - Administrative reservation of funds, usually by the local comptroller, in anticipation of a future obligation
- Obligation
  - Legal reservation of funds to make a future payment of money
- Expenditure
  - Charge against available funds. It results from a voucher, claim, or other document approved by competent authority
- Outlay
  - Occurs when the vendor cashes the expenditure check and money flows from the Treasury to the vendor or supplier



# Appropriated Fund Flow



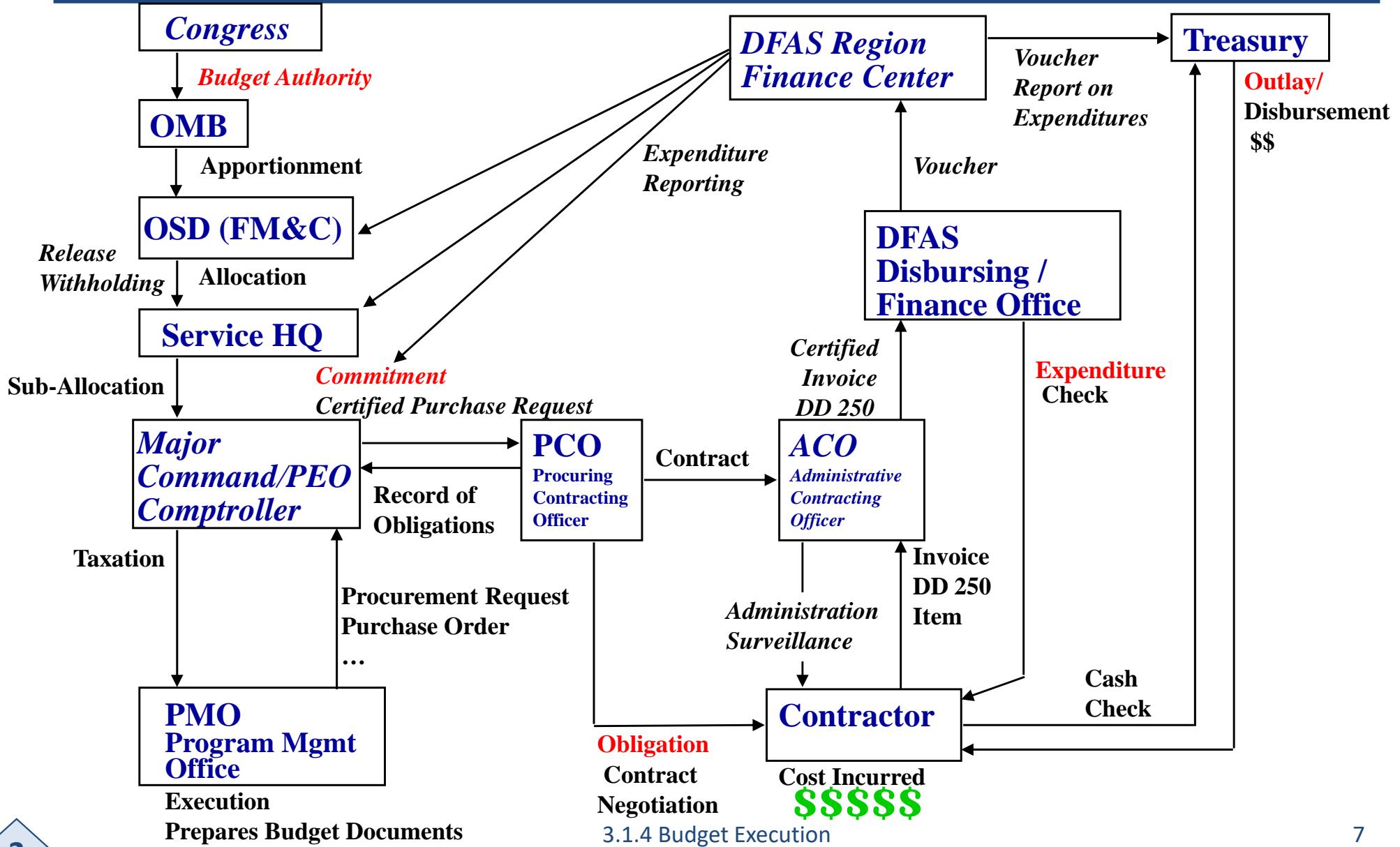
**Apportionment:** The amount of obligations which may be incurred during the specific periods by appropriation (typically quarterly)

**Allocation:** The first subdivision of an authorization, controls total amounts of funds that are used for a particular budget activity

**Allotment:** The authority to obligate/expend funds for a particular purpose



# Financial Terminology Example





# Or more simply....

PMO –  
Submits purchase  
request

Comptroller –  
Certificates Funds

Contracting  
Officer –  
Signs Contract

Finance Office –  
Sends Check

U.S. Treasury –  
Pays Cash

- Commitment

- Obligation

- Expenditure

- Outlay



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# Execution Laws

- Misappropriation Act: **Purpose** [Title 31, U.S. Code, Sec 1301A]
  - Requires funds to be used only for the purposes and programs for which the appropriation was made
- Anti-Deficiency Act: **Amount** [Title 31, U.S. Code, Sec 1341 & 1517]
  - Prohibits making or authorizing an obligation in excess of the amount available (i.e., apportioned)
  - Forbids obligation to pay money from the U.S. Treasury in advance of an appropriation
  - Requires agency to fix responsibility for violations of the Act
- Bona Fide Need Rule: **Time** [Title 31, U.S. Code, Sec 1502]
  - Requires funds to be used only for needs or services in the year of the appropriations obligation window



# Execution Laws

## Which law, if any, is being violated?

- The AEGIS BMD program office decides to obligate funds for the update of its launch system software prior to the appropriation act being passed
- The LCS Program Office decides to use OPN funds for a shortfall in RDT&E
- PMO obligates FY04 RDT&E funds to pay for services to be accomplished in FY08



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# Obligation and Expenditure Plans (a.k.a. Spend Plans)

- Spend plans are required for each:
  - Line item for Procurement
  - Program element for RDT&E
  - Sub-activity group for O&M
- Obligation plan: Month-by-month projection of the amount of available funds for new obligations for each fiscal year; prepared by the PMO
- Expenditure plan: Month-by-month projection of expenditures for each fiscal year of funding. The PMO must prepare an expenditure plan for all appropriation years that have not been completely expended, even if the period of obligation availability has expired

*Spend plans are essential tools for managing financial performance and are based on the Budget Estimate Submission (BES)*



# Impact of Failure to Execute Spending Plans

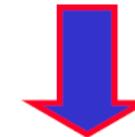
- The comparison of actual funds execution performance to the spending plans serves as a "report card" for the PM
  - Services, defense agencies, and OSD set obligation and expenditure goals each year
  - Indicates success or identifies potential problems to the PEO, service headquarters, and OSD
- Outcomes of not executing to the spending plans
  - **Programs that fall behind in executing funds will become a target for bill-paying exercises**
  - Programs that don't meet obligation and expenditure goals run the risk of losing funding
  - Continued poor execution over several years can also lead to future budget adjustments



# Sample Spend Plan

## FY XX RDT&E Obligation/Expenditure

\$ in Millions



Obligations	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Plan Month	5	5	5	25	2	2	16	15	10	5	5	5
Plan Cum	5	10	15	40	42	44	60	75	85	90	95	100
Actual Cum	3	4	5	6	8	12	32	34	35			
Variance Cum\$	-2	-6	-10	-34	-34	-32	-28	-41	-50			
Var Cum %	-40%	-60%	-67%	-85%	-81%	-73%	-47%	-55%	-59%			

## Expenditures

Plan Month	1	1	3	5	5	5	5	5	5	5	10	5
Plan Cum	1	2	5	10	15	20	25	30	35	40	50	55
Actual Cum	1	1	1	3	3	3	4	25	25			
Variance Cum\$	0	-1	-4	-7	-12	-17	-21	-5	-10			
Var Cum %	0%	-50%	-80%	-70%	-80%	-85%	-84%	-17%	-29%			

How well is this Program Office executing its budget?



# Practical Exercise: Assess the impact of Program funding plan status

O&M	Obligations Benchmarks	Obligations Actual	Expenditures Benchmarks	Expenditures Actual
FY20Q1	30%		25%	
FY20Q2	60%		50%	
FY20Q3	90%		75%	
FY20Q4	100%		100%	

RDT&E	Obligations Benchmarks	Obligations Actual	Expenditures Benchmarks	Expenditures Actual
FY20Q1	20%		10%	
FY20Q2	45%		25%	
FY20Q3	70%		40%	
FY20Q4	90%		55%	

- Given each quarter's actual status, brief the following:
  - What are the impacts of failing to execute funds in accordance with plans?
  - What are options for action in the next quarter?



# Practical Exercise: Assess the impact of Program funding plan status

O&M	Obligations Benchmarks	Obligations Actual	Expenditures Benchmarks	Expenditures Actual
FY20Q1	30%	15%	25%	5%
FY20Q2	60%	15%	50%	10%
FY20Q3	90%	15%	75%	15%
FY20Q4	100%		100%	

RDT&E	Obligations Benchmarks	Obligations Actual	Expenditures Benchmarks	Expenditures Actual
FY20Q1	20%	25%	10%	10%
FY20Q2	45%	50%	25%	20%
FY20Q3	70%	90%	40%	30%
FY20Q4	90%		55%	

- Given each quarter's actual status, brief the following:
  - What are the impacts of failing to execute funds in accordance with plans?
  - What are options for action in the next quarter?



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# Reprogramming

- Process of redirecting funds for purposes other than those contemplated at the time of appropriation
  - Reprogramming rules are based on agreements between DoD and Congress
  - DoD informs Congress of all reprogramming via a semi-annual report
- Four types of reprogramming actions:
  - Congressional Prior-Approval (above threshold or PA)
  - Internal Reprogramming (IR)
  - Below Threshold Reprogramming (BTR)
  - Letter Transfer

*Congress recognizes the need for some flexibility in budget execution*



# Reprogramming: Congressional Prior Approval (PA)

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- Required for actions involving:
  - Congressional Special Interest Items
  - Increase procurement quantity of major end item
  - Use proceeds to replace certain items sold from inventory
  - Use of general or special transfer authority
  - Exceeds established thresholds for Below Threshold Reprogramming (BTR)
    - \$15 MIL MILPERS, O&M, Procurement, RDT&E
    - Establishes a new program or cancels an existing one
- SECDEF requests approval from HAC/SAC/HASC/SASC and intelligence committees, if applicable
- Example: Virginia Class Submarine (FY04 Request)
  - Re-aligned \$29.8 million in SCN 04/08 Appropriation
  - Transferred \$10.2 million in OPN 04/06 Appropriation and \$9.0 million in RDT&E 04/05 to SCN



# Reprogramming: Internal

- Creates an audit-trail within the DoD: actions that do not require Congressional approval and are **used to move funds without changing their purpose of Congressional intent**
- Applies to:
  - Approval to increase procurement quantities for major end items not requiring PA of defense committees
  - Reclassification of funds for proper execution: transfer to different line item, program element, or application without changing substance of program
    - Example: Congress added \$1 million to the RDT&E, Navy account for a particular effort but the effort should really be funded in the RDT&E, Defense-Wide account, DoD may transfer \$1 million from the Navy account to the Defense-Wide account via internal reprogramming
  - Use of transfer authority to execute funds from designated transfer accounts
    - Appropriations set up to be transferred to other appropriations for execution (i.e., Environmental Restoration, Drug Interdiction)
    - Example: The Environmental Restoration, Defense appropriation. The funds provided in this appropriation are internally reprogrammed to appropriate procurement, RDT&E, O&M, or MILCON appropriations for use on environmental projects



# Reprogramming: Below-threshold

- Below-threshold reprogramming (BTR)
  - Refers to reprogramming actions authorized at the component level below dollar thresholds established by the Congress
  - Does not require Congressional approval because they do not meet certain dollar thresholds
  - Is controlled and approved by local or service/defense agency comptrollers (level of control)
  - Does not require Congressional involvement
    - May require notification

*Most reprogramming actions that involve defense systems are accomplished using BTR*



# Below Threshold Reprogramming Limitations

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- A BTR threshold is established for each appropriation and allows funds to be reprogrammed internal to the appropriation without obtaining congressional prior approval to finance cost increases to existing programs
- BTR **cannot** be used to:
  - Transfer funds that require Congressional involvement
    - e.g., Congressional prior approval
  - Change the appropriation category of any funds
    - e.g., Change RDT&E funds into O&M funds
  - Change the FY of any funds
    - e.g., Change FY20 funds into FY21 funds
  - Violate Congressional intent
    - e.g., increase funding lines specifically reduced by Congressional action



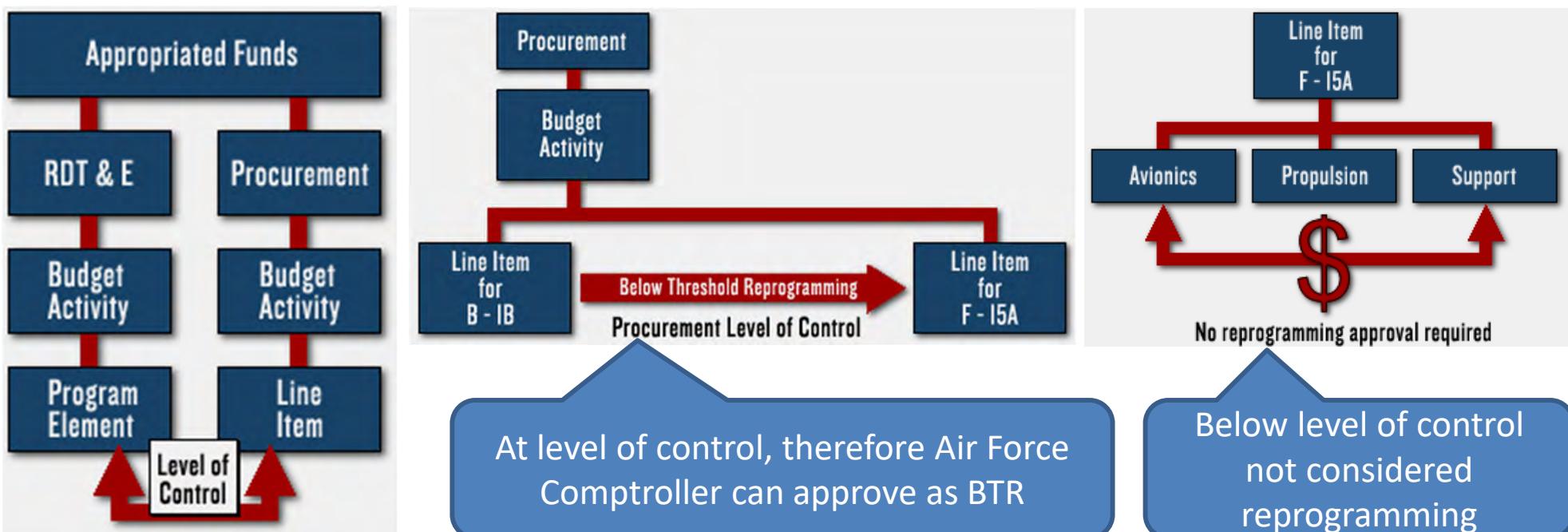
# Below Threshold Reprogramming Limitations

- A BTR shall not exceed the established thresholds
  - **\$15 million threshold** for reprogramming funds within MILPERS, O&M, Procurement, RDT&E
  - \$2 million for MILCON
- Example: Assume it is Q2 FY22 and PEO IWS has identified a WPN funding shortfall of \$5M within the Rolling Airframe Missile (RAM) Program. The PEO IWS comptroller has identified the following funding surpluses within the BSO. Which one(s) may they target for a BTR to alleviate some/all of the RAM Program shortfall?
  - A. ESSM FY22 RDT&E \$4M
  - B. ESSM FY21 WPN \$2M
  - C. RAM FY22 O&M \$1M
  - D. CIWS FY22 WPN \$2M



# Level of Control

- The reprogramming thresholds are applied at a certain level of control for each Appropriation Category
  - Realigning funds between activities that are below the level of control for that Appropriation Category does not require a reprogramming action - this type of funds transfer can be approved by the program manager
  - Example:





# Letter Transfer

- Reprogramming actions that are used to process congressionally directed transfers, such as transfers from the Defense Health Program to the Department of Veterans Affairs



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# Addressing Funding Cuts

- Programs address funding cuts with well-written impact statements
  - An impact statement is an assessment of the effects that a budget cut will have on a program
- General rules when writing impact statements:
  - Provide specific, credible impacts
  - Use simple language and spell out acronyms for reviewers who may not be familiar with your program
  - Be prepared to follow through with programmatic changes cited in the impact statement



# Addressing Funding Cuts

- Well-written impact statements should include:
  - Operational impact
    - Capability to warfighter/user
    - Quantify length of delay
    - Describe effects of delay/non-receipt of the capability
  - Business case
    - Describe amount and timing of projected cost increases stemming from the loss of funding
  - Policy non-compliance
    - If policy or direction from Congress or senior DoD leadership might be violated as a result of the program's loss of funding, explain what policy will be violated and why this will be difficult or impossible to avoid
  - Program impact
    - If the loss of funding will cause the program to deviate significantly from its Acquisition Program Baseline (APB), describe why this is the case
    - Program impacts are usually viewed as less serious than operational impacts, therefore, trace program impacts to operational impacts whenever possible



# Practical Exercise: Impact Statements

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- Impact Statement 1: Will lose one man-year of Contractor support needed to produce ABC required item.
- Is this a good impact statement?
- How should we rewrite the impact statement?



# Practical Exercise: Impact Statements

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- Impact Statement 2: Reductions in launch operations and special study support.
- Is this a good impact statement?
- How should we rewrite the impact statement?



# Funding Cuts: Impacts on Industry

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- Bidders may have to revise their proposals to reflect any changes in price and/or performance and schedule requirements
- If already on contract, Contractor may have to shift resources and personnel to other efforts
- Overhead rates may go up with less work to spread their operating costs over
- Will Cost/Should Cost analysis (more info in 3.1.6) is one way to justify current budget by showing cost savings already identified and implemented



# Summary

## TERM

1. Budget Authority
2. Commitment
3. Obligation
4. Expenditure
5. Outlay

## DEFINITION

- A. Cash paid out of the US Treasury
- B. Legal reservation of funds  
(or when contract signed)
- C. Provided by Congress in the Appropriations Act
- D. Administrative reservation of funds
- E. Occurs when check written



# Summary

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- Name the three execution laws and explain each.



# Summary

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- What document do programs use to address program funding cuts?
- (True/False) Program funding cuts do not impact industry.



# Appropriation Subdivisions

- Every appropriation is broken down into several subdivisions
- As a general rule, most appropriations are first broken down into budget activities (BA) that cover the major types of efforts encompassed by the appropriation (MILCON is an exception)

**Appropriation Structure**





# Appropriation Subdivisions

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- RDT&E appropriation:
  - Each BA is divided into program elements
  - Each program element consists of one or more projects
  - Congress authorizes and appropriates funds for RDT&E efforts at the program element level
- Procurement appropriations:
  - Each BA is divided into line items
  - Each line item encompasses a particular weapon system, or group of small systems or spares
  - Congress authorizes and appropriates funds for Procurement efforts at the line item level
- O&M appropriation:
  - Each BA is divided into activity groups, which in turn are divided into sub-activity groups
  - Congress authorizes and appropriates funds for O&M at the budget activity level
- MIPLERS appropriation:
  - Each BA is divided into budget sub-activities
  - Congress authorizes and appropriates funds for MILPERS at the budget activity level
- MILCON appropriation
  - Each BA is divided first into immediate subordinate accounts, then into specific projects
  - Congress authorizes and appropriates funds for MILCON at the project level