



## Field Activity Financial Management

TOPIC LEARNING OBJECTIVES

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

1. Recognize the types of cost contained in the different cost categories.

2. Recognize the two types of financial management systems.

3. Identify activities that are typically “Mission Funded” (General Funded (GF)) and those that are typically Working Capital Funded.

4. Recognize how the General Fund financial system operates.

5. Recognize the schedule for creating and reviewing an Expense Operating Budget (EOB) for a General Fund funded activity.

6. Recognize the definition of Navy Working Capital Fund Terminology (Net Operating Result and Accumulated Operating Result).

7. Recognize how the Navy Working Capital Fund (NWCF) System operates.

8. Identify the general criteria an activity must satisfy to become part of the Navy Working Capital Fund.

9. Recognize the schedule for the development of a budget for a Navy Working Capital Fund activity.

10. Recognize the major factors used to determine a stabilized labor rate.

11. Identify the documents used to task and transfer funds and the conditions for their use.

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)

Additional References

1. None

2



# Review of PPBE Process



*The art of distributing resources equitably*



# Overview

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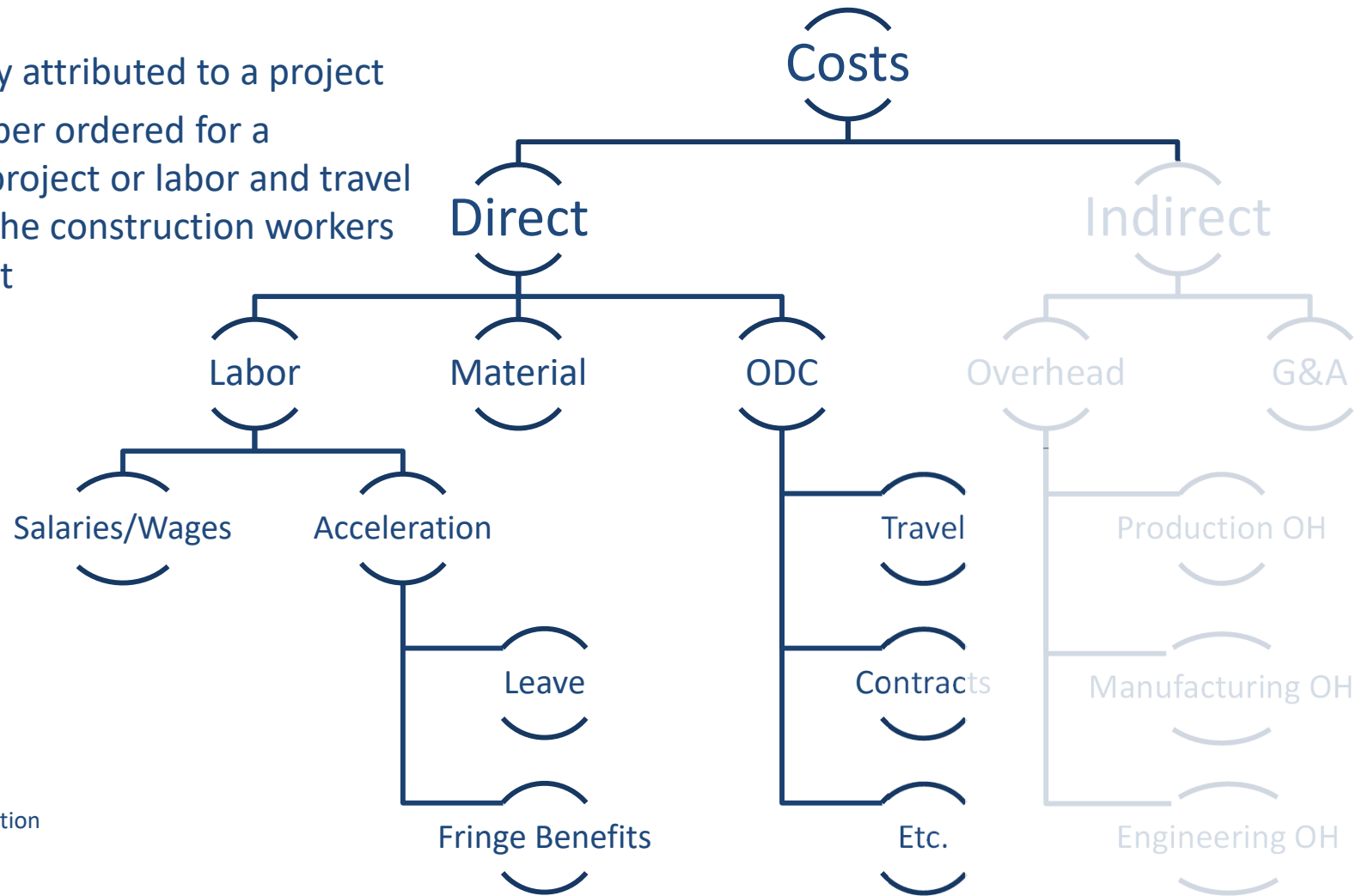
- Cost Terminology Review
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# Cost Categories

## ■ Direct Costs

- Can be directly attributed to a project
- Example: lumber ordered for a construction project or labor and travel expenses for the construction workers on that project

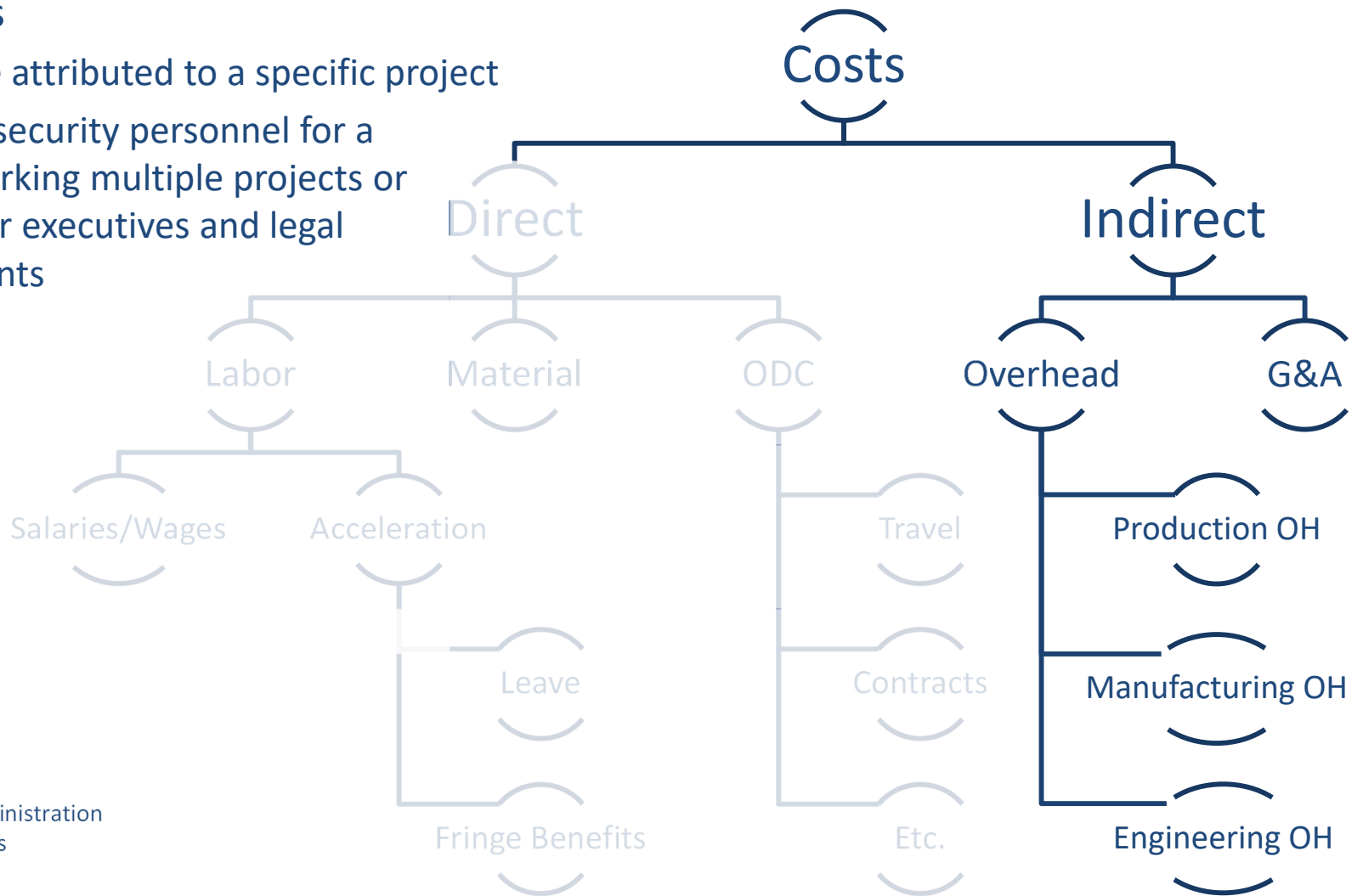




# Cost Categories

## ■ Indirect Costs

- Cannot be attributed to a specific project
- Example: security personnel for a facility working multiple projects or salaries for executives and legal departments



G&A: General and Administration  
ODC: Other Direct Costs  
OH: Overhead



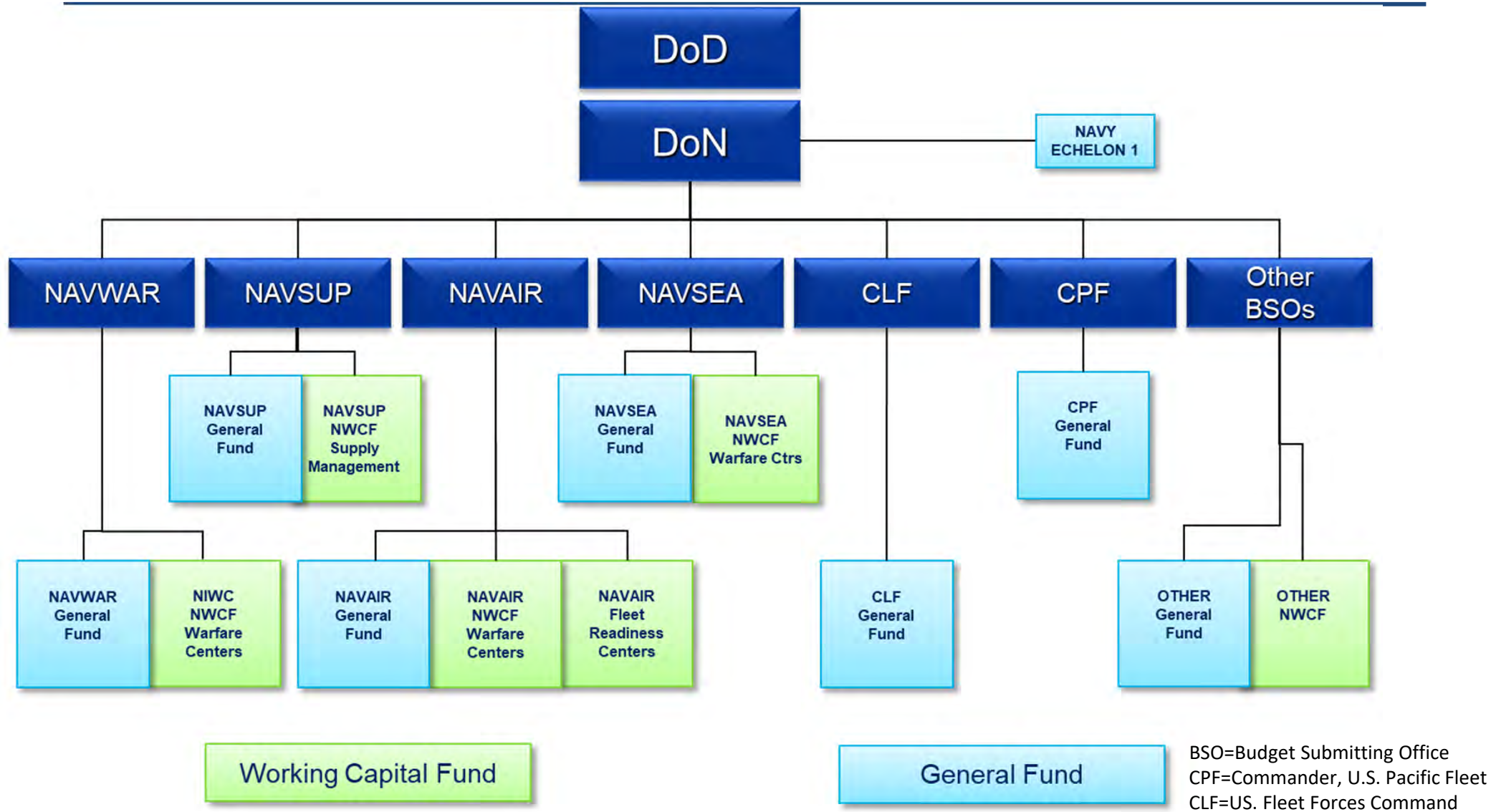
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# Activity Examples





# 2 Types of Financial Systems

- General (or Mission) Funded Activity
  - Receives fund allocations from the Congressional budget to accomplish their mission and pay their expenses
  - Organization funded through appropriations
  - “Checking Account” management
  - **Financial goal: budget such that allocated funds are adequate to execute mission but not excessive**
- Navy Working Capital Fund (NWCF) Activity
  - Receives funds from multiple customers (other commands) to allow for executing tasking within assigned mission
  - Command does not receive funding from parent command via the normal apportionment process\*
  - Receives no appropriated funding directly
  - “Credit Card” management
  - **Financial goal: set pricing such that revenues and expenses break even over time**

\*Some NWCF commands also have mission funded UICs, but the funds and resources cannot be mixed



# Activity Examples

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## ■ Mission Funded Activities

- Ship maintenance activities
  - Naval Shipyards
  - Regional Maintenance Centers
  - Ship Repair Facilities
- Acquisition activities
  - Supervisors of Shipbuilding
  - Program Executive Offices
- Systems Commands (HQ only)
- Operating forces
  - Fleet commanders
  - Type Commanders (TYCOM)
  - Ships
- Most other activities
  - EDO School

## ■ NWCF Activities

- SYSCOM Echelon III activities
  - NAVSUP Fleet Logistics Centers
  - NAVAIR Warfare Centers
  - NAVSEA Warfare Centers
  - NAVWAR Warfare Centers
  - NAVFAC Facility Engineering Commands and Expeditionary Warfare Centers
  - Naval Research Laboratory
- Military Sealift Command
- Depot maintenance (non-ship)
  - Fleet Readiness Centers (aircraft)
  - Marine Corps Depots



# Overview

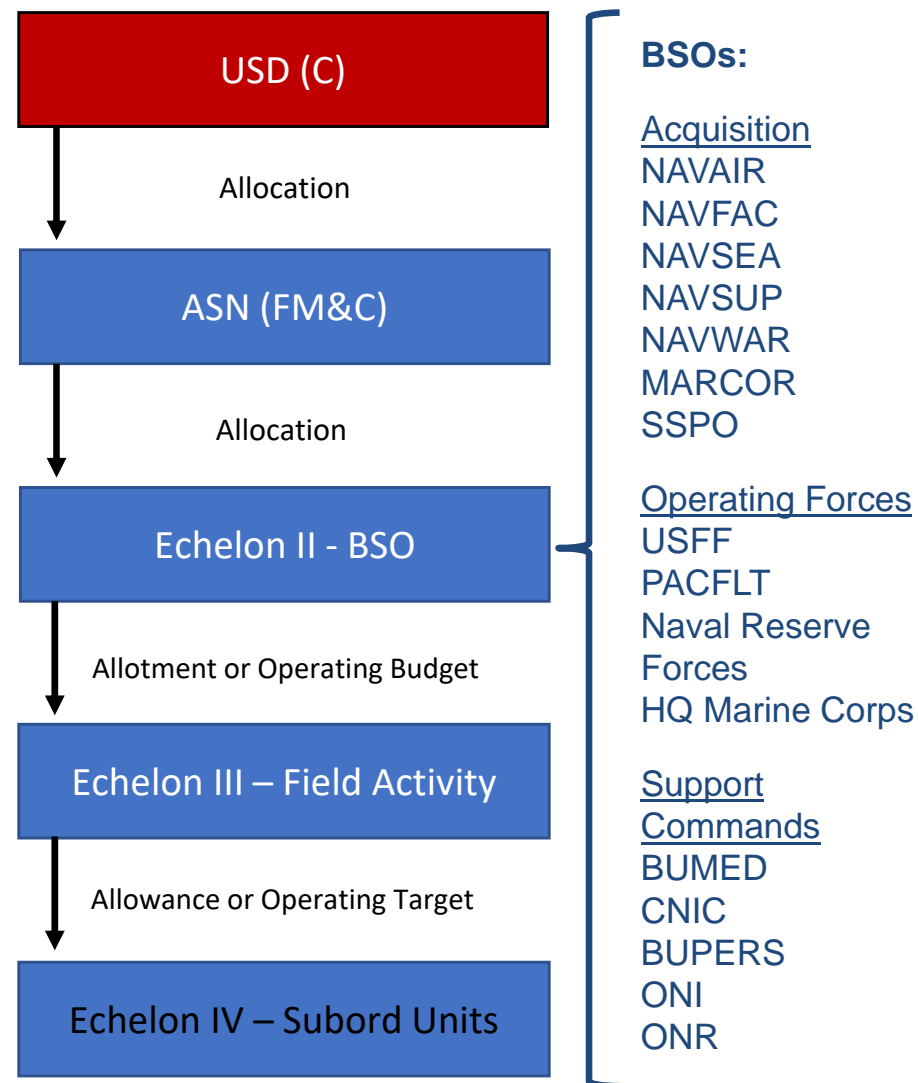
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# General Fund Operation

- Appropriated funds are distributed via chain of command to organizations to fulfill their designated purpose (mission)
- ASN (FM&C) is the Echelon I activity that allocates funds to heads of major commands at Echelon II level
- Echelon II comptrollers manage funds and are referred to as Budget Submitting Offices (BSOs). BSOs manage and distribute funds to lower echelons in the form of allotments and Expense Operating Budgets (EOBs)
- Echelon III organizations provide allowances and operating targets (OPTAR) to their subordinate commands





# Appropriated vs Reimbursable Funds for Mission-Funded Activities

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- Appropriated funds pay for:
  - Mission labor costs (civilian salaries)
  - Mission non-labor costs (material, travel, contracts)
  - All indirect costs (overhead)
- Reimbursable funds:
  - Mission-funded activities can also receive funds from other activities (customers) in exchange for items or services via funding documents
    - Example: If EDO school needs a contract for services, we cannot let the contract ourselves because we have no contracting authority. Instead, we send funds (via funding document) to our regional NAVSUP Fleet Logistics Center who does it on our behalf (for a fee)
  - For mission-funded activities, reimbursable funds pay for:
    - Direct labor actual costs associated with the project
    - Other direct costs (material, travel, contracts) for the project
    - **No indirect costs** - those **must** be paid for by the performing activity's mission funds



# GF Budgeting Cycle (budget for execution following year)

SEPT/OCT:

End of the Current FY  
Start of the next FY

You get your EOB  
And you EXECUTE

MAY

JUN

JUL

AUG

Review the current  
Year Budget

“Mid Year”  
Review

Answer all your  
Budget Data  
Calls

Submit next  
Year’s  
(a.k.a. Future)  
Budget

Marks and  
Reclamas

“Summer  
Review”



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# What is the NWCF?

- A reimbursable operation that provides goods and services to the Department of Defense and other customers at rates necessary to recover all material and operating expenses
- A **revolving fund** that operates like a commercial business, but focused on mission requirements vice making a profit
- Receives no direct or appropriated funding from Congress
- NWCF is one of the four Defense Working Capital Fund (DCWF)
- DWCF is non-expiring funds (“no year” money) provided for and amended each year in the Defense Appropriations Act
  - The amount is adjusted each year based on carryover from previous years and projected orders for the WCF activities in the upcoming year
  - Routed as part of PPBE process like all other budget line items
- FMB manages over all corpus, with each SYSCOM responsible for their execution
  - i.e., each of the 10 NAVSEA Warfare Centers are considered the NAVSEA corpus in practice



# Criteria for Inclusion into NWCF

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- Criteria required to be included within a WCF:
  - The activity has an **identified output** (products and services) that serve DOD agency requirement
  - The activity must have an **accounting system to collect cost** for producing the output
  - Customers **paying for output are identified** so resources can be aligned to the customer's account
  - The activity must have evaluated the advantages and disadvantages of the **buyer-seller relationship**



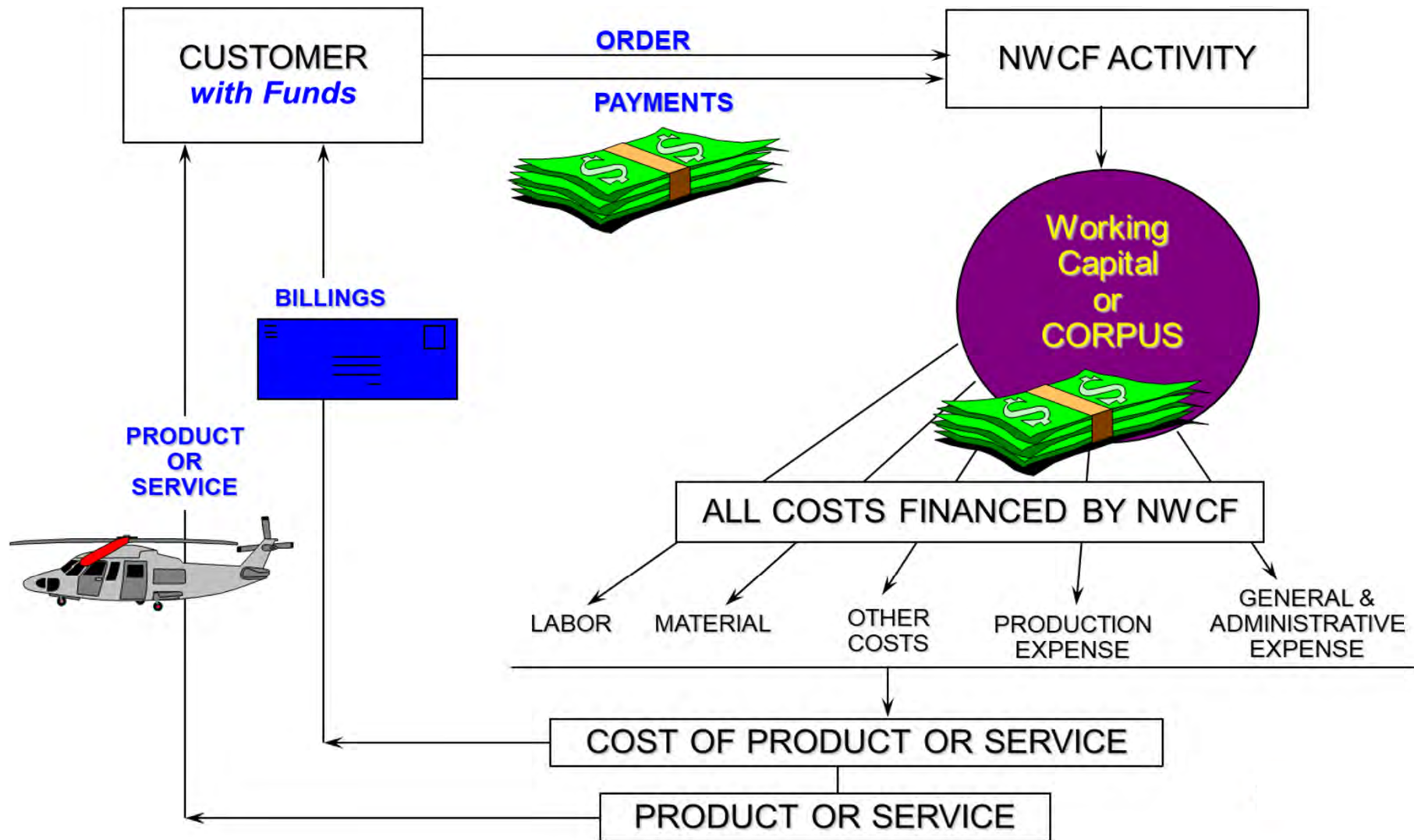
# NWCF Cycle of Operations

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- Congress provided corpus to begin operations
- NWCF activity receives reimbursable work request from customers for services via a funding document
- NWCF activity performs work and ***all costs (direct and indirect)*** are financed by the NWCF corpus (cash)
- Costs are applied based on established stabilized rates
  - Stabilized rates are maintained during year of execution helping customers plan and budget
- The customer is billed for costs incurred for services performed
- The customer pays bill which reimburses the NWCF corpus

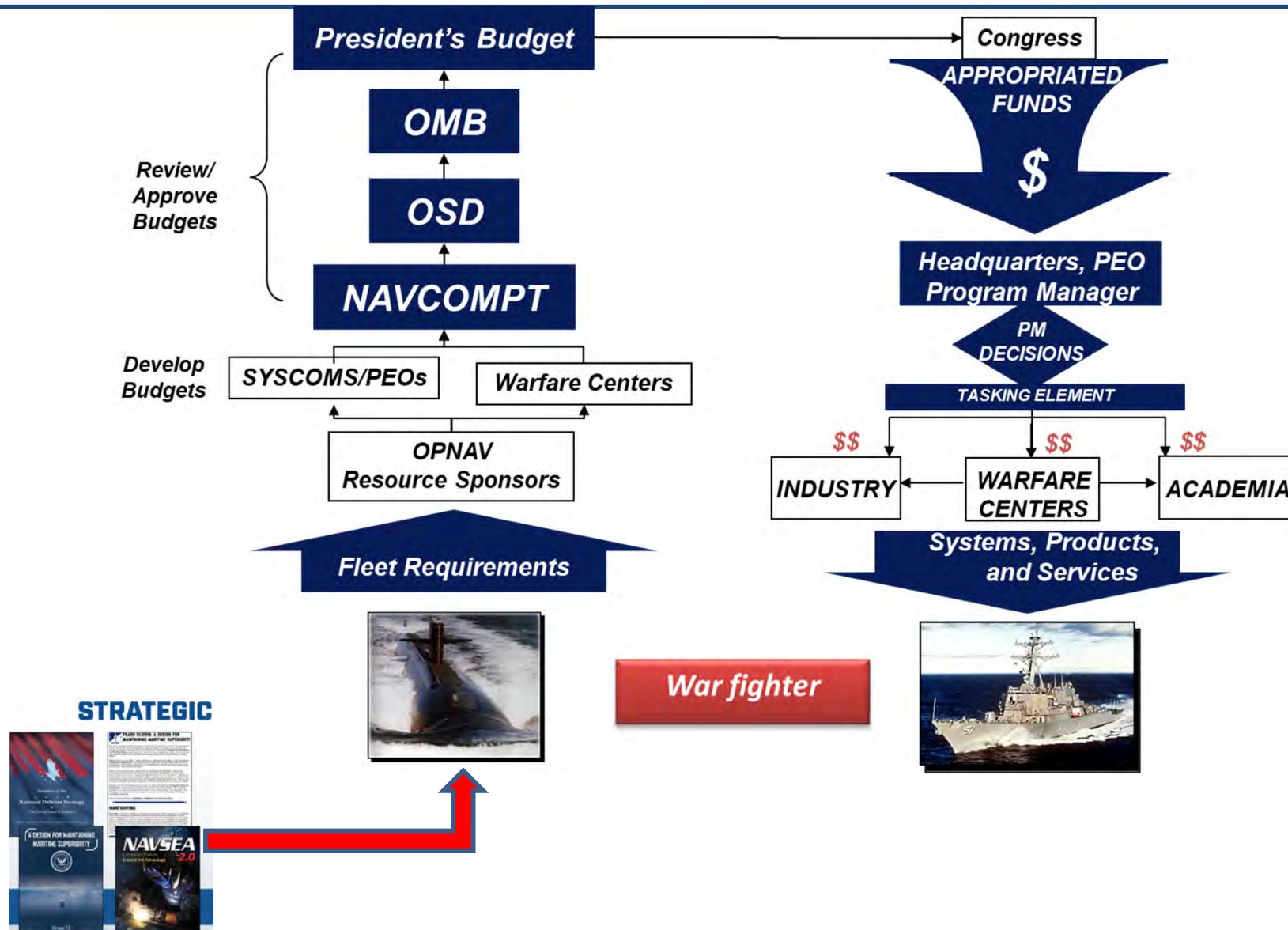


# NWCF Cycle of Operations





# General and Navy Working Capital Fund Flows





# Stabilized Labor Rates

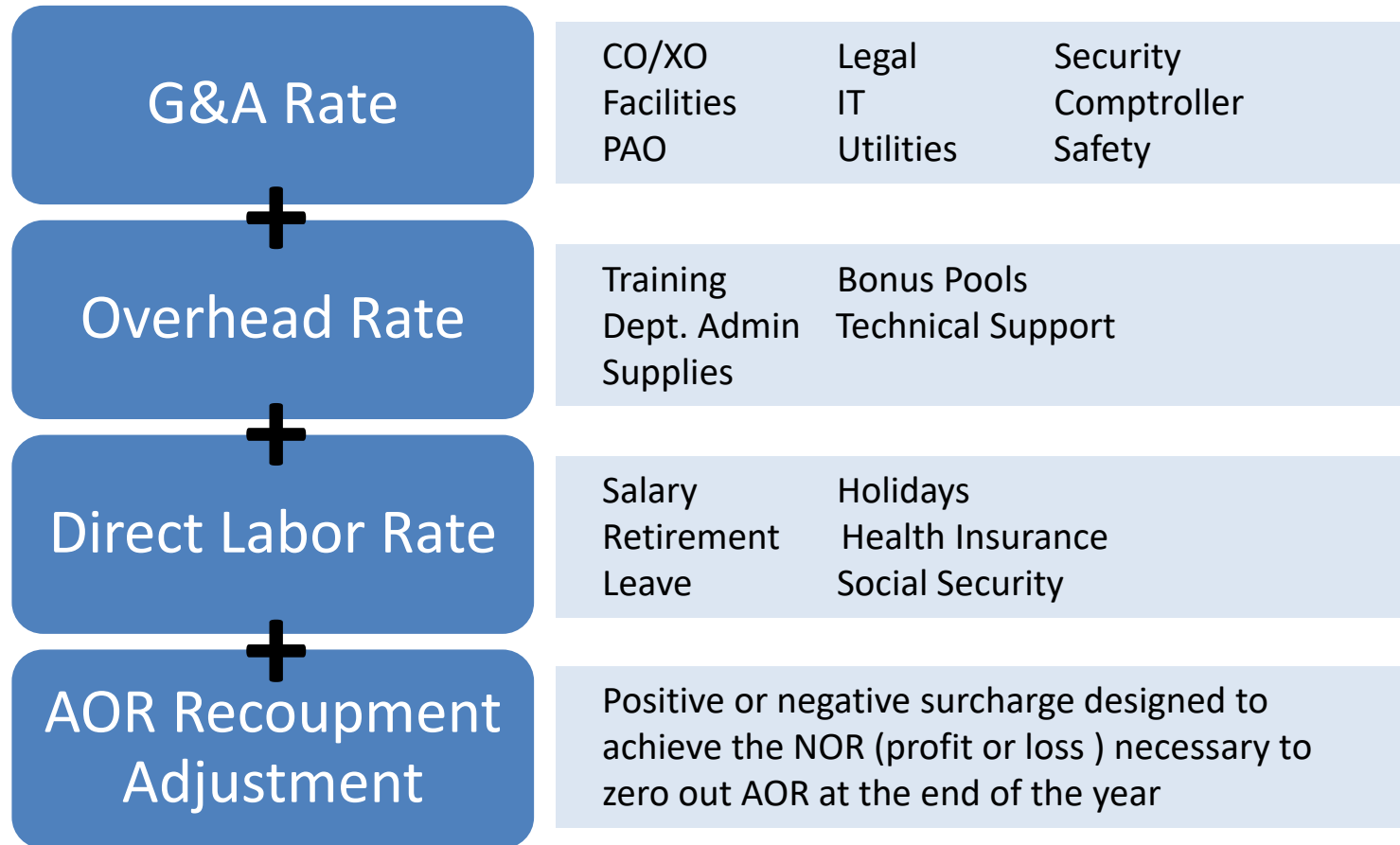
- Stabilized Labor Rates (SLR)
  - Charged to customers to reimburse a NWCF activity for work performed
  - Required to be established during the budget process at levels estimated to recover:
    - Budgeted costs of goods or services to be provided including all G&A overhead costs
    - Prior period gains and losses
    - Approved surcharges for capital assets acquisition
- The budget process is the mechanism used to ensure adequate resources are budgeted in the customers' appropriated fund accounts to pay the established rates and prices
- Provides budget stability to customers

$$\frac{(\text{Direct labor \$} + \text{Overhead \$} + \text{AOR recoup \$})}{\text{Direct hours}}$$



# Stabilized Labor Rate Computation

Stabilized  
Labor Rate  
(SLR) =



$$\text{G\&A Rate} = \frac{\text{G\&A Budget}}{\text{\# Total Predicted Labor Hours}}$$

*SLR consists of (1) direct labor, (2) all indirect expenses, (3) AOR recoupment*



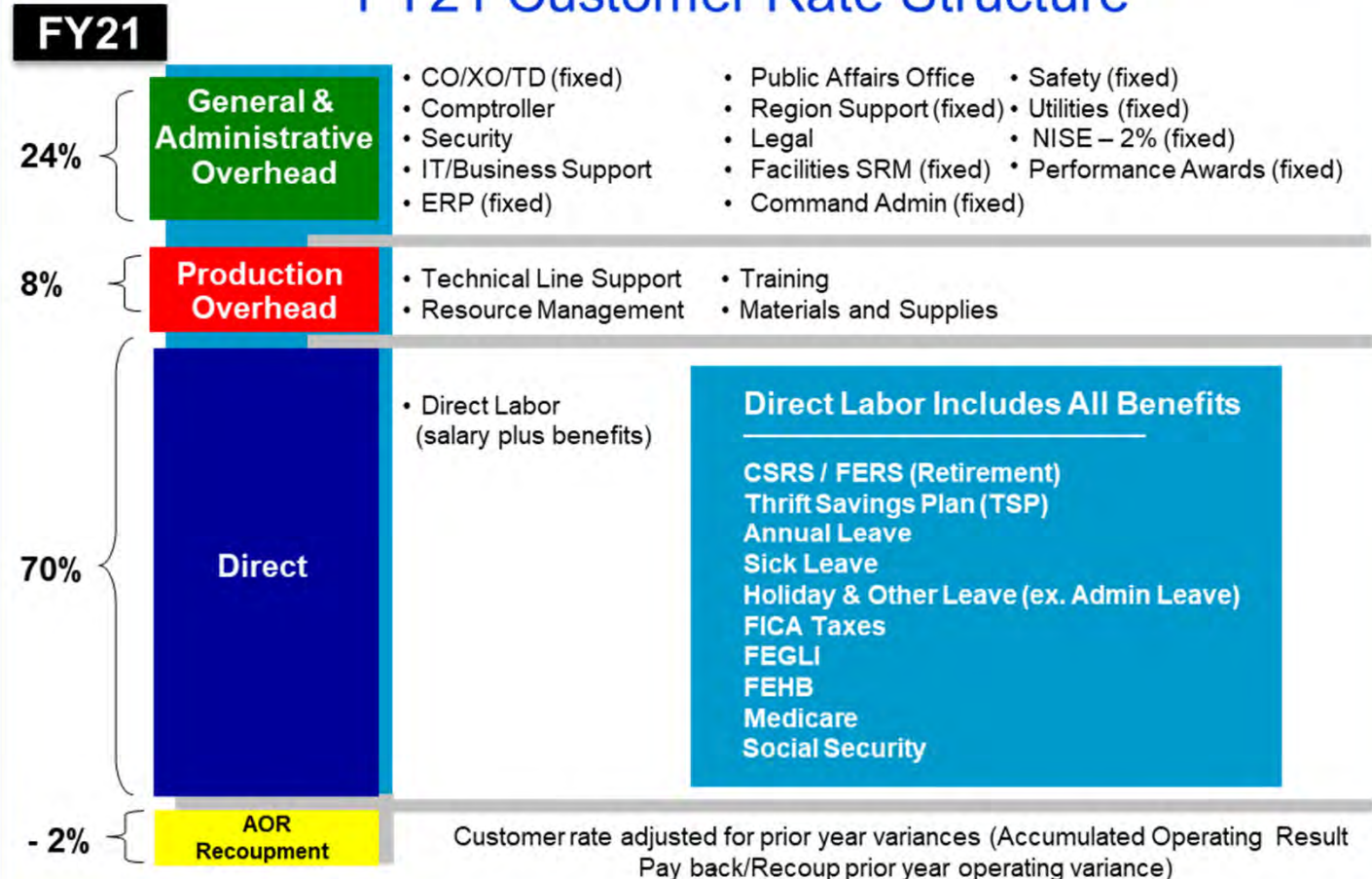
# Stabilized Labor Rate Example

**Customer Rate =**  
(\$ Per Hour)

{Cost of Direct Labor + Overhead Expenses ± AOR Recoupment}  
Civilian & Military Direct Hours

- Rates are an output of the NWCF budget process and used to price customer budgets
- NWCF activities budget to break-even (no gain or loss) in the budget year
- Any gains or losses are returned to customers via stabilized rate adjustments in the out years (FY+2)
- Overhead is the cost (not specific to a customer) to operate and maintain a NWCF activity
- All customers, Naval and non-Naval pay the same rates for services

## FY21 Customer Rate Structure





# Operating Results

- Net Operating Result (NOR)
  - Used to monitor how closely a NWCF activity performs compared to its budget
  - Current year's profit or loss based on revenue and expenses
  - $NOR = Revenue - Expenses$
- Accumulated Operating Result (AOR)
  - The gains and losses since inception
  - $AOR (current\ year) = AOR (previous\ year) + NOR (current\ year)$
  - Used to build SLR and set prices
  - While the AOR is managed at Navy level, each SYSCOM must manage their AOR (vs each command)
- SLRs are set to generate a breakeven AOR of \$0 in the Budget Year
  - Customer rates are increased or decreased based on the NOR to achieve a zero AOR in the budget year
    - A gain decreases rates two years out (customer pays lower prices in later years)
    - A loss increases rates two years out (customer pays higher prices in later years)

*NWCF activities set their rates in an attempt to get AOR to zero*



# NWCF Budget Timeline

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- February - April: NWCF activities begin internal budget formation
- April - May: NWCF activity level budgets are consolidated into an NWCF activity group budget (at the headquarters level) and submitted to the appropriate Budget Submitting Office (BSO)
- May - June: The BSO submits the NWCF activity group budget to FMB
- July - August: Based on adjustments approved during the DoN budget review, the NWCF activity group budget is submitted by FMB to DoD
  - This submission becomes the Budget Estimate Submission (BES)
- September: NWCF activity group budget is submitted by DoD to Congress
- February: President signs the budget on the first Monday in February
  - President's Budget sets stabilized rates for the Budget Year, 18-24 months in advance



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# Customer funding

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- Customer funding received at a NWCF activity is accepted on either a reimbursable basis or on a direct citation of funds basis
  - Reimbursable
    - Costs charged to NWCF corpus
    - NWCF activity responsible for payment, then bills customer for requirement
    - 51/49 rule applies to some DoD funds accepted on reimbursable basis
  - Direct Cite
    - For commercial contracts only
    - Costs not charged to NWCF corpus
    - Customer's line of accounting cited on awarded contracts
- Cost Stages:
  - Committed (funding document received)
  - Obligated (contract awarded)
  - Costed (work is performed or material/equipment received)



# Carryover

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- Consist of the dollar value of reimbursable work that has been ordered and funded by customers but not yet completed at the end of the fiscal year
- $\text{Carryover} = \text{Available Balance (Cash)} + \text{Commitments} + \text{Obligations}$ 
  - Costed transactions are not included in carryover
- NWCF activities require some level of carryover funding to start the new Fiscal Year
- Congress views excess carryover as an indication of too much funding
  - If a NWCF activity exceeds its carryover ceiling, the customer (PEO) may take marks (reduction in budget) in a future year
- Funds not included in carryover calculation:
  - Non-Federal, Non-DoD, and Base Realignment and Closure (BRAC)
  - Funds accepted direct cite



# Funding Documents

- Funding Documents are vehicles with which funds can be transferred from one activity to another in exchange for goods and/or services
- Come in many formats. Some common ones in the Navy:

Document	Statutory Authority	When Issued As	Use For
NAVCOMPT Form 2275, Work Request (WR)	Economy Act	Reimbursable	Internal DON Actions
NAVCOMPT Form 2275, Project Order (PO)	Project Order Statute	Reimbursable	Internal DON Actions
NAVCOMPT Form 2276 (RCP)	Economy Act / Authority to Contract	Direct Citation	Internal DON Actions
Procurement Request	Authority to Contract	Direct Citation	Internal DON Actions
NAVCOMPT Form 2276A, Work Request (WX)	Economy Act / Authority to Contract	Reimbursable / Direct Citation	Internal DON Actions
NAVCOMPT Form 2276A, Work Request (PX)	Project Order Statute / Authority to Contract	Reimbursable / Direct Citation	Internal DON Actions
NAVCOMPT Form 2276A, Project Order (RX)	Economy Act (in combination with contract)	Direct Citation	Internal DON Actions
MIPR, DD Form 448	Economy Act	Reimbursable or Direct Citation	Internal DOD Actions
MIPR, DD Form 448	Project Order Statute	Reimbursable	Internal DOD Actions
IPR, DD Form 448 (or similar format)	Non-Economy Act	Reimbursable	External DOD Actions
IPR, DD Form 448 (or similar format)	Economy Act	Reimbursable	External DOD Actions

RCP: Request for Contractual Procurement

MIPR: Military Interdepartmental Purchase Request

IPR: Interdepartmental Purchase Request

Note: G-Invoicing implementation will incorporate a new electronic method for reimbursable buy/sell intra-governmental transactions and will be in the format of Treasury's Fiscal Service (FS) Form 7600B. Eventual use of NAVCOMPT 2275 and DD-448 form will cease for reimbursable funding.



# Work Requests (WR) (a.k.a. Economy Act Orders)

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- Used to request routine or recurring day-to-day services within the Navy
  - Typically, level-of-effort activities that support operations of the requesting activity
  - e.g., maintenance, custodial services, training, utilities, etc.
- Work must be completed before expiration of funds cited (i.e., O&MN by 30 Sep)
- Cannot be used to fund the basic mission of the performing activity



# Project Orders (PO)

- Description of work and period of performance must be very specific
  - Must produce tangible end product
- Work completion date can extend past the expiration date of funding, but not beyond the cancellation of the appropriation:
  - PO's **may not** be issued at the end of a fiscal year solely to extend the life of an appropriation
  - No increase in scope can be made after funding expires
- Must comply with the “51/49” Rule
  - Must perform at least 51% of the work with in-house resources:
    - Government labor, travel, supplies, materials, and other non-labor costs
    - Can include Contractor support usable only to performing organization in overall accomplishment of work required by customer
  - Only 49% of total reimbursable funds may be used out-house
- Can only be issued to a DoD activity and only on a reimbursable basis

*POs extend the life of the cited funds beyond the expiration of the appropriation  
(and therefore come with lots of rules and restrictions)*



# Other Funding Documents

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- Military Interdepartmental Purchase Request (MIPR)
  - A method for transferring funds from one military organization to another to procure services, supplies, or equipment for the requiring service
  - Accepted on a direct citation or reimbursable basis
- Interdepartmental Purchase Request (IPR)
  - Used when requiring activity and performing activity are from different departments (one party outside DoD)
  - Cannot cite Project Order Statute (not allowed outside DoD) but can cite Economy Act and other statutory authorities that a non-DoD entity might have (referred to as non-Economy Act authorities)
- Fiscal Service Form 7600B
  - Used in accordance with Treasury's G-Invoicing mandate (as applicable) in either manual format or electronic format if both parties are active in G-Invoicing
  - Used for reimbursable buy/sell Intra-governmental transactions(IGTs) for all goods/services
  - Not limited to Economy Act (EA) or Project Order (PO) authorities only; may allow other statutory authorities as applicable



# Summary

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- A NWCF command is financially successful if \_\_\_\_\_
- What are the components of the stabilized labor rate?
- A command is considering sending NAVFAC a funding document to re-carpet the building using its O&MN funds. It is currently August and it is estimated that the carpeting project will start in September and end in November. What type of funding document is appropriate and why?



# Execution Timeframes

