PART I

General Guidance and Policies

CHAPTER 1

Overview of the Process

A budget is defined as a document that expresses in financial terms the plan for accomplishing an organization's objectives for a specified period of time. It is an instrument of planning, performance measurement, decision-making, and management control, as well as a statement of priorities. Such a definition is descriptive of the Department of the Navy (DON) budget. Obviously the DON budget is too large and complex to be captured in all its detail in a single document. It is not the budget of a single organization, but rather, the compilation of budgets of many organizations within the Department. The DON budget is a subset of the Department of Defense's (DoD) budget, the President's Budget, and the United States Government budget (ultimately enacted by appropriations). Nevertheless, the budget of the DON does express in financial terms the plan for accomplishing objectives identified in DON and DoD strategic planning documents. This chapter describes the budget process in the DON in the context of this definition for appropriated funds. It also describes the Federal budget process and the Defense Planning, Programming, Budgeting and Execution System (PPBES), the two processes within which the DON budget process functions. It concludes with general guidance for all submissions.

1. The Budget Process in the DON.

The budget process consists of four phases. The first is the submission of budget estimates to the Office of Budget (FMB) by budget submitting offices throughout the Department for review and final approval by the Secretary of the Navy. The second phase is the submission of budget estimates by the DON to the Office of the Secretary of Defense and the Office of Management and Budget for review and final approval by the Secretary of Defense and the President. The third phase is the submission of budget estimates by the President to the Congress for its review and approval. The final phase is the enactment of appropriations by the Congress and execution of these appropriations by the DON. A DON budget is developed for the first three phases, but the organizational responsibilities and control vary with each phase. Embodied in every phase, however, is the Department's basic policy that the offices that are responsible for executing budgets participate in developing budget estimates, subject to the guidance and decisions of higher authority.

a. The Budget Submission to the Office of Budget and the Department of the Navy Review

(1) Within the goals and objectives, policy, programmatic, and budgetary guidance provided by higher authority, the budget submission to FMB provides the opportunity for each office to state its objectives and priorities for resources in the context of an executable budget. Procedures have been developed to allow these offices to resolve conflicts between programmatic guidance and the budgeting of programs.

(2) The DON budget review is the process of transforming the individual budgets of the various offices within the Department into a balanced Departmental budget. It provides the Secretary of the Navy and senior advisors an opportunity for decision-making and control of the financial resources of the Department. The DON process is a disciplined approach to allocate resources after the consideration and evaluation of competing programs and plans at all organizational levels.

(3) Chapter 3 of Part I, as well as all of Part II of this manual, contain guidance for the budget submission to FMB.

b. The Budget Submission to OSD/OMB and Its Review

(1) Although the budget must conform to the goals and objectives, policy, programmatic, and budgetary guidance of the Secretary of Defense, it is a statement of the DON priorities and contains the financial plan for achieving the Department's objectives. The transmittal of this budget to the Secretary of Defense is the major opportunity the Secretary of the Navy has to present the Departmental budget plan that best fulfills SECNAV priorities for the allocation of resources for the DON.

(2) The joint budget review conducted by the Office of the Secretary of Defense and the Office of Management and Budget transforms the DON budget into part of (first) the Secretary of Defense's budget and (second) the President's Budget. This review provides the final control and decision-making opportunities for both the Secretary of Defense and the President prior to submission of the Defense budget to Congress. While the DON participates in this review, OSD and OMB control it.

(3) Consistent with the philosophy of decentralization of budgeting in the DON, offices and commands participate in the submission of the budget estimates to OSD/OMB as well as in the decision-making process.

(4) Chapter 4 of Part I, as well as all of Part III of this manual, contain guidance for the budget submission to OSD/OMB.

c. Submission of the President's Budget and the Congressional Review

(1) The President's Budget message that transmits the budget to the Congress is a major policy statement. It provides a statement of national priorities while the accompanying budget documentation sets forth the President's financial plan for achieving those priorities. The DON's budget is part of the DoD portion of the President's Budget and must be supported within the policy stated by the President and the Secretary of Defense.

(2) Control of the budget process shifts to the Congress as the legislative branch conducts hearings and marks up the budget. While the President, the DoD, and the DON all participate, the Congressional review is the process by which the legislative branch makes decisions concerning the allocation of resources.

(3) Consistent with the policy of decentralization of budgeting in the DON, offices and commands also participate in the preparation of justification material and justifying the budget before the Congress.

(4) Chapter 5 of Part I, as well as all of Part IV of this manual, contains guidance for the budget submission to the Congress and the Congressional review.

d. <u>The Enactment of Appropriations by the Congress and Execution of the Budget</u>

(1) The final phase in the DON budget process is the enactment of appropriations and the subsequent execution of these appropriations within the Department. The appropriations approved by Congress, which become law, reflect the resource allocation decisions of that body. Through the language of an appropriations act and the supporting committee reports, hearing testimony and floor debate, the Congress provides direction and control for execution of the appropriations.

(2) Appropriations are apportioned to the DON by the Office of Management and Budget and allocated to administering offices for execution. These are the same offices that provided the initial budget estimates to the Office of Budget at the beginning of the budget cycle. SECNAVINST 7000.27A, Comptroller Organizations, provides policy on the financial responsibilities of commanding officers/activity heads that receive allocations or suballocations of funds. While execution of appropriations is primarily the responsibility of administering offices, it is carried out within the legal and administrative limitations of the appropriations act. It is further subject to oversight and control by the Secretary of the Navy, the Secretary of Defense, the Office of Management and Budget, and the Congressional oversight committees. Four Congressional committees must approve major changes to programs required during execution: the House and Senate Armed Services Committees and the House and Senate Appropriations Committees. These approvals are accomplished through reprogramming and supplemental budget request procedures. In addition, the entire budget is subject to two reviews subsequent to the enactment of appropriations: once as the current year column of the next year's budget and then as the prior year (or actual year) column of the succeeding year's budget.

e. <u>Summary</u>.

The Department's budget process supports resource allocation decisions made in turn by budget submitting offices, the Secretary of the Navy, the Secretary of Defense, the President, and the Congress. At each phase of the budget cycle, the budget reflects the priorities and the financial plan for achieving the objectives of the decision-maker responsible for that phase. As finally enacted in appropriations, the DON budget serves as a control mechanism to ensure that financial resources are applied to the activities that were approved by the decision-makers in the process. The DON's policy of having budget submitting offices participate in each phase is intended to produce better decisions and to provide those offices with a better understanding of the decisions so that they can better execute the budget.

2. The Federal Budget Process.

This section describes and provides guidance on the DON budget process, which operates within the Federal budget process. To understand one requires understanding the other.

a. Introduction.

While the DON budget process is generally described in terms of four phases, the Federal process has three major phases: Executive formulation and transmittal, Congressional justification, and budget execution and control. The Constitution gives the Congress the power of enacting appropriations and provides the President the responsibility for executing these appropriations. The Budget and Accounting Act of 1921 legislated the requirement for the President to submit annually a budget to the Congress, with the President and Executive Branch responsible for formulation, transmittal to the Congress, and execution of the budget. The Congress is responsible for approving the budget request by passage of appropriations.

b. Executive Formulation and Transmittal.

(1) The formulation phase is an Executive Branch function and encompasses all that occurs prior to submission of the President's Budget to Congress. It is in this phase that processes such as PPBES operate. The product of formulation is the President's Budget, which is required by law to be transmitted to the Congress, not later than the first Monday in February.

(2) Formulation begins in the Spring, a year and a half before the fiscal year begins. Working with the Executive Branches, OMB identifies program and policy issues and prepares budgetary projections for five years. The Department of the Treasury prepares projections of receipts, and OMB, the Treasury, and the Council of Economic Advisors jointly prepare projections of the economic outlook. Following a review of these projections, the President establishes general budget and fiscal policy guidelines. OMB then issues general policy directions and fiscal targets to each agency for submission of detailed budget estimates in September. The DON does not participate in the Spring review; OMB provides guidance and fiscal targets at the DoD level.

(3) In the Fall, OMB conducts detailed reviews of budget requests and makes determinations on these estimates. These reviews are conducted jointly with OSD for the DoD component budget requests. Fiscal policy issues related to total budget receipts and outlays are also re-examined. Final Presidential decisions are then made on both specific programs and fiscal policy issues. Thus, the budget formulation process involves the simultaneous consideration of resource needs of individual programs and the government-wide outlays and receipts that are appropriate in relation to current and prospective economic conditions.

(4) Formulation of budget estimates includes prior year and current year data as well as projections for the outyears. Actual results from the prior and current year as well as congressional action on the current year provide important information in the decision-making process for budget years' estimates. The effects of decisions on budget year estimates are also explicitly taken into account in revising outyear estimates.

c. Congressional Action

(1) The Congress controls this phase of the process (sometimes referred to as the justification phase), but the Executive Branch is also intensively involved. The Congress can approve, modify or disapprove the President's Budget. It can change funding levels and eliminate or add programs. It can also enact legislation affecting taxes and other sources of receipts. At the same time, the Executive Branch provides testimony and other information supporting the President's Budget and the President has the power to veto appropriations.

(2) Prior to recommending appropriations, the Congress first enacts legislation that authorizes an agency to carry out a program and in some cases places a limit on the amount that can be appropriated for the program. Some programs are authorized indefinitely, some for multiple years, and others (including most defense authorizations) for one year. The authorization process is separate from the budget resolution and subsequent appropriation process discussed in detail below.

(3) Appropriation bills contain budget authority that allows the government to incur financial obligations. This budget authority is only made available as part of annual appropriation acts which is why it is called discretionary budget authority. However, in some cases the Congress has established permanent budget authority that becomes available annually with no further action by the Congress. The DON Trust Funds are one example of the use of permanent or mandatory budget authority.

(4) Congressional review of the budget begins after the President transmits the budget request on or before the first Monday in February of each year. Under procedures first set forth in the Congressional Budget and Impoundment Control Act of 1974, the Congress considers government-wide budget totals before completing action on individual appropriations. The Budget Act, which has been amended several times since 1974, requires the Congressional Budget Office to submit a fiscal policy report to the Budget Committees by 15 February and each standing committee to report on budget estimates by 25 February. The Senate Budget Committee reports a concurrent budget resolution on the budget by 1 April (Senate Budget Committee action usually follows passage of a budget resolution by the House). By 15 April, Congress completes action on the budget resolution that will serve as a guide in their subsequent consideration of appropriations and revenue measures. The resolution sets aggregate ceilings for receipts as well as aggregate and functional budget authority and outlays. The budget resolution's assumptions for total discretionary

budget authority and outlays must match the ceilings that have been provided in advance through amendments to the Budget Act.

(5) Following approval of the budget resolution by the House and Senate, the Budget Committees allocate to the appropriations committees the budget authority and outlays available to them under the discretionary ceilings. When an appropriations committee reports an appropriation bill, it cannot exceed the subcommittee allocations of discretionary budget authority and outlays. Toward the end of the appropriations process, usually in the Fall, the subdivisions for the appropriation bills are usually adjusted for House/Senate conference agreements. However, the aggregate discretionary amounts must remain within the discretionary ceilings for budget authority and outlays.

(6) The budget resolution also serves as a guide for legislative changes necessary to produce any desired changes in entitlement programs (spending outside the annual or discretionary appropriations process) or receipts. The Congress usually enacts these legislative changes in an omnibus reconciliation bill. In this case, omnibus means a bill involving programs under the jurisdiction of several committees exclusive of the appropriations committees. The appropriations committees are not subject to reconciliation although reconciliation legislation often contains amendments to the Budget Act that can affect the appropriations process (e.g., creating or changing discretionary ceilings).

(7) After adoption of the budget resolution and subsequent to the passage of authorizing legislation, the House of Representatives takes action on specific appropriations. The House Appropriations Committee, through its subcommittees, reviews in detail the President's Budget request. It then reports bills to the full House for action. For DoD programs, the Committee reports two bills, a DoD-wide bill and a military construction/family housing bill. After House passage, the bills are taken up in the Senate where a similar process is followed. After passage by the Senate, a conference committee (consisting of members of both bodies) is established to resolve differences. The conference version of the bill is usually acted upon first by the House and then the Senate. It is then transmitted to the President for approval (at which point it becomes law) or veto. A veto can be overridden by a two-thirds vote of both the House and Senate.

(8) Prior to conference action, DoD provides comments (appeals) on the appropriation and authorization bills concerning differences between the House and Senate bills that go into conference. The DON provides its position on these bills to OSD for incorporation into the DoD appeals.

(9) In the event department appropriations are not enacted before the beginning of the fiscal year, Congress generally enacts a continuing appropriations resolution that permits continued operations at specified levels for a specified period of time using prior fiscal year activity as a guide.

- During a period of operations under Continuing Resolution Authority (CRA), restrictions on the nature and scope of execution are typically in force. Increases in the scope of programs, commencement of new starts, cessation of prior efforts, and implementation of new or requested authorities are often prohibited. OMB will issue a letter apportionment, by account, for the specific period covered by the resolution. The CRA baseline, used by USD(C) to compute specific funding authority levels, will normally be equal to the levels of the FYCY programs, unless the FYBY budget request, or the House, Senate or joint conference appropriations bill positions are lower or eliminated. Generally, USD(C) will compute apportionment levels by multiplying the baseline by the number of days in a given CRA period divided by 365 days. However, USD(C) does allow DON to request additional funding authority for special circumstances, including contract award schedules for procurement and research and development accounts and seasonal adjustments for operation and maintenance and military personnel accounts.

- In the absence of a regular appropriation or CRA, commonly called a funding gap, there are other authorities provided in law that allow for continued operations (i.e. obligations to be made but no disbursements) on a limited basis.
  - In April 2011, OMB issued guidance on planning for agency operations during a lapse in government funding. The Antideficiency Act prohibits agencies from incurring obligations that are in advance of, or that exceed, an appropriation. Thus, with certain limitations, an agency may not incur obligations when the funding source for the obligation is an appropriation that has lapsed. However, "excepted" activities may continue: 1) a statute or other legal requirement that expressly authorizes an agency to obligate funds in advance of appropriations (e.g. 41 U.S.C. 11 Feed and Forage Authority); 2) the function addresses emergency circumstances, such that the suspension of the function would imminently threaten the safety of human life or the protection of property; and, 3) the function is necessary to the discharge of the President's constitutional duties and powers (e.g. Commander-in-Chief or conducting foreign relations).

  - OSD implemented this OMB guidance broadly with the identification of "excepted" activities that may continue under the 2011 interpretation:
    - Protection of life and property in support of national security;
    - Safety of persons and protection of property;
    - Medical/dental care (except as noted below);
    - Acquisition and logistic support (contracting, contract administration and logistics operations in support of excepted activities; activities required to contract for and distribute items as authorized by the Feed and Forage Act);
    - Education and training in support of excepted activities and DoD Education Activity (DoDEA) educational activities (however, installation education centers may only continue utilizing military personnel);

- Legal activities (e.g. litigation efforts associated with imminent or ongoing legal action; legal support for excepted activities; efforts needed to address non-judicial deadlines imposed by non-DoD enforcement agencies);
- Audit and Investigations related to the protection of life or property, counterterrorism, and counterintelligence.
- Morale Welfare and Recreation and Non-Appropriated Funds (NAF) necessary to support excepted activities (efforts funded entirely through NAF are not affected);
- Financial management functions necessary to control funds, record new obligations incurred in the performance of excepted activities, manage working capital funds, and effect upward obligations and the reallocation of prior year unobligated funds in support of excepted activities;
- Additionally,
  - Working capital fund (WCF) activities, while not really "excepted", can continue operations and should pursue management actions to conserve cash, sustain critical operations, and minimize the impact of late appropriations.
  - All military personnel continue in a normal duty status regardless of their affiliation with excepted or non-excepted activities;
  - Civilian personnel engaged in excepted activities will also continue in normal duty status;
    - Senate-confirmed officials appointed by the President are not subject to furlough;
    - Foreign national employees paid with host country funds are not subject to furlough;
  - Temporary duty travel only if in direct support of the war in Afghanistan, the transition in Iraq, and operations in Libya and Japan, and other travel directly related to safety of life and protection of property as well as foreign relations;
  - Contractors performing under a contract that was fully obligated upon contract execution (or renewal) prior to the expiration of appropriations may continue to provide contract services, whether in support or excepted activities or not.

- OSD also identified "non-excepted" activities that may <u>not</u> continue under the 2011 interpretation which include:
  - Technical intelligence information collection, analysis, and dissemination functions not in support of excepted activities;
  - Support of environmental requirements which are not necessary to prevent imminent threat to life or property;
  - Elective surgery or other elective procedures in DoD medical and dental facilities;
  - DoDEA summer school;

- Preparation of financial reports, research, and correction of problem disbursements, and adjustments to prior year funds;
- Temporary duty travel scheduled to begin after the shutdown occurs should be cancelled except if in direct support of the war in Afghanistan, the transition in Iraq, and operations in Libya and Japan, and other travel directly related to safety of life and protection of property as well as foreign relations

o The Feed and Forage Act, Section 3732 Authority (41U.S.C. § 11) was last used during Persian Gulf Operations in 1991. It is contract authority that allows the Department to enter into contracts or incur obligations prior to an appropriation for the payment of such obligations. By regulation only SECDEF and or DEPSECDEF can invoke Feed and Forge Authority. OSD then will grant specific allocations of such authority to the military departments on an as-needed basis. Although invoked in September 2001, no allocations were ever granted under this authority. It does not allow for the disbursements to be made. Congress must provide for liquidation of obligations incurred under this authority in a follow on appropriations act. It can be used for:

- Military Personnel - Clothing and clothing allowance, Subsistence and PCS
- O&M – Fuel, Medical and Hospital Supplies (broadly interpreted), Transportation (broadly interpreted), Quarters (barracks, BOQs, maintenance) and Clothing (organizational).

(10) The above describes anticipated Congressional action. Variations of this process can and frequently do occur, particularly in terms of the timetable set in law.

d. Budget Execution and Control

The President's Budget, as modified by the Congress, becomes the basis for the financial plan for each agency. Most budgetary resources are made available by apportionment from OMB to the Executive Branches. These apportionments are made by time period or by activity to ensure the effective use of available funds and to preclude the need for additional appropriations.

3. Planning, Programming, Budgeting and Execution in the Department of Defense.

The DON budget process is guided by the DoD Planning, Programming, Budgeting and Execution System (PPBES) that is used throughout DoD. It is important that those organizations that participate in the DON budget process be aware of the DoD PPBES process. The DoD PPBS process was first introduced in 1961. Though the process has been modified by the various Defense Secretaries through the years to reflect their personal management styles and philosophies, it remained essentially unchanged in substantive terms until implementation of the

revised Planning, Programming, Budgeting and Execution process delineated in Management Initiative Decision (MID) 913, Implementation of a 2-Year Planning, Programming, Budgeting and Execution Process, on 22 May 2003.

Beginning with the FY 2012 review, DoD changed the programming and budget process. The Department will develop only single-year budgets each year. Additionally, the program/budget reviews will focus on a 5-year period each cycle, with a single-year extension to promote greater stability from budget to budget. Finally, DoD will conduct a number of Front End Assessments (FEA) to address major issues identified by the Secdef.

The remainder of this Part amplifies the PPBES process and the process within the Department of the Navy.

a. Planning.

The process begins with the issuance of draft planning guidance that includes a statement of national objectives, a threat assessment, and force requirements. The Military Departments participate in preparation and review of the guidance. The major output of the planning phase is the Defense Program and Planning Guidance (DPPG), issued by the Secretary of Defense in late spring/early summer following final decisions by the President on the budget, which is the product of the previous cycle. The DPPG will not normally introduce major changes to the defense programs. In addition to the DPPG, a Quadrennial Defense Review (QDR) is conducted at the beginning of each four-year administration to review the overall Defense assumptions and strategy, as well as establish overarching Defense initiatives and goals for the administration. Direction is contained in the resulting QDR report, generally published toward the end of the first year of the administration.

b. Military Department Programming and Budgeting.

In August, the Secretaries of the Military Departments each submit a Program Objectives Memorandum (POM) and a budget estimate (BES) to the Office of the Secretary of Defense. The POM contains specific programs to be pursued in support of the planning guidance and within the resource constraints approved by the Secretary of Defense as contained in the Defense Planning Guidance. The POM also highlights areas that deviate from the goals in the planning guidance because of resource constraints. The budget estimates are submitted for each appropriation and fund to execute the approved programs within the total dollar amount (referred to as obligation authority) approved during the programming process in August.

c. OSD Program and Budget Review.

The Secretary of Defense established a concurrent program and budget review process in August 2001 and a new PPBES process in May 2003. The Director, Cost Assessment and Program Evaluation (CAPE) is responsible for leading the program review. The Undersecretary of Defense (Comptroller) conducts a joint budget review with the Office of Management and Budget. The reviews are intended to consider each issue only once. The process established is described below:

Decisions on program review issues are generally incorporated in Program Decision Memoranda (PDMs). All other issues are decided through Program Budget Decisions (PBDs), Resource Management Decisions (RMDs) or Resource Decision Documents (RDDs) during the budget review. Issue papers may be submitted by the DoD Components addressing issues that reflect serious policy/programmatic implications or fact-of-life changes (i.e., cost increases, schedule delays, management reform savings, workload changes and prior year execution experience) that could not be addressed solely within the Component's POM. After Components submit issue papers, CAPE and USD(C) determine which forum will consider each issue and whether to accept proposals. CAPE closely examines compliance with prior years' PDMs and with the priorities identified by SECDEF in the DPPG and the QDR. The examination includes assessments of the implementation and programmatic execution of SECDEF's decisions and guidance. Issues accepted by CAPE are generally resolved through PDMs. In the budget review, the OSD(C) goal is to ensure the budget is defendable and executable. The focus is primarily on the budget year perspective, and consists of the best pricing, an achievable schedule, dollar and manpower balance, consistency within guidance and the timely execution of funds.

A budget execution review provides the opportunity to make assessments concerning current and previous resource allocations and whether DoD achieved its planned performance goals. To the extent performance goals of an existing program are not being met, recommendations may be made to replace that program with alternative solutions or to make appropriate funding adjustments to correct resource imbalances. Program and budget change proposals seek to adjust current allocations of resources.

The final product of PPBES is the DoD portion of the President's Budget.

4. PPBES in the Department of the Navy.

The DON's Planning, Programming, Budgeting and Execution System is the process used to formulate the DON's budget that is submitted to the Office of the Secretary of Defense and the Office of Management and Budget. The DON must operate within the guidelines of both the Federal budget process and the DoD PPBES. The DON process is designed to meet the decision-making needs of the Department, while producing specific decisions and documentation that are forwarded to OSD and OMB on a schedule set by those offices. This section provides an overview of the current PPBES in the DON.

a. Responsibility for Planning and Programming

(1) The role of the Assistant Secretary of the Navy (Financial Management and Comptroller) has been expanded (October 2002) to include establishing policy and procedures for and maintaining oversight of the Planning, Programming, Budgeting and Execution process.

(a) Since the DON consists of two separate Military Services, the Navy and the Marine Corps, planning and programming are essentially performed separately by each Service but coordinated to ensure a joint naval vision.

b) In the planning phase the Deputy Chief of Naval Operations for Plans, Policy and Operations (N3/N5) and the Marine Corps Planning Division (MC PL) work with the OSD and JCS planning staffs during preparation and review of the draft Joint Programming Guidance.

(c) Program planning and preparation of the two Services' POMs are conducted separately by the Chief of Naval Operations Programming Division (N80) and by the Marine Corps Deputy Chief of Staff Programs and Resources (P&R), with a combined POM submitted to OSD. The intent is to deliver a fiscally balanced, defendable program to OSD, implementing CNO and CMC guidance and priorities.

b. <u>Programming in the Navy</u>

(1) Programming in the Navy begins in September with reviews of intelligence, strategy, warfare areas, and support tasks. These reviews, warfare appraisals, front end assessments, readiness and infrastructure capability assessments and integrated program assessments, examine the threat and the program levels provided by the previous cycle, and the requirements stated in draft OSD guidance. The reviews define funding needed to accomplish certain program levels or capabilities and make recommendations to the resource sponsors to use in preparing their program proposals. The reviews are summarized in Investment Strategies in the December – January timeframe. Program development guidance is promulgated to resource sponsors in the CNO Program Guidance, issued in January.

(2) From January until May, the resource sponsors, using the recommendations of the fall reviews, specific CNO guidance, and input from various offices, such as the systems commands for acquisition programs and fleet commands for readiness initiatives, develop their Sponsor Program Proposals (SPPs) which constitute the basic program building blocks for the POM. These proposals are submitted to N80 in the form of changes to the Future Years Defense Program (FYDP), which is based on the previous President's Budget. Following review to ensure compliance with CNO guidance and to resolve issues, the program proposals are presented to the CNO. These presentations mark the beginning of final development of the POM and result in further CNO and SECNAV guidance. However, CNO and SECNAV are provided status updates throughout the process. Additionally, the Office of Budget (FMB) participates in these early reviews as part of the combined process. FMB includes the programming community in their Investment Pricing Validation Teams (IPVTs) on acquisition programs, Revolving Fund Pricing Validation Teams (RFPVTs) in reviewing revolving fund rates for Navy Working Capital Fund activities, Model Pricing Validation Teams (MPVTs) on those programs for which performance models are available early in the process, and Information Technology Pricing Validation Teams (ITPVT) in reviewing non-embedded IT pricing and other issues early in the program development process.

c. Programming in the Marine Corps.

The process will generally be conducted in four phases. The Review Phase begins with Headquarters, Marine Corps (Program and Resources (HQMC P&R) conducting its annual programming Road Show and the overall Baseline Review. The phase ends with the publication of the POM Working Group (PWG) Committee Membership and Baseline Review Serial. The Guidance Phase starts with the publications of the POM Planning Order (PLANORD). The PLANORD leads to the Initiative Development Serial and this phase closes with the publication of the CMC Initial Programmatic Guidance Serial. During the Development Phase, the Execution Order Serial is published, the PWG Kickoff is conducted, and the Program Evaluation Board (PEB) chairs convene their working groups to build their respective POM. The Integration Phase begins with an initial In-Process Review (IPR) with the Marine Requirements Oversight Council (MROC) Review Board (MRB), followed by PWG Integration to build a Tentative POM (T-POM). The T-POM is then reviewed by the MRB before being briefed to the MROC prior to presentation to CMC for final approval. Once CMC approval is attained, program to budget transition commences. Marine Corps program priorities resulting from this process are then presented in detailed budget estimates, revised and approved by SECNAV for incorporation in DON program and budget documentation.

d. Programming in the Secretariat

The DON Secretariat is governed by a separate program review chaired by the Under Secretary of the Navy. This review flows concurrent to the POM process. The Secretariat program appraisals and assessments are conducted in the September – January timeframe. From January to April, Secretariat activities develop and submit their programmatic change requests to the Secretariat Review Board (SRB) consisting of the Assistant Secretaries, the General Counsel, and the Deputy Under Secretaries of the Navy, with Assistant for Administration, Under Secretary of the Navy serving as the Executive Secretary. These requests represent issues for proposed changes to the Future Years Defense Program, which is based on the previous President's Budget. Pursuant to an evaluation of compliance with all issued guidance, the Board assesses the complete financial posture of the Secretariat and makes resourcing recommendations and program proposals which are presented to the Under Secretary and the Secretary of the Navy. The Secretariat program changes recommended by the SRB, and those recommendations subsequently approved by the Secretary are then incorporated into the next DON program and budget controls, providing definite SECNAV guidance to the Secretariat activities.

e. Leadership Participation

In order to satisfy and implement the POM priorities directed by the Secretary of the Navy, two leadership forums, Large Group (LG) and Small Group (SG), have been developed and are convened periodically to review and make recommendations or decisions, on emerging issues. The purpose of these forums is to properly assess and take action on issues prior to finalizing the POM. Major program/budget issues will be collected and forwarded to the LG consisting of the Under Secretary of the Navy (USN), Vice Chief of Naval Operations, Assistant Commandant of

the Marine Corps, Assistant Secretaries of the Navy, General Counsel, and Deputy Under Secretaries. DUSN (BO&T) may collect issues based on USN guidance and the LG will be briefed on these items by the issue owner followed by expanded discussions. LG issues will be resolved or forwarded to the *Small Group* with recommendations. The composition of the SG will be Secretary of the Navy, Under Secretary of the Navy, Chief of Naval Operations and Commandant of the Marine Corps. Program/budget issues forwarded by the LG will be reviewed to make decisions, provide more specific guidance, or consider viability of other innovative initiatives.

f. Preparation of Budget Estimates.

The transformation of program estimates into budget estimates occurs in the budget submission to FMB and subsequent DON review. Prior to 2002, preparation of budget estimates began after completion of the DON's POM. However, with an integrated program/budget process, budget estimates are normally prepared on the basis of tentative Service decisions prior to the final approval of all programming decisions and on the results of PVTs. Changes to the program as promulgated by the LG/SG are incorporated into the budget during the DON review as required. Service programming actions, the budget submission to FMB, the DON budget review, and the formal budget submission to OSD and OMB are major steps in the DON Planning, Programming, Budgeting and Execution System.

g. Submission of Budget Materials.

All budget materials and data submissions are submitted to FMB for the DON budget review, the budget submission to OSD/OMB, and the President's Budget. These materials include numerous program/budget exhibits and supporting program/budget information required for analysis, review, verification, consolidation and/or forwarding to OSD/OMB and Congress. The DON budget is an electronic budget within the DoD electronic budget. Paper copies of budget documents have been eliminated. Specific exhibit requirements for each submission are included in the respective submission Part of this manual (Part II, III, or IV) and annual FMB Budget Guidance Memoranda (series).

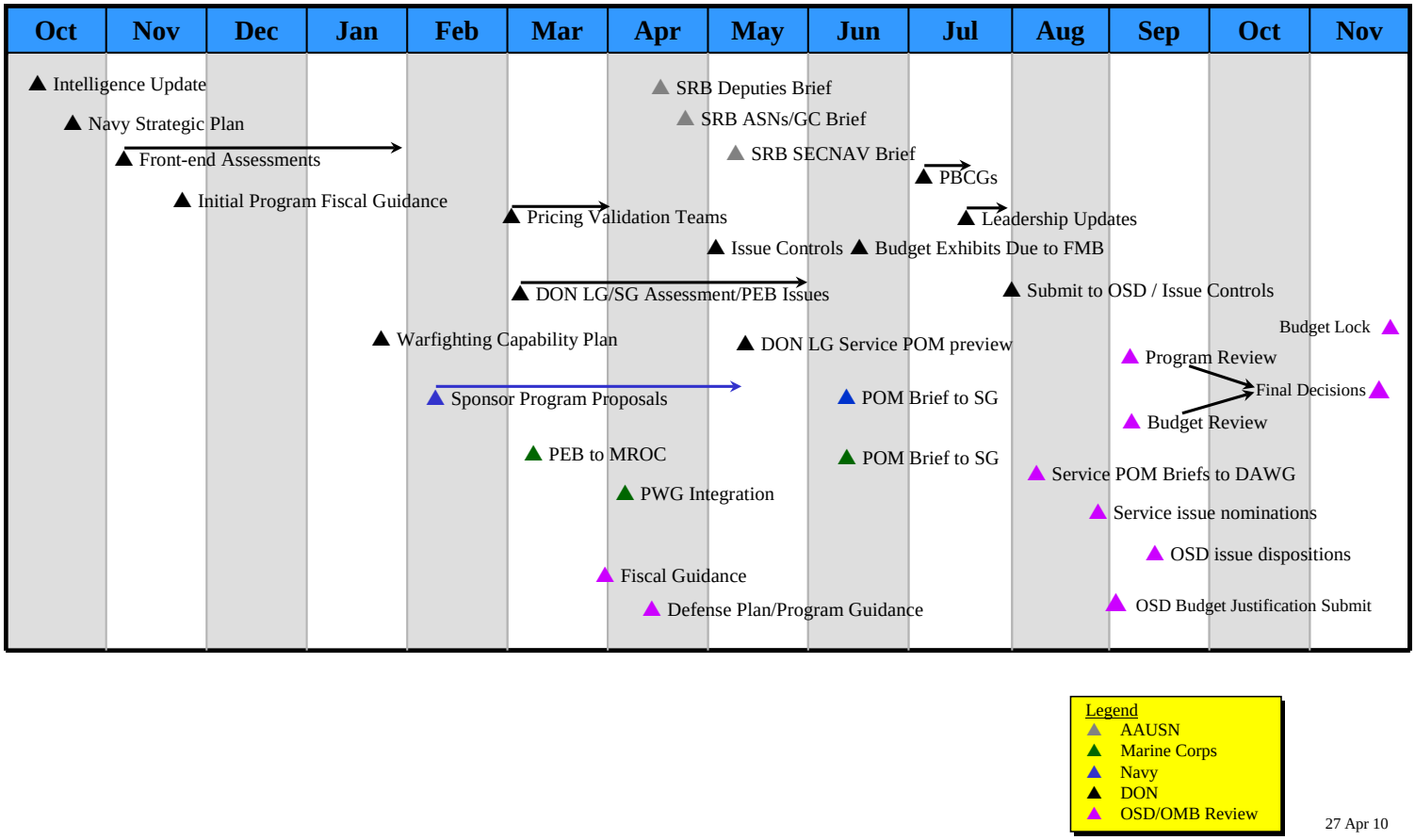
5. Program/Budget Schedule.

a. Basis for Schedule.

Although the specific schedule for the various events involved in developing the DON program and budget may vary from year-to-year, the general schedule for the program/budget cycle does not vary much. The basis for the schedule is the requirement that the President must submit the budget to Congress by the first Monday in February. The schedule is developed to ensure compliance with that requirement. OMB sets the date for submission of the budget in the fall and OSD determines the specific date for submission of the POM/budget in spring/summer. The date of the budget submission to FMB is based upon the schedule for those two key activities. Each summer, the DON Office of Budget conducts a review. A comprehensive apportionment

review is also conducted to reassess changes occurring since formulation of the previous budget that must be considered prior to execution.

b. <u>DON Program/Budget Review (Notional Timeline).</u>



Specific schedules for each budget cycle are issued annually by FMB Budget Guidance Memoranda.

6. Release of Budget Information to the Public.

a. The President's Budget contains detailed budget estimates for programs approved during the Planning, Programming Budgeting and Execution process.

Section 22 of OMB A-11 outlines clearance requirements of the President's Budget. The nature and amounts of the President's decisions and the underlying materials are confidential. These decisions cannot be released outside of the DON until the budget is transmitted to Congress. There are two factors to consider when determining whether budget related information is releasable outside the DON. The first is security classification. Information released must be appropriate according to security classification standards. The second consideration is whether the information supports the President's Budget. Policy consistency between the President's

Budget and the budget-related materials prepared for Congress and the media is essential. Details about the President's Budget may not be released until the budget has been officially transmitted to the Congress. In addition, disclosure of information is restricted to unclassified data contained in and supporting the President's Budget. Materials and information used during the DON and OSD budget reviews, or prior to transmittal of the President's Budget must not be released outside the Department since they are pre-decision documents and as such are exempt from the Freedom of Information Act standards.

b. Responsibility for determining the releasability of material rests with the organization that publishes the information.

Decisions regarding release of DON budget information rest with FMB. Decisions regarding release of other documents such as internal point papers or memoranda that include budget information rest with the organization publishing the information. The standards described above are the basis for such a determination. Additionally, contractual information should not be furnished to members of Congress regarding the identity or location of companies or persons receiving contract awards prior to the public announcement of such information by the Secretary of Defense.

c. Adjustments by the Undersecretary of Defense (Comptroller) and Director, Cost Assessment and Program Evaluation (CAPE) take the form of Program Budget Documents (PBDs), Management Initiative Decisions (MIDs), Program Decision Memoranda (PDMs), Resource Management Decisions (RMDs), or Resource Decision Documents (RDDs) and are pre-decisional.

Dissemination of pre-decision information outside the Department of the Navy is not permitted. It is imperative to adhere to the policy set forth in DODD 7045.14, PPBS, which states that in order to maintain the integrity and confidentiality of the governmental deliberative process, and to assist in maintaining the effectiveness of competition in the contract awards process, Planning, Programming, Budgeting and Execution system (PPBES) documents and supporting databases shall not be disclosed outside the Department of Defense except as explicitly authorized by the Office of Secretary of Defense.

d. Further information pertaining to the release of budget information to the Congress, such as release of data beyond the budget years and guidance for witnesses representing the DON may be found in Chapter 5, section 8 of Part I.

7. Budget Terms and Definitions.

Standard Government-wide definitions of budget terminology are provided in OMB issuances, especially Circulars A-11 and A-34. Some of the more common budget concepts applicable to the Department of Defense can be found in the Financial Management Regulation (FMR), Volume 2A, Chapter 1.

CHAPTER 2

Organizational Responsibilities

This Chapter identifies and explains the budget related responsibilities of the many organizations that participate in the Department of Defense budget process. The major emphasis is on the DON organization and roles.

1. Secretariat Responsibilities.

a. Office of the Assistant Secretary of the Navy (Financial Management and Comptroller).

Pursuant to Title 10 U.S. Code 5014 and 5025 and U.S. Navy Regulations, 1990, paragraph 0323 and subject to the authority of the Secretary of the Navy, the Comptroller of the Navy is charged with the responsibility for the establishment of the principles, policies, and procedures for the preparation and administration of the budget of the Department of the Navy. All DON comptroller functions, including budget, are assigned to the Assistant Secretary of the Navy (Financial Management and Comptroller (ASN (FM&C)). In October 2002, the area of responsibility for ASN (FM&C) expanded to include establishing policy and procedures for and maintaining oversight of PPBES. The budget functions of the Office of Assistant Secretary of the Navy (Financial Management and Comptroller) occur during all phases of the budget cycle. During the first phase, the ASN (FM&C), through the DASN (Budget)/FMB, provides substantive guidance and technical direction with respect to preparation and submission of the budget. During the second phase, the ASN (FM&C), through FMB, reviews and justifies the budget for submission to OSD/OMB, the President, and finally to the Congress during the third phase. In the fourth phase, the ASN (FM&C), through the DASN (Budget), monitors budget execution and program performance.

b. DASN (Budget)/Director Fiscal Management Division (FMB)/N82.

The DASN (Budget) is responsible to the Secretary of the Navy through the ASN (FM&C) for formulation, justification, and execution of the DON budget. The DASN is responsible to the ASN (FM&C) for the principles, policies and procedures for preparation and administration of the DON budget as assigned by law, instruction, and regulations. The budget responsibilities of each division in FMB are described below.

(1) Appropriations Matters Office (FMBE). FMBE is responsible for maintaining liaison with the Congressional Appropriations Committees, the Office of Legislative Affairs, and the Congressional Liaison Offices of the Secretary of Defense, Secretary of the Army and Secretary of the Air Force for functions related to congressional hearings and congressional staff matters for all oversight committees. The office coordinates all matters related to DON participation in hearings before the House and Senate Appropriations Committees and keeps FMB and all FMB divisions advised on the current status of congressional action and appropriation requests. It provides the schedule of committee hearings, arranges for DON witnesses, coordinates the review of transcripts of

hearings, coordinates responses to committee questions, arranges briefings for members of the committees, their staffs, and the members of the professional staffs, and provides any other coordination activities associated with these committees.

(2) Operations Division (FMB1). FMB1 is responsible for reviewing, recommending, and revising estimates for the Military Personnel (Active and Reserve forces) and Operation and Maintenance (Active and Reserve) appropriations, and other funds of the Navy and Marine Corps. The office is also responsible for assisting in the justification of estimates before OSD/OMB and the Congress, the continual review of program execution, and the recommending of adjustment to allocations, when required.

FMB1 also maintains primary responsibility for reviewing estimates and monitoring funding for all DON contingency operations. Support for peacekeeping operations, major humanitarian assistance efforts, noncombatant evacuation operations, and international disaster relief efforts, as well as wartime activities or the unique circumstances which require U.S. military forces to be placed on a wartime footing, are included in contingency operations. Since most contingency operations are emergent requirements and cannot be budgeted in advance, DON must accomplish directed contingency operations using funds available, independent of the receipt of specific funds for the operation. FMB1 coordinates DON efforts to fund such operations and to prepare emergency supplementals as appropriate.

For the OSD/OMB review, the cognizant FMB1 analysts act as the primary DON contact with the OSD/OMB staff analysts. They are responsible for publishing schedules of hearings, attending hearings, and coordinating and clearing all responses to requests for additional information. They also prepare or review reclamas to PBDs/RMDs/RDDs/MIDs and issues for leadership decision/resolution meetings. Finally, they are responsible for ensuring the accuracy of the OSD decision recording system and for updating the DON tracking system.

For the Congressional review, the cognizant FMB1 analysts are responsible for preparing or clearing budget material provided to Congress in support of Military Personnel and Operation and Maintenance appropriations. This may include budget justification material, statements, transcripts of hearings, answers to questions, backup or point papers, and appeals to authorization and appropriation reports. Representatives from FMB1 may attend hearings as backup or supporting witnesses.

(3) Investment and Development Division (FMB2). FMB2 is responsible for reviewing, recommending, and revising estimates for the investment and development appropriations, including procurement, research and development, construction, family housing, and base closure and realignment. This office is also responsible for assisting in the justification of estimates before OSD/OMB and the Congress, the continual review of program execution, the recommending of adjustments to allocations when needed, and the reporting of selected acquisition costs and data to the Congress.

For the OSD/OMB review, the cognizant FMB2 analysts act as the primary DON contact with the OSD/OMB staff analysts for investment and development programs. They are responsible for publishing schedules of hearings, attending hearings, and coordinating and clearing all responses to requests for additional information. They also prepare or review reclamas to PBDs/RMDs/RDDs/MIDs and issues for leadership decision/resolution meetings. Finally, they are responsible for ensuring the accuracy of the OSD decision recording system and for updating the DON tracking system.

For the Congressional review, cognizant FMB2 analysts are responsible for preparing or clearing budget material provided to Congress in support of investment and development appropriations. This may include budget justification material, statements, transcripts of hearings, answers to questions, backup or point papers, and appeals to authorization and appropriation reports. Representatives from FMB2 may attend hearings as backup or supporting witnesses.

(4) Program/Budget Coordination Division (FMB3). FMB3 is responsible for the preparation of DON budget guidance and procedures; control and coordination of budget submissions; coordination of reclamas to SECDEF PBDs/RMDs/RDDs/MDDs; reviewing and making recommendations on Departmental budget issues and appraising the effectiveness of budget systems; development and operation of IT systems in support of the budget formulation process at the DON headquarters level (to record all budget decisions); monitoring and updating the OSD IT systems for program/budget issues; coordination of DON participation of DON input into the Budget of the U.S Government and the preparation of financial and other summary budget documents; preparation of reports for DON leadership on the status of the budget reviews; administration of financial control systems and procedures for the apportionment, allocation of funds and the reprogramming process; and preparation of fund authorization documents for appropriations under its cognizance.

(5) Business and Civilian Resources Division (FMB4). FMB4 is responsible for reviewing, recommending, and revising estimates for the Navy Working Capital Fund (NWCF), civilian personnel, and non-embedded Information Technology (IT) for inclusion in the budget and the justification of these estimates to OSD/OMB and the Congress. This office also reviews and validates funding estimates in working capital fund activity budgets to ensure proper balance between NWCF “providers” and DON appropriated fund “customers.”

For the OSD/OMB review, the cognizant FMB4 analysts act as the primary DON contact with the OSD/OMB staff analysts for NWCF, civilian personnel, and non-embedded IT. They are responsible for publishing schedules of hearings, attending hearings, and coordinating and clearing all responses to requests for additional information. They also prepare or review reclamas to PBDs/RMDs/RDDs/MDDs and issues for the leadership decision/resolution meetings. Finally, they are responsible for ensuring the accuracy of the OSD decision recording system and for updating the DON tracking system.

For the Congressional review, the cognizant FMB4 analysts are responsible for preparing or clearing budget material provided to Congress in support of NWCF activities, civilian personnel, and IT accounts. This may include budget justification material, statements, transcripts of hearings, answers to questions, backup or point papers, and appeals to authorization and appropriation reports. Representatives from FMB4 may attend hearings as backup or supporting witnesses.

(6) Budget Policy and Procedures Division (FMB5). FMB5 is responsible for the development, coordination, and issuance of DON budget and funding policy and procedural guidance for all DON appropriations, funds, and organizations, including promulgation of DON policy guidance required in the development of the budget; review and appraisal of budget policy and procedures and their implementation within the DON; development of improvements in organizational responsibilities and interfaces related to budgeting and funding; continuous appraisal of adequacy and effectiveness of financial management systems to ensure conformance with budget policy; resolution or adjudication of audit and inspection findings involving budget policy and procedures matters; analysis of implications of audit findings for financial management policy of the Department; review of budgetary policy impact of legislative proposals; identification and clarification of Congressional direction concerning DON budget policy and procedures; and development of functional standards for and review of comptroller organizations.

c. Assistant Secretaries of the Navy (ASN).

They are responsible for specific subject areas, and participate in the budget process to varying degrees as those subject areas are involved. The areas include Research, Development and Acquisition (RD&A); Energy, Installation and Environment (EI&E); Manpower and Reserve Affairs (M&RA); and Financial Management and Comptroller (FM&C) (discussed in 1.a. above). ASN (RD&A), in particular, is responsible for the management of the research and development appropriation. The Office of the Chief of Naval Research provides supporting staff services to ASN (RD&A) for coordination and consolidation of budget, accounting and related reporting operations at the appropriation level.

d. Office of Legislative Affairs (OLA).

OLA is responsible for all liaisons with the Congress on program authorizations and concurrent budget resolutions. This entails liaison to the House and Senate Armed Services Committees, and the House and Senate Budget Committees. It provides the schedules of Committee hearings, arranges for witnesses, coordinates the review of hearing transcripts, coordinates responses to Congressional questions, arranges special briefings of Committee members or their staff, and provides any other liaison efforts associated with these committees. OLA is also responsible for the coordination of all proposed legislation changes initiated in the DON.

2. Responsibilities of the Office of the Chief of Naval Operations (OPNAV).

OPNAV is responsible for development and justification of program requirements for the Navy. The responsibilities of the staff offices during the budget process are described below.

a. Deputy Chiefs of Naval Operations (A/DCNO).

The DCNO are responsible for development and justification of program requirements for specific warfare and supporting areas within the Navy. Their primary role in the budget process is defending requirements during formulation and justification at FMB, OSD/OMB, and Congressional review levels.

b. Deputy Chief of Naval Operations (Integration of Capabilities and Resources) (N8).

N8 integrates planning, programming, budgeting, and execution for the CNO and represents the CNO in resolving Navy budget issues of a programmatic nature, when necessary, including the accommodation of program adjustments.

(1) Programming Division (N80). N80 is responsible for the programming process for the CNO. With respect to budget formulation, it assists FMB in the translation of the Navy POM from program terms to budget terms.

(2) Assessments Division (N81). N81 is responsible for the planning process for the CNO. This includes readiness assessments, sustainment, manpower, personnel, training, infrastructure and strategic planning studies.

(3) Fiscal Management Division (N82). N82 is responsible for the fiscal management of Navy appropriations. This includes integrating programming and budgeting actions by coordinating the review of budget estimates within OPNAV to ensure conformance with the POM, controlling and suballocating funds which have been allocated by FMB, ensuring reporting of program status and funds availability, and reviewing execution of allocated funds to ensure program objectives are satisfied. This office is also the appropriation sponsor for the O&MN and OPN appropriations. N821 functions as the staff for the O&MN appropriation and N822 functions as the staff for the OPN appropriation.

c. Deputy Chief of Naval Operations (Material Readiness and Logistics) (N4).

N4 is responsible for enabling a responsive, adaptive and efficient logistics support structure that facilitates readiness and supports the integration of Naval forces into the joint force. N4 participates throughout the PPBES process to provide relevant policy, resources, structures and mechanisms to meet leadership defined readiness requirements of Navy operating forces and their associated shore installations.

d. Deputy Chief of Naval Operations (Information Dominance) (N2/N6).

N2/N6 is responsible for intelligence, cryptology (less signals security), special security, and foreign counterintelligence; to provide intelligence, foreign liaison and protocol support; to serve as the Navy's Senior Official within the defense and national intelligence communities; and to serve as sponsor for certain national defense and naval intelligence programs.

e. Deputy Chief of Naval Operations (Total Force) (N1).

N1 is responsible for attracting, recruiting, developing, assigning, and retaining a highly skilled workforce for the Navy.

3. Responsibilities of Headquarters, Marine Corps (HQMC).

Headquarters, Marine Corps is responsible for development and justification of program requirements for the Marine Corps. The responsibilities of the staff offices during the budget process are described below.

a. Deputy Commandants/Deputy Chiefs of Staff (DC/S).

These offices are responsible for development and justification of program requirements for specific Marine warfare and supporting areas including combat development and integration; manpower and reserve affairs; installations and logistics; plans, policies, and operations; programs and resources; and aviation. The offices assist in the justification of programs before various review levels and assist in the resolution of budget issues under their cognizance.

b. Fiscal Division (MC-FD).

Similar to the responsibilities of the OPNAV Fiscal Management Division (N82) described above, the Programs & Resources Department (Fiscal Division) is responsible for the fiscal management function regarding the Marine Corps appropriations.

4. Other DON Organizational Responsibilities.

a. Appropriation Sponsor.

The appropriation sponsor is the senior executive in the DON responsible for supervisory control over a designated appropriation with broad decision-making authority on matters relating to the appropriation. This involves assisting in solving funding deficiencies during budget formulation, testifying before Congress, and recommending the reprogramming of funds within the appropriation during budget execution. These sponsors serve as the lead witnesses before Congress, prepare and review witness statements, respond to Congressional or staff questions, and brief members of the Committees or their staffs. They are responsible for reviewing Committee reports and for preparing consolidated appeals for their appropriations and submitting

them to FMB in accordance with FMB guidance and schedules. DON appropriation sponsors are listed in paragraph 6 of this chapter.

b. Resource Sponsor.

Navy resource sponsors are responsible for an identifiable group of resources constituting certain warfare and supporting warfare tasks, such as air, surface, or subsurface warfare. Unlike appropriation sponsors, resource sponsors have a functional or program orientation. The resource sponsor is responsible for interrelated programs or parts of programs in several mission areas. One of the resource sponsor's responsibilities during the programming process is to ensure an effective and balanced program within assigned fiscal controls. Accordingly, during internal budget reviews, the resource sponsor provides assistance when program changes are required to accommodate fact-of-life pricing and other funding increases in order to maintain a balanced program. While the Marine Corps does not have designated resource sponsors per se, the Deputy Commandants/Deputy Chiefs of Staff (DCS) who are the appropriation sponsors for Marine Corps appropriations and the DC/S (Programs and Resources) perform much the same functions as Navy resource sponsors with respect to achieving an effective and balanced program within fiscal constraints, and recommending program adjustments to accommodate pricing and other funding increases when required. Resource sponsors offices are also responsible for providing program guidance to budget submitting offices during the development of budget estimates and subsequent reviews of those estimates. They perform key functions in determining program adjustments needed to accommodate fact-of-life pricing increases. Sponsor representatives attend DON budget review sessions, review the FMB Mark-up, attend OSD budget hearings, review PBDs/RMDs/RDDs/MIDs and participate in reclama reviews. They are also responsible for nominating issues to be considered at leadership decision meetings and for nominating program offsets as necessary during the course of the OSD/OMB review. These offices are responsible for preparing and reviewing witness statements, answering Congressional questions, briefing members of Committees or their staffs, reviewing Committee reports, and preparing/ submitting to appropriation sponsors proposed appeals in accordance with the schedule established by FMB. Navy resource sponsors are listed in paragraph 6 of this chapter. Additionally, resource sponsors are assigned capability portfolio management lead responsibilities, engage with DoD Capability Portfolio Managers (CPM) throughout program budget development, and take into consideration CPM guidance and direction.

Navy resource sponsors are supported by a series of program sponsors for managed items. A program sponsor is responsible for determining program objectives, time phasing and support requirements, and for appraising progress, readiness and military worth for a given weapon system, function or task. The program sponsor is the primary Navy or Marine Corps spokesperson on matters related to the requirement for the particular weapons system or program. In addition to assisting justifying programs during the budget process, program sponsors assist resource sponsors in resolving funding problems.

c. Responsible Office.

The responsible office carries out fiduciary responsibilities for appropriation sponsors. This office is assigned fiscal management responsibility for all programs financed by a particular appropriation or fund. Fiscal management consists of three basic elements: (1) Integrating programming and budgeting actions by coordinating the review of budget estimates prepared by cognizant organizations with headquarters staff elements to ensure conformance with programmatic decisions reflected in the approved Program Objectives Memorandum; (2) providing fiscal control of funds which have been allocated by FMB, including the suballocation of funds to administering offices, and ensuring accurate and timely reporting of program status, funds availability, commitments, obligations and expenditures from appropriate executing organizations; and, (3) providing for the review of execution of allocated funds to ensure that program objectives are satisfied, and identifying the need to reprogram funds. DON responsible offices are listed in paragraph 6 of this chapter.

d. Budget Submitting Office.

Budget submitting offices are those administering offices or commands responsible for preparation, compilation, and submission of budget estimates and supporting material directly to FMB for the DON, OSD/OMB, and President's Budget submissions. These offices are responsible for preparation of budget estimates within the program, fiscal, and policy guidance provided in the POM, this manual, and other guidance. They are responsible for submission of these estimates in the appropriate exhibits and for ensuring that subordinate offices submit material in time to meet prescribed due dates. They are responsible for ensuring submissions are consistent with decisions made during the DON Review for the OSD/OMB submission and with PBDs/RMDs/RDDs for the President's Budget Submission. They also arrange for the appropriate personnel to attend FMB budget review sessions and OSD/OMB budget hearings and to provide any follow-up information necessary to justify estimates. They are responsible for reviewing budget adjustments made by FMB, OSD/OMB, and Congressional Committees, and preparing reclamas or appeals as necessary. As requested, they are responsible for attending Congressional hearings, reviewing Congressional testimony, preparing answers to Congressional questions, preparing backup or point papers, and preparing/submitting to appropriation sponsors proposed appeals to those reports in accordance with the guidance and schedules established by FMB. Budget submitting offices are identified in paragraph 6 of this chapter

e. Program Executive Officer (PEO)/Direct Reporting Program Manager (DRPM).

PEOs and DRPMs are responsible for the acquisition and management of designated major acquisition programs. PEOs/DRPMS are designated by the DON Acquisition Executive, ASN(RD&A). The responsibility for major acquisition programs typically includes research and development, acquisition, certification, integrated logistics support, and meeting readiness objectives and operational requirements. PEOs/DRPMs have control of available resources allocated by the Comptroller of the Navy. Normally, Program Managers report to a PEO, but some large, complex or critical programs are managed by DRPMs, who also report directly to the ASN(RD&A). DON PEOs/DRPMs are listed in paragraph 6 of this chapter.

f. Combatant Command Support Agency (CCSA).

CCSAs are established to provide or arrange for the administrative and logistic support of the headquarters of the Combatant Commands (COCOMs) and their subordinate joint commands. The DON maintains lead responsibility for U.S. Pacific Command (PACOM) and U.S. Joint Forces Command (JFCOM), as directed by OSD and designated by the Secretary of the Navy. The Joint Task Assignment Process (JTAP) business rules govern the management of resources between the CCSAs and the COCOMs, and are contained in FMR, Vol 2A, Chapter 1, para 010110.

g. Principal Administering Office (PAO)

PAOs are DON components responsible for executing funds allocated by OASN (FM&C) or the Chief of Naval Operations. A PAO may also be a Budget Submitting Office (BSO). The term BSO is used when referring to a DON component responsible for preparation, compilation, and submission of budget materials as described in paragraph d.

h. Administering Office.

Administering offices are responsible for fiscal management of an entire appropriation/fund or a specifically assigned portion of an appropriation/fund, which has been allocated to a PAO. Administering office responsibilities also include budget preparation. During the formulation phase, these offices compile, review, and forward estimates to FMB. Additionally, representatives of these offices assist program managers and sponsors at DON, OSD/OMB, and Congressional reviews.

i. Project Manager.

The project manager is responsible for planning, directing and controlling the development, production and deployment of a weapon system or equipment. Project managers are designated by CNO or the commanders of systems commands. Acquisition projects generally run the full cycle of requirements development, feasibility studies, design, advanced and engineering development, prototype fabrication, integration, test and evaluation, production and deployment. The project manager provides cost, schedule, and performance data for inclusion in the DON budget and justifies project estimates at budget review sessions/hearings. The project manager is also responsible for ensuring that allocated funds are effectively used and in accordance with authorized purposes.

j. Central Operating Activity (COA).

A COA is maintained by both the Navy and Marine Corps to serve as the focal point within each respective Service for administration of the military personnel (active forces) expense authority based on its military manpower programs. Each COA develops composite standard rates by pay grade that are used in preparing program and budget exhibits.

k. Shore Activity.

Shore activities prepare, in response to requirements stated by the headquarters or parent organization assigned command, the required estimates of budgetary requirements and administers through effective controls the funds made available to him. Command organizations have responsibility to provide budget management procedures to the shore activity level.

5. Other Executive Branch Organizations

In the following section, those organizations whose actions affect the formulation, justification or execution of the DON budget are described.

a. Office of Management and Budget (OMB)

OMB assists the President in the organization and management of the Executive Branch. Primary functions include preparation of the budget, formulation of the government's fiscal program and supervision and control of the administration of the budget. OMB reviews the DON budget submission jointly with OSD, makes recommendations to the President regarding significant issues not resolved during the joint review and forwards the President's Budget to the Congress. After appropriating legislation has been enacted, OMB apportions funds and monitors the execution of appropriations.

b. Office of the Secretary of Defense (OSD).

This office is comprised of staff advisors to the Secretary of Defense on various areas such as budget, manpower, and research. The primary office responsible for DOD budgeting is the Office of the Under Secretary of Defense (Comptroller). This office is responsible for conducting a budget review with the OMB and recommending adjustments as appropriate. During budget execution, this office reviews funding plans, releases funds to the Military Departments, and monitors execution.

c. Senior Leadership Review Group (SLRG).

The Senior Leadership Review Group assists the Secretary of Defense in managing the entire planning, programming, budgeting and execution process. In this capacity, the SLRG exercises centralized control of executive policy direction by concentrating on major policy decisions, defining planning goals, and allocating resources to support those objectives including joint, DoD-wide, cross-DoD Component, and cross command programs. It is chaired by the Deputy Secretary of Defense and is comprised of the Chairman of the JCS, Vice Chairman of the JCS, Under Secretaries of Defense, the Secretaries of the Military Departments and the Assistant Secretary of Defense for Networks and Information Integration.

d. DepSecDef Advisory Working Group (DAWG).

The DepSecDef Advisory Working Group considers program and budget issues that involve the oversight of QDR implementation and other cross-cutting, high-leverage subjects. The DAWG

is co-chaired by the Deputy Secretary of Defense and Vice Chairman of the Joint Staff and is comprised of the Under Secretaries of Defense, Secretaries of the Military Departments, Service Vice Chiefs of Staff and the Deputy Commander, SOCOM.

6. Organizational Assignment of Responsibilities.

a. Appropriation sponsors and responsible offices for each appropriation/fund are listed in the following table.

Appropriation/Fund	Appropriation Sponsor	Responsible Office
Military Personnel, Navy (MPN)	N1	CNO(N82)
Military Personnel, Marine Corp (MPMC)	DC/S(P&R)	CMC(P&R)
Reserve Personnel, Navy (RPN)	N095	CNO(N82)
Reserve Personnel, Marine Corps (RPMC)	DC/S(P&R)	CMC(P&R)
Health Accrual, Navy	N1	CNO(N82)
Health Accrual, Marine Corps	DC/S(P&R)	CMC(P&R)
Health Accrual, Navy Reserve	N095	CNO(N82)
Health Accrual, Marine Corps Reserve	DC/S(P&R)	CMC(P&R)
Operation and Maintenance Navy (O&MN)	N82	CNO(N82)
Operation and Maintenance, Marine Corps (O&MMC)	DC/S(P&R)	CMC(P&R)
Operation and Maintenance, Navy Reserve (O&MNR)	N095	CNO(N82)
Operation and Maintenance, MC Reserve (O&MMCR)	DC/S(P&R)	CMC(P&R)
Environmental Restoration, Navy (ERN)	N4	CNO(N82)
Aircraft Procurement, Navy (APN)	N88	CNO(N82)
Weapons Procurement, Navy (WPN)	N86	CNO(N82)
Shipbuilding and Conversion, Navy (SCN)	N86	CNO(N82)
Other Procurement, Navy (OPN)	N82	CNO(N82)
Spares (All Appropriations)	N4	CNO(N82)
Procurement, Marine Corps (PMC)	MARCORSYSCOM	CMC(P&R)
Research, Development, Test & Evaluation, Navy (RDTEN)	N091	CNR(OCNR)
Military Construction, Navy (MCN)	N4	CNO(N82)
Military Construction, Naval Reserve (MCNR)	N4	CNO(N82)
Family Housing Construction, Navy & Marine Corps (FH,N&MC)	N4	CNO(N82)
Family Housing Operations, Navy and Marine Corps	N4	CNO(N82)
Base Realignment and Closure (BRAC)	N4	CNO(N82)
Navy Working Capital Fund (NWCF)	Not applicable	Not applicable
National Defense Sealift Fund (NDSF)	N4	CNO(N82)
Procurement of Ammo, Navy and MC (PANMC)	N4/MC	CNO(N82)/CMC(P&R)
American Recovery and Reinvestment Act (ARRA)	Not applicable	CNO(N82)/CMC(P&R)

b. DON resource sponsors are listed in the following table:

Resource Sponsor	Resource Area
Director, Navy T&E and Technology Requirements (N091)	RDT&E
Director, Navy Staff (DNS)	Admin/Physical Security
Director, Total Force (N1)	Personnel Support & Training
Director, Fleet Readiness and Logistics (N4)	Readiness & Logistics (including Sealift)
DCNO for Information Dominance (N2/N6)	Space, C4I, and Information Technology, Intelligence
Oceanographer/Navigator of the Navy (N84)	Oceanography
Director, Expeditionary Warfare (N85)	Expeditionary Forces
Director, Surface Warfare (N86)	Surface Programs
Director, Submarine Warfare (N87)	Submarine/Anti-Submarine Warfare
Director, Air Warfare (N88)	Aviation and Weapons Systems
Director, Special Programs (N89)	Special Programs
Director, Warfare Integration (N8F)	Warfare Integration
Headquarters, Marine Corps (HQMC)	USMC Resources
Secretariat Review Board (SRB)	Secretariat Activities

c. Department of the Navy Budget Submitting Offices/ Principal Administering Offices are listed below:

Director, Field Support Activity (FSA)
Department of the Navy Assistant for Administration (DON/AA)
Chief of Naval Research (OCNR)
Director, Office of Naval Intelligence (ONI)
Chief, Bureau of Medicine and Surgery (BUMED)
Commander, Naval Air Systems Command (NAVAIR)
Chief, Naval Personnel (CHNAVPERS)
Commander, Naval Supply Systems Command (NAVSUP)
Commander, Naval Sea Systems Command (NAVSEA)
Commander, Naval Facilities Engineering Command (NAVFAC)
Commandant of the Marine Corps (HQMC)
Director, Strategic Systems Programs (SSP)
Commander, Military Sealift Command (MSC)
Commander, Space and Naval Warfare Systems Command (SPAWAR)
Director, Naval Systems Management Activity (NSMA)
Commander, Navy Installations (CNI)
Commander, U.S. Fleet Forces Command (COMUSFLTFORCOM)
Commander, U.S. Pacific Fleet (COMPACFLT)
Commander, Naval Reserve Force (COMNAVRESFOR)
Commander, Special Operations (NAVSOC)

d. PEO/DRPMs are assigned as follows:

PEOs
Air ASW, Assault and Special Mission Programs
Carriers
Strike Weapons and Unmanned Aviation
Tactical Air Programs
Integrated Warfare Systems
Ships
Submarines
Littoral Combat Ship
Joint Strike Fighter
Enterprise Information Systems
C4I
Land Systems
Space

DRPMs
Strategic Systems Programs (SSP)

e. Navy Working Capital Fund

There are five Navy Working Capital Fund Activity Groups: supply management, depot maintenance, research and development (R&D), base support, and transportation.

Supply Management Activities by BSO:
(1) Naval Supply Systems Command (NAVSUP)
- Navy Supply Management

(2) Headquarters, Marine Corps (HQMC)
- Marine Corps Supply Management

Non-Supply/Industrial Activities by BSO:
(1) Naval Sea Systems Command (NAVSEA)
- Naval Undersea Warfare Center (NUWC) – R&D
- Naval Surface Warfare Centers (NSWC) – R&D

(2) Military Sealift Command (MSC)
- Military Sealift Command - Transportation

(3) Naval Air Systems Command (NAVAIR)
- Fleet Readiness Centers (FRCs) - Depot
- Naval Air Warfare Centers (NAWC) – R&D

(4) Chief of Naval Research (CNR)

- Naval Research Laboratory (NRL) – R&D

(5) Naval Facilities Engineering Command (NAVFAC)
- Facility Engineering Commands (FECs) – Base Support
- Naval Facilities Engineering Service Center (NFESC) – Base Support

(6) Space and Naval Warfare Systems Command (SPAWAR)
SPAWAR Systems Centers (SSC) – R&D

(7) Headquarters, Marine Corps (HQMC)
Marine Corps Depots - Depot

f. Navy Trust Funds

Account	Submitting Office
USN Academy General Gift Fund	U. S. Naval Academy
USN Academy Museum Fund	U. S. Naval Academy
Navy General Gift Fund	DON/AA
Ship's Stores Profit, Navy	NAVSUP
Naval Historical Fund	FSA

g. Special Accounts

Account	Submitting Office
Wildlife Conservation Fund	NAVFAC USMC

Federal Civil Rights Programs

Chief of Naval Operations (CNO) (N00)
Chief of Naval Operations (CNO) (N095)
Office of Chief of Naval Research (OCNR)
Headquarters, Marine Corps (HQMC)
Navy Secretariat and Staff Offices Equal Employment Opportunity (NS&SO/EEO)
Office of General Counsel (OGC)

National Intelligence Program (NIP)

Director of Information Domincance (N2/N6)

Military Intelligence Program (MIP)

Director of Information Dominance (N2/N6)
Chief of Naval Personnel
Field Support Activity
Department of the Navy Assistant for Administration
Office of Naval Intelligence

Navy Systems Management Activity
Fleet Forces Command

DOD Military Retirement Fund
Bureau of Naval Personnel (BUPERS)
Headquarters, Marine Corps (HQMC)

CHAPTER 3

Budget Submission to the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) and the Department of the Navy Review

The DON budget review occurs prior to the submission of the budget to the Office of the Secretary of Defense and the Office of Management and Budget. It consists of the development of budget estimates by budget submitting offices throughout the Department, the review of these estimates by the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), and final decisions on the allocation of resources by the Chief of Naval Operations, the Commandant of the Marine Corps, and the Secretary of the Navy. The major purpose of the review process is to ensure that these estimates reflect the program contained in the POM, are consistent with the guidance of higher authority, are executable, and are supportable in subsequent review by OSD/OMB and the Congress. This chapter describes each of these activities, while Part II provides more detailed guidance and requirements.

1. Overview of the Process.

The starting point for the development of the DON's budget is the Program Objectives Memorandum (POM). FMB issues guidance and financial controls for submission of the budget shortly before completion of the POM (or PR). Budget submitting offices then prepare detailed budget exhibits and issue papers and submit them to FMB. After a detailed review of these exhibits, issue papers, and subsequent POM changes (if any), FMB budget analysts may request additional information prior to issuing adjustments (FMB Issue Papers) for each appropriation to the respective budget submitting offices, appropriation and resource sponsors. If any recipients disagree with the recommendations contained in the adjustments, they are permitted to submit reclamas stating their position. All reclamas are reviewed by the FMB staff. Unresolved issues are adjudicated by the DASN (Budget), consulting with senior officials in the Office of the Chief of Naval Operations and Headquarters, Marine Corps as appropriate in a staggered review. The Secretary of the Navy is briefed throughout the process on the current state of programs and proposed changes. SECNAV makes decisions throughout the review and after the final decisions, appropriation level and detailed controls are provided to budget submitting offices for preparation of the budget for submission to OSD and OMB.

2. Purpose and Objectives.

The preparation and review of program/budget estimates provides the basis for the Secretary of the Navy to make final resource allocation decisions prior to the submission of the Department's budget to OSD and OMB.

a. Development of Estimates.

The development of estimates by budget submitting offices is designed to ensure that those offices responsible for executing the budget participate fully in its formulation. Thus, management officials at all echelons must ensure that the estimates they develop result from meaningful and considered evaluations of resource requirements for their programs.

b. Review of Estimates.

These estimates are reviewed by the Office of Budget to ensure that they are consistent with all applicable program, policy, and budgetary guidance. The objectives of the DON Budget Review are as follows:

(1) To reflect POM programs in budget quality estimates ensuring that these programs are properly funded.

(2) To ensure that programs conform to overall performance goals, and budget and fiscal guidelines issued by higher authority including the Secretary of Defense and the Congress.

(3) To provide processes and procedures that ensure an integrated program and budget that is approved and supported by the Secretary of the Navy, Chief of Naval Operations and Commandant of the Marine Corps.

(4) To provide an opportunity for the Secretary of the Navy to reallocate resources based on current fiscal constraints and program information that may be substantially and significantly different from the data available at the time the POM was prepared.

(5) To involve managers at all echelons in the budgetary process.

(6) To ensure that personnel requirements and costs are held to the minimum necessary to support and accomplish approved program objectives.

(7) To provide managers at all levels an opportunity to evaluate the cost effectiveness of their operations and to propose the reallocation of resources as appropriate to improve performance.

(8) To provide for the consideration of alternative methods of accomplishing approved program goals and objectives.

(9) To ensure that the outyears accurately reflect the impact of program and funding decisions.

3. The Budget Submission to FMB (Program to Budget Transition).

While the program and budget review processes are concurrent, there are differences in the two processes. The basic decisions on program levels and program directions are arrived at through the Program Objectives Memorandum (POM) prepared by the Military Departments in response to the guidance furnished by the Secretary of Defense. This program review process operates within a set of fiscal guidance levels for each Military Department and is arrayed in a programmatic format along Defense Program, warfare area lines, or capabilities for which the Future Years Defense Program elements are the basic building blocks. In the budget review phase, the fiscal and program level detail is converted into its corresponding appropriation budget format in preparation for the review and approval of the Congress. It is incumbent on the organizations and individuals who prepare and review the budget to be aware of the contents of the POM and the rationale for its development and planned achievements while participating in the budget phase. POM documentation supporting the submission to the Office of the Secretary of Defense is made available by OPNAV and HQMC.

a. Differences between Programming and Budgeting.

A key difference between the programming and budgeting processes is the level of precision and accuracy associated with resource estimates. During the programming review, many different program alternatives are considered and a high level of precision in estimates is not required. More precise budget estimates are required to ensure the executability of the budget. The budget review provides the decision maker with the final opportunity to refine estimates to reflect the most accurate data available. Another difference is the structure in which programs are presented for review. The programming process provides data in DOD major program categories with resources identified by mission/capability/program element/line item/activity-subactivity group/project, while the budget process presents resources on an appropriation/budget activity/line-sub line item/activity-subactivity group/project basis. There are also differences in the amount and kinds of detailed justification used in each process, much more being required in the budget process to ensure programs are properly priced and phased. Another difference is that resources are allocated to resource sponsors in the programming phase and to budget submitting offices during the budget formulation phase, although both resource sponsors and budget submitting offices participate in both the programming and budgeting phases. One other difference is that OPNAV and HQMC have departmental responsibilities for the programming process while FMB has these responsibilities for the entire Department during the budget process.

b. PPBES Authoritative Data Base.

The Department of the Navy has created a single, authoritative database for maintaining a consolidated decision audit trail that is accessible to all participants in the process. The Program Budget Information System (PBIS) has been implemented to accept input from all bona fide PPBES participants and to allow for either simultaneous or allocated authority to update the system.

c. Budget Submission Control Numbers.

Near the completion of the POM, the Office of Budget issues control numbers to BSOs to begin formulation of the budget. Summary controls for all appropriations are issued initially followed by detailed controls (e.g., by procurement line item and sub-activity groups) to appropriate BSOs. These detailed controls are available electronically from the PBIS web site. Other information (e.g., audit trail from the January Future Years Defense Program to the POM) is also available. Additionally, liaison between the offices responsible for developing and reviewing the POM and those responsible for submitting budgets is an important element in the transition from programming to budgeting. Updated controls may be issued if final POM controls are vastly different from the initial controls.

4. Validation Teams.

The development of budget estimates relies on validation team analysis to identify significant pricing issues early in the program development process. Pricing models must be validated early in the program/budget review ensuring compliance with published pricing factors or development of alternative strategies enabling accurate formulation of price-factor-dependent budget estimates. Performance models link program performance with resources and align the resource management process to the organizational level directly responsible and accountable for results. Validation teams have been established for revolving fund efforts, investment, O&M, modeled programs and information technology.

a. Revolving Fund Pricing Validation Team (RFPVT) Review Process.

(1) Productivity/Efficiency Improvements and Other Intiatives. A review of revolving fund rates for Navy Working Capital Fund activities will be conducted in an effort to identify efficiencies in enterprise business areas that may free DON resources for application against high priority efforts. Savings can be generated from improved processes or productivity that allow output to remain the same (or increase) while the expenses of generating that output are reduced. Alternately, savings can be generated from a change in requirements where output is reduced (and thus cost) by a fundamental change such as lowering procurement quantities, eliminating system features, and eliminating systems from inventory. Additionally, besides productivity/ efficiency initiatives that result in rate adjustments, other situations may arise for which additional customer funding may be required (e.g. workforce revitalization, legacy network reductions, Enterprise Resource Planning). Any initiative that results in a deviation in rates from the established President's Budget percentages (for the budget years) must be submitted. Initiatives that are rate neutral should also be identified if they produce a change in operating expenses and/or direct labor hours.

(2) Review of Estimates. In order to give NWCF activities full credit for incorporating such initiatives in their submissions and to accurately calculate the impact that the initiatives will have on customer rates, BSOs should clearly identify the nature of approved efficiencies and the impact that these efforts will have on NWCF operations. As a minimum, the supporting detail should include the impact of approved efficiencies

on FYBY revenue, costs, end strength, full-time equivalents, and direct labor hours as well as the impact that these investments will have on FYBY stabilized and composite rates. Additionally, BSOs should provide specific customer information for those non-rate based initiatives for which customer TOA should be adjusted. BSOs should be prepared to provide business case analyses and supporting documentation for projected savings/benefits. Specific exhibit formats will be promulgated in budget guidance memos.

(3) Team Members. The estimates will be reviewed by the RFPVT members consisting of representatives from FMB4, N8, N2/N6, N4, OASN(RD&A), and cognizant BSOs. Absent resource sponsor support during the review cycle, initiatives may not receive favorable consideration during the NWCF budget review.

b. Investment Pricing Validation Team (IPVT) Review Process.

(1) Review of Estimates. In order to identify and assess potential pricing issues early in the program/budget formulation process, the IVPT will generally convene in February-March to discuss POM pricing of major shipbuilding, aviation, weapons, and C4I investment programs. It is anticipated that tentative acquisition profiles will have been established by the OPNAV staff by this time and the timing represents the most effective engagement window for the IPVT to assess associated pricing. BSOs should be prepared to provide supporting pricing justification for identified programs. In addition, resource sponsors and BSOs will be invited to submit information identifying any significant pricing issues with any of the estimates reflected in the tentative acquisition plans. Lastly, representatives from NAVSEA 05C and NAVAIR 4.2 cost estimating organizations will be asked to provide a risk assessment of the pricing reflected in the tentative shipbuilding and aviation plans. The result of the IPVT review will be used to validate the accuracy of POM pricing changes and to recommend strategies to DON leadership to mitigate program cost and risk.

(2) Team Members. The core team will be comprised of representatives from FMB2, ASN(RDA), N80, N8F, N2/N6, N4, and HQMC (as required).

c. Model Pricing Validation Team (MPVT) Review Process.

(1) Review of Estimates. The review emphasizes pricing adjustments in the budget year(s); however, pricing disparities through the FYDP should also be identified. Pricing models will be validated early in the program/budget review, ensuring compliance with published pricing factors or development of alternative strategies enabling accurate formulation of price-factor-dependent budget estimates. Performance models will link program performance with resources and align the resource management process to the organizational level directly responsible and accountable for results.

(a) Validated Modeled Programs. For each of the validated modeled programs, the presentation by the model manager should identify the pricing factors proposed for

use in the program/budget cycle, the key model parameters that drive resource requirements, and the justification for why different pricing factors should be used. The desired outcome of this review is a modeled program that remains valid, flexible and defendable through the cycle; and provides timely budget quality data. Additionally, it should establish an agreed upon cost/pricing baseline for assessing risk or readiness outcomes identified in future CNO or CMC POM proposals. For most of these programs, the initial MPVT will provide a cost/pricing review among stakeholders involved in the process.

(2) Team Members. The review team is comprised of the program model manager and representatives from FMB1, N81, N4, Commander, Fleet Forces Command (USFFC), Commander, Pacific Fleet (COMPACFLT), HQMC (as required), and cognizant representatives of other Secretariat organizations as appropriate. FMB representatives are responsible for ensuring that the cost/pricing factors used in this program/budget cycle are correct and defendable at higher levels of review, using MPVT results and other required exhibits that generate budget justification data. N81 is responsible for verifying that any proposed changes to cost/pricing methodology for determining resource requirements are consistent with or incorporated in the accredited version of the model and also for assessing the impact of each Navy program's cost/pricing factors throughout the FYDP. HQMC, N4 staff, USFFC, and COMPACFLT representatives are responsible for ensuring that the cost/pricing methodology is realistically related to the model's performance output in terms of the readiness or service level requirements resulting in the assurance that key performance metrics are being used to manage and justify program resources.

d. Information Technology Pricing Validation Teams

(1) Review of Estimates. The program/budget review gives resource sponsors and BSOs an opportunity to formalize emergent IT initiatives, such as specific enterprise software license (ESL) proposals or new initiatives for data center or web-based portal consolidation. IT initiatives that would free up resources for investment in other Department transformation or recapitalization initiatives should also be submitted by resource sponsors and BSOs. The program/budget estimates will rely on validation team analysis to identify significant non-embedded IT pricing and other issues early in the program development process.

(2) Team Members. The core team will be comprised of representatives from DUSN(BO&T), DONCIO, DON Deputy CIOs, command Information Officers (IOs), Functional Area Managers, BSOs, N2/N6, N4, N801, DON/AA, HQMC P&R and chaired by FMB4.

5. Lean Six Sigma Reporting.

The Department has been challenged to achieve greater efficiency and improved effectiveness, with the adoption of the Lean Six Sigma (LSS) approach. LSS is a proven business practice that combines the strategies of Lean (eliminate Non-value added activities and improve cycle time)

and Six Sigma (reduce variation and produce highly repeatable processes). LSS initiatives are applied to all areas, including those engaged in transactional, service, and support missions. The Secretary's stated mission for LSS is to create more readiness and assets within the Navy's budget through LSS. The DON is committed to enterprise transformation and Continuous Process Improvement (CPI) through LSS activities, and has championed the use of LSS as the primary toolset to establish CPI as a means toward increasing readiness and utilizing resources more efficiently and effectively. LSS savings from validated projects should be reported in conjunction with Issues entered in PBIS.

6. FMB Budget Review Sessions.

After an initial review and analysis of the material submitted in support of the budget estimates, each FMB analyst may schedule budget review sessions to review program details with representatives from BSOs, Resource Sponsors (RS), ASNs and other cognizant offices. The primary purpose for these sessions is to obtain additional information on programs for which the justification contained in budget exhibits does not adequately support the budget estimates. A schedule of budget review sessions for each appropriation/fund is issued by the respective FMB division and posted to the PBIS web page. The analyst conducting the session often provides questions in advance to facilitate the exchange of information at the session and to make BSOs and RSs aware of areas of concern or potential budget adjustments. Correspondence between the analyst and BSO points-of-contact will be by electronic mail (email). BSOs should ensure that an updated list of command email addresses for their organizations is provided to FMB32, Budget Systems Branch. Email addresses of FMB analysts are available from the (PBIS) web site. Video teleconferencing (VTC) equipment for budget review sessions and ad hoc meetings is available to each FMB Division.

7. The FMB Budget Adjustment.

After completing the review and analysis of the budget estimates contained in the submission, an Office of Budget (FMB) adjustment and explanatory issue paper is prepared (if required) for each appropriation/fund or major sub-division thereof. The adjustment contains recommended changes to the budget estimates and the rationale for these changes. Adjustments will be prepared by cognizant FMB budget analysts, issued by the appropriate division director, and posted to the web site for viewing and/or downloading electronically. Unless a reclama or issue paper to the adjustment is submitted, these adjustments become final decisions.

a. Office of Budget Review Policy.

Given the constraints of guidance provided by OSD and OMB, the review and analysis of budget estimates effects a balance of program profiles with resources available to the DON. In view of the relationship of individual program/budget estimates to the total DON, DOD and Federal budgets, it is important that individual budget estimates are consistent with the same economic principles and other assessments that underlie the total DON, DOD and Federal budgets. Furthermore, uppermost in the guidance for approving budget estimates is the need to provide essential requirements at minimum costs.

(1) During the formulation of program/budget estimates there is an inherent conflict between the reviewing analyst and the cost estimators who prepare and submit the estimates. This conflict emanates from the reviewing analysts who:
- make a "downward bias" assessment when initially reviewing program estimates;
- question program repricing which is not supported by guidance;
- and differentiate budget formulation assumptions from cost estimate parameters.

(2) A "downward bias" then appears which is, in fact, the only ultimate assurance at the departmental level that the assessment of programs and resources is astutely and fairly examined. The ultimate impact is as likely to be an upward assessment as it may be downward, but initially the concept is that all cost estimates can be reduced. Cost estimates invariably do include an area of cost uncertainty and a range of overstatement factors, often ascribed to the impact of inflation. Therefore, what may be perceived as a hedge against program risks and cost overruns by the cost estimator, is in all practicality viewed as "capricious" repricing by the budget reviewer.

Frequently a protective blanket encompasses the program manager's estimate of requirements that is in conflict with the budget reviewer's assumptions regarding the estimates. While such a pricing philosophy may be fitting and proper from an estimator's point of view, the budget reviewer's responsibilities demand an affidavit of true need where cost uncertainties and overstatements are obvious.

(3) If budget estimates were not substantiated by an "unbiased" examiner as occurs in the DON process, the loss of both programs and dollars could be quite costly to total departmental estimates. The final commitment to the departmental budget estimates requires the accomplishment of a qualitative analysis of the program statement of requirements.

(4) This conflict is an integral part of the comprehensive, intensive review and analysis efforts associated with the budget process that are made continuously from the initial planning and programming cycle, through formulation and justification, and on to final execution. This process not only provides a sound basis for projection of future estimates, but also an effective management tool for the approval of departmental programs and dollar estimates.

b. <u>Adjustment Coverage.</u>

Although review and analysis techniques vary from account to account and from analyst to analyst, there are a number of common areas addressed in the FMB adjustment. The following paragraphs address some of the areas covered.

(1) <u>Approval for Production</u>. One of the key factors to be considered in formulation of procurement budgets is the readiness of an item to enter production. An objective of the FMB analyst is to ensure that programs are meeting scheduled milestones leading to a

production decision. This type of adjustment addresses readiness for production issues in the context of budget submission guidance as discussed in Part II, Chapter 5.

(2) Unfunded Requirements. These adjustments resolve funding deficiencies in one of two ways. For those programs that cannot be executed due to improper POM program pricing or imbalance with other appropriations, the deficiency must be funded with offsets nominated by the resource sponsor. The other type of shortfall to be addressed is one which occurs following the POM submission and over which the resource sponsor has no control. In this case, the program should be properly priced without requiring offsets.

(3) Pricing. An important objective of the review is to ensure that program pricing is reasonable and that budget submitting offices have followed published guidance. If pricing guidance has changed subsequent to the submission, then program pricing will be changed in the adjustment.

(4) Program Executability. Whether a program can be executed during the budget year is a key consideration during the review. Factors such as prior and current year contract award status and contractual administrative requirements leading to award are examined. Budget estimates are reviewed to ensure that requirements are budgeted lead time away from need, that end item and support lead times are properly phased, that long lead materials are available, that production rates are achievable, that unit costs are reasonable, and that all deliveries occur within the funded delivery period. Additionally, the balance of manpower and dollars (including use of average military personnel cost rates and estimated military personnel turnover), consistency of budget estimates and deployment schedules, construction design status, and the phasing of maintenance requirements and resources are analyzed.

(5) OSD Adjustment. Adjustments made during the OSD review will be promulgated through the use of PDM, PBD, RMD, RDD, or MID.

(6) Congressional Action. The latest Congressional actions on the DOD Budget may be incorporated into an adjustment (if direction is received by DOD to reflect latest Congressional action in the OSD/OMB budget submission).

(7) Audit Savings. Budget Submitting Offices are required to reflect audit report findings and recommendations in their budget estimates. Adjustments will ensure that audit savings are reflected where appropriate. This will afford the DON the opportunity to effect efficiencies and economies while redistributing the resultant savings to satisfy other program needs. Additionally, it ensures that valid savings are available to the DON instead of being lost to OSD and Congressional budget reductions. It also provides the opportunity to identify invalid savings recommended in audit reports and to develop a rational defense against inappropriate budget reductions by OSD and the Congress.

(8) Interappropriation Transfers. To the extent that questionable items are identified in the budget review, FMB will ensure that items are budgeted in the proper appropriation, as delineated in DON Financial Management Policy Manual. If it is determined that a particular item has not been budgeted in the correct appropriation, the adjustment will recommend an interappropriation transfer.

(9) Prior Year Performance. In reviewing budget estimates, FMB will ensure that funds are budgeted for the year in which they are required. Based on historical trends that reflect the rules of full funding for procurement and construction and incremental funding for O&M and R&D, accepted obligation and expenditure rates have been established for each appropriation. To the extent that a program's obligation and/or expenditure rate in the prior year deviates significantly from the past appropriation pattern, a funding profile problem is indicated. Extremely low obligations/expenditures tend to reflect "forward funding," or funding in advance of annual requirements, while unusually high obligations may reflect a funding shortfall. Such aberrations will be reviewed and funding rephasings recommended as appropriate in the adjustment.

(10) Outyears. Although the primary emphasis of the FMB adjustment is on the budget years, outyear adjustments are made as required to reflect accurately the impact of the program and funding decisions made during the budget review as well as the impact of fiscal reality.

c. Preparation and Distribution of the adjustments.

All changes made to the budget estimates are documented as adjustments (historically known as marks, more recently as issue papers). A collection of issue papers may be prepared for each appropriation/fund or major subdivision thereof generally from June to August or the adjustments may be issued individually as they become known. A specific schedule for the budget review is published each year in a Budget Guidance Memorandum. To reduce the number of adjustments, they will generally be limited to issues of $1 million or more. Analysts may include recommendations to make adjustments of less than $1 million when critical to correct justification material or address policy issues. While cognizant analysts prepare these issue papers, they are approved by the respective division director after review by the branch head, division director and usually FMB. After the issue papers are approved for release, they are posted to the web site and accessible through PBIS for viewing by all cognizant offices in the Department. Supplemental adjustments may be issued to cover PDM adjustments, Congressional actions, CNO/CMC/SECNAV directed changes, new pricing guidance, or any other action that occurred too late to be included in the initial adjustment.

8. Reclama Procedures.

Reclama procedures have been established to provide budget submitting offices and other DON organizations an opportunity to respond to adjustments made in the FMB adjustment. If a reclama is submitted to a specific adjustment, then that adjustment is considered a tentative decision until the reclama is resolved. If no reclama is submitted, then the adjustment becomes a final decision.

a. Criteria for submitting reclamas

(1) Reclamas are an important part of the dialogue necessary in formulating the final DON budget. Reclama procedures are designed to guard against arbitrary or incorrect adjustments made during the DON Budget Review. They are not designed to provide submitting offices or sponsors an opportunity to shift funds from one program to another. Reclamas should not attempt to direct funds to programs other than those adjusted.

(2) Budget submitting offices have action in preparing and submitting reclamas, unless specifically directed in writing to a sponsor. It is not necessary for a sponsor to submit a reclama to show support for a program. Budget submitting offices should take several factors into consideration before preparing a reclama. The reviewed adjustment should be read with a full understanding of the rationale behind it. If necessary, the FMB analyst who wrote the adjustment should be contacted for purposes of clarification. The reclama should address the specific issue and rationale contained in the adjustment. Inclusion of other information, while sometimes appropriate, often detracts from the reclama and almost always lengthens the review time. The reclama should concentrate on factual disagreements, whether they are errors or omissions of fact. While reclamas based on differences of judgment are not always inappropriate, such reclamas should consider which level of authority (and thus perspective) is appropriate for the specific issue. The approach described above will optimize the submitting office or sponsor's position and require less time to resolve.

b. Preparation Instructions.

The reclama format template is available from the PBIS web site, along with other pertinent DON budget review information including the latest schedule of events and due dates. Due dates for submission of reclamas also are contained in the issue paper for each individual issue. Normally, reclamas are due on the fourth working day after the release of the issue paper. All reclamas must be electronically submitted to the issue paper web site. Procedures for submitting reclamas are published in Budget Guidance Memoranda.

c. Reclama Review Process.

Full discussion of the issues raised in the adjustment and disputed in the reclama is provided for. Several levels of review are in place for the resolution of issues:

(1) The majority of issues will be resolved with the cognizant FMB analyst and branch head, who have the authority to resolve any issues addressed in the reclama.

(2) Issues not resolved with the analyst/branch head will be presented to the appropriate division director for final resolution.

(3) An opportunity may be provided for BSOs to discuss major issues with the appropriate FMB division director. These meetings will be limited to specific time allotments and will be attended by senior organizational representatives. Video teleconferencing (VTC) equipment is available for these meetings. Additionally, Program Budget Coordination Group (PBCG) meetings may be held throughout the review process with participation at the DASN and two-star level to resolve program and budget issues that arise during the review.

(4) DASN (Budget) meets with the Deputy Chief of Naval Operations for Resources, Warfare Requirements and Assessment (N8) for a discussion of Navy issues. Often, the cognizant appropriation sponsor and program sponsor also attend these meetings. DASN (Budget) also meets with representatives of Headquarters, Marine Corps (P&R) to resolve Marine Corps issues.

(5) Major departmental issues which cannot be resolved by the DON Budget Officer or the PBCG will be forwarded to the ASN(FM&C) for final disposition. The ASN (FM&C) may provide decisions or may opt to present selected issues to the SECNAV with recommendations for final disposition.

d. <u>Budget Adjustment Restorals.</u>

(1) Issue resolution results are to be entered by FMB staff in PBIS no later than 24 hours after the discussion in which the decision is made, and as such, provide the official documentation of budget decisions. BSOs and other interested parties are responsible for viewing the information available with the understanding that the absence of a restoral entry also is a decision result. If results in PBIS are not consistent with an expectation of issue resolution decisions, it is incumbent upon the BSO to contact the cognizant FMB analyst. All approved restoral information is available on the web site.

(2) Decisions on restorals are documented in electronic form on the PBIS web pages. Whenever ambiguity or extenuating circumstances are anticipated or if an expected result is not received, BSOs, sponsors, or other parties are encouraged to draft a memorandum of decision and submit it for approval by FMB staff. It is recommended that any agreement that is expected to result in a restoral of a recommended adjustment AFTER the prescribed 24 hour period, or which is conditional on future action or additional information, be documented by a memorandum of decision. This will eliminate any conflicting expectations from the restoral process. Memorandum of decisions may be in any form (e.g. point paper), not to exceed one page and must include an approval blank for endorsement by FMB staff. This will serve as documentation of any extraordinary resolutions to issues addressed in markup documents.

9. SECNAV Decisions.

The DASN (Budget) provides status updates to the Secretary of the Navy throughout the review process and incorporates decisions made. Additionally, near the end of the process (late July –

early August) an overview of the proposed budget reflecting the decisions made during the DON budget review, along with any unresolved issues, is presented to the Secretary of the Navy for final decisions. The Chief of Naval Operations, Commandant of the Marine Corps, Under Secretary and Assistant Secretaries of the Navy participate in this presentation to provide advice or alternative recommendations to the Secretary. This overview depicts the significant programs and issues for each appropriation and for civilian and military personnel.

a. Outyear Rebalancing.

The primary emphasis in the DON review is to achieve a balanced budget submission within the fiscal guidance provided by OSD. However, it is also necessary to balance each of the outyears within established fiscal guidance and to be consistent with the decisions made by the Secretary of the Navy on the budget. Following the presentation of the budget to SECNAV, FMB finalizes the DON outyear program.

b. Final DON Budget Controls.

The final step in the DON Budget Review is the issuance of control totals for submission of budget estimates to OSD/OMB. Final decisions resulting from the Secretary of the Navy review are reflected in these fiscal controls and no deviations from these controls are allowed.

10. Schedule.

The specific schedule for the various events involved in the DON budget review varies for each cycle. The schedule is keyed to the need to submit the DON budget in accordance with the schedules established by the Office of the Secretary of Defense and the Office of Management and Budget. Normally the submission to OSD and OMB is required by the middle of August. The start date is similarly constrained in that the budget submission to FMB is based on the programs contained in the Department's SPPs and POM, ranging from April - late May. Specific dates are published in FMB Budget Guidance Memoranda and in the DON budget calendar on the PBIS web site.

CHAPTER 4

Budget Submission to the Office of the Secretary of Defense (OSD)/Office of Management and Budget (OMB) and the OSD/OMB Review

The OSD and OMB joint budget review occurs after the DON budget review and just before the submission of the President's Budget to the Congress. It consists of submission of the budget estimates by the Military Departments and Defense Agencies to OSD/OMB, the review of those estimates by the staffs of OSD/OMB, and final decisions on the allocation of resources by the Secretary of Defense and the President. The purpose of this review is to ensure that estimates supporting the DOD goals and reflecting the program approved by the Program Decision Memorandum are executable, reflect a proper balance between Military Departments for joint programs, accommodate final DOD fiscal guidance, and are supportable in subsequent review by the Congress.

1. Overview of the Process.

The USD (Comptroller) guidance memorandum will provide specialized instructions such as program basis for the estimates, key assumptions to be used and special supporting material requirements. In addition, "supplementary instructions" issued on an "as needed" will be limited to specific instructions which amplify guidance in the OUSD(C) memorandum and the DoD Financial Management Regulation. FMB prepares the formal transmittal memorandum, the summary exhibits, and the automated submission that constitute the official budget submission. Budget submitting offices prepare detailed exhibits and submit them to FMB via JMS for consolidation and/or clearance and subsequent submission to OSD and OMB. The OSD and OMB budget staffs review these exhibits and may conduct hearings to gather additional information. These staffs then prepare Program Budget Decisions (PBDs), Resource Management Decisions (RMDs), Resource Decision Documents (RDDs) and Management Initiative Decisions (MIDs) that are ultimately signed by the Secretary of Defense, the Deputy Secretary of Defense or the Under Secretary of Defense (Comptroller). These PBDs/RMDs/RDDs/MIDs are reviewed in draft form by all interested offices (budget submitting offices, appropriation and resource sponsors, and other staff offices). If appropriate, a DON position is forwarded by the Assistant Secretary of the Navy (Financial Management and Comptroller) in a formal coordination document. After consideration of the Department's position, the PBD/RMD/RDD/MID is signed. A list of all PBDs//RMDs/RDDs/MIDs received for coordination as well as all reclamas, coordination memoranda, summaries, and signed PBDs/RMDs/RDDs/MIDs are typically available electronically from the web site.

Additionally, as part of the integrated program/budget review process, OSD (CAPE) conducts a review, with those results documented in the Program Decision Memorandums (PDMs). Selected issues that are accepted for review will be presented to the 3-Star Programmers, the DAWG, and/or the Senior Leadership Review Group (SLRG) for review and decision.

Following review, issues are presented to the Deputy Secretary of Defense for decision. Program Review decisions are recorded and disseminated in PDMs.

Near the end of the budget review, USD (C) generally offers a forum in which the DON leadership can address remaining Departmental issues. Following the OSD review, the Secretary of Defense meets with the Director of OMB and the President to resolve any issues raised by OMB and to receive final Presidential decisions. Following this meeting, final decisions are issued in the form of PBDs/RMDs/RDDs/MIDs and appropriate controls are issued for preparation of the President's Budget.

2. Purpose and Objectives.

The budget estimates submitted to and reviewed by OSD/OMB provide the basis for the Secretary of Defense and the President to make final resource allocation decisions prior to submission of the President's Budget to the Congress.

a. Submission of Estimates.

The Office of the Secretary of Defense requires that each Military Department submit detailed justification material in support of the budget estimates. Within the DON, the development of these estimates occurs during the DON budget review. Budget submitting offices and other DON organizations participate in that process and are also responsible for preparing the detailed exhibits supporting the budget estimates submitted to OSD and OMB. This participation ensures that those offices responsible for executing the budget participate fully in its formulation.

b. Review of Estimates.

Similar to the review within the Department of the Navy described in Chapter 3, the review of estimates by OSD and OMB is designed to ensure that they are consistent with all applicable program, policy, and budgetary guidance. Within the DON, procedures for this review have been developed to allow participation of budget submitting offices, sponsors, and other DON organizations in order to ensure that the offices responsible for execution and for program development participate in the decision-making process and are aware of the reasons for the decisions made in this process.

3. The DON Budget Submission to OSD/OMB.

The budget submission to OSD/OMB begins with the publication of control numbers. It includes the preparation and submission of summary and detailed exhibits, the subsequent submission of Amended Budget Submissions (ABS) if needed, and the updating of the budget estimates for end of year accounting result. This chapter generally describes each of these activities while Part III provides more detailed guidance and requirements.

a. Publication of Control Numbers.

The issuance of appropriation controls is both the final step in the DON budget review and the first step in preparing the OSD/OMB budget submission. These controls incorporate POM

and/or final Secretary of the Navy decisions affecting the Department's budget. They form the basis for the preparation of both summary and detailed exhibits by all offices throughout the Department responsible for preparing budget materials. The use of these controls by all offices ensures that the Department's budget estimates are consistently presented in all material provided to OSD and OMB. When final, BSO controls are available electronically in PBIS.

b. Transmittal Memorandum and Summary Exhibits.

The official DON budget must be formally transmitted by the Secretary of the Navy. A memorandum in which the Secretary expresses major policy concerns as they relate to the budget accomplishes this. Accompanying this transmittal memorandum are an overview book (Blue Book), several summary exhibits, and summary data in automated format. The overview book provides the highlights of the DON budget for senior officials in the Department of Defense and the Office of Management and Budget. The summary exhibits and automated data are required to allow OSD to verify that the submission is in accordance with the fiscal guidance and to establish a baseline for its automated control system.

c. Detailed Budget Exhibits.

These exhibits provide the basic information used by the OSD and OMB staffs in the detailed review of the Department's budget. Accordingly, it is important that they are in agreement with the published control numbers, are consistent with the separately prepared summary exhibits, and reflect the program and policy position of the DON. The responsibility for ensuring that these exhibits properly support the Department's budget is shared by the offices that prepare them and by the Office of the Assistant Secretary of the Navy (FM&C) that reviews them prior to submission to OSD and OMB.

d. Additional Budget Submissions.

Appropriation sponsors, resource sponsors, budget submitting offices, or the Secretariat should notify FMB whenever it is believed that it is necessary to revise the budget estimates. To the extent these changes are identified after submission of the budget to OSD/OMB, FMB will pursue alternative methods of advising OSD of the changes.

e. Actual Year Update of Budget Estimates.

The final phase of the budget submission to OSD and OMB consists of updating the budget estimates based on the final end of year accounting reports. This submission, which normally occurs in late October, primarily affects the prior year columns of the budget. However, the current and budget years are also adjusted to reflect the effect of prior year performance on obligation and outlay estimates. Budget submitting offices are required to provide automated updates to the Program Budget Information System (PBIS) to reflect final end of year accounting results contained in the DD 1002 and SF 133.

4. OSD/OMB Budget Hearings.

After an initial review and analysis of the material submitted in support of the budget estimates, the USD(C) staff may schedule hearings to review program details with representatives from the Military Departments and Defense Agencies. FMB divisions will promulgate hearing schedules to sponsors, budget submitting offices, and other interested organizations. DON representatives attending these hearings usually include appropriation and resource sponsor staffs as well as personnel from operating activities. The OSD or OMB analyst may provide questions in advance that are intended to be asked at the hearing. If available, the FMB analyst will provide the questions to the appropriate sponsors and budget submitting offices. Although every effort is made to provide all information requested by the analysts prior to the budget hearing, there are instances in which additional information has to be provided after the hearings have been completed. DON policy is that any required additional information be submitted, reviewed, and cleared by the FMB analyst. Further, this information should be delivered to OSD or OMB analysts as quickly as possible.

5. Program Budget Decision (PBD), Resource Management Decision (RMD), Resource Decision Documents (RDD), Management Initiative Decision (MID) and Reclama Procedures.

Prior to submission of the budget to OSD/OMB, the USD(C) promulgates a list of PBD/RMD/RDD/MID numbers and titles to be used to issue budget decisions. These PBDs/RMDs/RDDs/MIDs contain broad groupings of similar or related programs.

a. Preparation of PBDs/RMDs/RDDs/MIDs in OSD

(1) The decision making process within the OSD focuses on the preparation, processing and promulgation of PBDs/RMDs/RDDs and, less frequently, MIDs. These decision documents are designed to provide the SECDEF with an analysis of the funding and program requirements as requested by the Military Departments or Defense Agencies/ Components along with one or more alternative recommendation(s). A PBD/RMD/RDD normally highlights problems with program milestones or funding so that the SECDEF has the opportunity to take corrective action, for example, to add funding necessary to meet schedule deadlines or delay funding until problems are resolved. A MID may be issued to highlight reform or process improvement initiatives. Although this is a combined OSD/OMB review, the PBD/RMD/RDD/MID process is a mechanism designed to permit the SECDEF to examine DOD programs prior to meeting with the President and the Director of OMB to resolve final levels of Defense spending.

(2) USD(C) analysts prepare PBDs/RMDs/RDDs/MIDs with input from the OMB analysts as appropriate. The PBDs/RMDs/RDDs/MIDs are reviewed by senior members of the Comptroller staff, and after approval by the Comptroller, are coordinated simultaneously with the Military Departments and other OSD offices. Following this coordination and consideration of responses received, the PBDs/RMDs/RDDs/MIDs are forwarded to the SECDEF for signature.

(3) In order to ensure that all offices are notified of PBDs/RMDs/RDDs/MIDs on a timely basis, each DON office is requested to provide points of contact and email addresses of the responsible individuals. FMB32 is responsible for updating the standard distribution lists for PBDs/RMDs/RDDs/MIDs annually before the start of the PBD/RMD/RDD/MID review.

b. Coordination PBDs/RMDs/RDDs/MIDs

(1) Coordination PBDs/RMDs/RDDs/MIDs are sent by the USD(C) to FMB at the time they are circulated for coordination within OSD. The FMB office responsible for receiving the PBD/RMD/RDD/MID and coordinating all processing is FMB32. DON is normally allowed the opportunity to comment on these drafts, usually within a 24 to 72 hour period. DON positions will be formulated based upon the issues contained in the draft PBD/RMD/RDD/MID.

(2) Since coordination PBDs/RMDs/RDDs/MIDs are being provided to DON as a courtesy, it is necessary for addressees to respond expeditiously in order that DON comments receive favorable consideration. It is also important that information addressees who are responsible for a portion of a reclama provide their input in sufficient time to meet this deadline.

(3) Upon receipt of a PBD/RMD/RDDMID by DON, FMB32 posts the electronic copy of the PBD/RMD/RDD/MID to the PBIS web site. The copy includes a Routing Information Sheet (RIS) that specifies the lead FMB analyst as well as the reclama and reclama review due dates and times. It is imperative to strictly adhere to all dates and times indicated.

c. Reclamas

(1) Action offices should take several factors into consideration before preparing a reclama. The PBD/RMD/RDD/MID should be read with a full understanding of the rationale behind it. If necessary, the cognizant FMB analyst should be contacted for purposes of clarification. The reclama should then be written to address the specific issue and rationale used in the PBD/RMD/RDD/MID. Inclusion of other information, while sometimes appropriate, often detracts from the reclama and almost always lengthens the review time. The reclama should concentrate on factual disagreements, whether they are errors or omissions of fact. While reclamas based on differences of judgment are not always inappropriate, such reclamas should consider which level of authority (and thus perspective) is appropriate for the specific issue. The approach described above will not only optimize the reclama, but will also save time in reclama reviews.

(2) Reclamas should be forwarded with the endorsement of a responsible official of the organization.

(3) Reclamas should be uploaded to the PBIS PBD web site prior to the time specified. Each reclama will address a specific PBD/RMD/RDD/MID issue following the instructions and format provided at the web site. A point of contact with phone number should be provided for each reclama.

d. Reclama Reviews

(1) Reclama reviews are conducted to discuss the issues raised by OSD/OMB in the PBD/RMD/RDD/MID. All PBDs/RMDs/RDDs/MIDs received generally will be scheduled for a reclama review, even if no coordination comments are planned. Reclama reviews for draft PBDs/RMDs/RDDs/MIDs are normally held the second day following receipt of the draft PBD/RMD/RDD/MID by FMB and will be conducted in the FMB conference room, 4C355, Pentagon. The DASN (Budget) reviews all proposed reclamas on the date and at the time specified on the RIS. The assigned FMB lead analyst will present all reclama papers submitted and highlight any other pertinent considerations on all PBD/RMD/RDD/MID issues. To ensure that all concerns and positions are addressed, representatives from the Secretariat, the Service Headquarters (including appropriation/resource sponsors), BSOs and PEOs/DRPMs may attend as appropriate. Because of time constraints, this review will serve as the only vehicle for internal DON consideration.

(2) Following the FMB reclama review, the assigned action office is responsible for incorporating any required revisions to these reclamas.

(3) The official DON comments on issues are communicated to the USD(C) in a Coordination Memorandum, normally signed by the Assistant Secretary of the Navy (Financial Management and Comptroller). The assigned FMB lead analyst prepares the coordination memorandum on the basis of reclamas submitted and decisions made in the reclama review.

(4) FMB3 is responsible for delivery of the signed DON comments to the USD(C) organization. Coordination memos are available electronically from the PBIS web site.

e. Signed PBDs//RMDs/RDDs/MIDs.

After consideration of comments on the drafts, the USD(C) will finalize the PBDs/RMDs/RDDs/MIDs and forward them for signature. After signature, PBDs/RMDs/RDDs/MIDs will generally be posted to the PBIS web site for viewing by cognizant DON organizations. In the event a significant signed PBD/RMD/RDD/MID is received for which no coordination was completed within DON, the reclama review procedures outlined for coordination PBDs/RMDs/RDDs/MIDs will be followed in order to formulate a DON position.

f. PBD/RMD/RDD/MID Status Reports and Electronic Access

(1) The USD(C) operates a control system that documents all decisions in the data base and which provides status reports for OSD management as well as for the Military Departments and Defense Agencies/Components. FMB is responsible for monitoring this control system for the DON, for operating a DON system to supplement the OSD system, and for providing status reports within the DON.

(2) The automated submissions from the Military Departments and Defense Agencies/Components for TOA and military and civilian end strengths are used by OSD to establish a data base for recording all decisions during the OSD/OMB review. After each PBD/RMD/RDD/MID is signed, all changes are entered into the data base by appropriation, budget activity/subactivity/special project code, and PBD/RMD/RDD/MID. The system automatically creates the obligation, expenditure, and financing adjustments associated with these decisions. OSD considers its data base to be the official record of budget estimates and decisions. It provides the official OSD input to OMB for printing the President's Budget documents, a series of financial summary tables supporting the President's Budget, and an audit trail of changes from the initial submission of DOD components.

(3) OSD usually provides an electronic set of computer reports with each batch of signed PBDs/RMDs/RDDs/MIDs available from the PBIS web site. These reports are to ensure that the PBD/RMD/RDD/MID decisions contained in the batch are reflected correctly in the data base. Any errors are brought to the attention of the appropriate OSD analysts by FMB analysts.

(4) FMB maintains various electronic status reports which reflect the daily, cumulative and dollar status of PBD/RMD/RDD/MID issues. These reports, as well as copies of unclassified coordination PBDs/RMDs/RDDs/MIDs, are accessible to users of PBIS web site at any time and reflect up-to-date information on the PBD/RMD/RDD/MID process.

6. Final Decisions.

The initial PBDs/RMDs/RDDs/MIDs are considered tentative decisions. Final decisions in the OSD/OMB review result from three separate activities: PBDs/RMDs/RDDs/MIDs responding to DOD component reclamas, the Major Budget Issues meeting, and the SECDEF meeting with the President. Decisions from all three sources, however, are recorded by PBDs/RMDs/RDDs/MIDs.

a. Major Budget Issues Meeting

(1) Near the end of the OSD/OMB review (usually early December) the Secretary of the Navy may meet with the Secretary of Defense to discuss signed PBDs/RMDs/RDDs/MIDs that the Department still takes exception to in a Major Budget Issue meeting. Usually, the Chief of Naval Operations and the Commandant of the

Marine Corps attend this meeting with the Secretary. FMB3 staff is responsible for coordinating Major Budget Issues (MBIs).

(2) Each year, the USD (Comptroller) issues guidelines governing this meeting, including the schedule, formats of required material, and deadlines for submission of material. The DON, however, is free to select the issues to be discussed. Preparation for this meeting is coordinated by FMB including the issuance of guidance, reviewing the issues that are nominated and the supporting material, providing MBI books for DON principals, and submitting the required material to OSD. ASNs, BSOs, and Resource sponsors may nominate issues and prepare briefing material for their nominated issues.

(3) Not all issues are resolved at this meeting. Some require additional staff work and some are delayed pending SECDEF's meeting with the President. All decisions are eventually documented by PBD/RMD/RDD/MID; these PBDs/RMDs/RDDs/MIDs may be new or changed/revised ("C"/"R" version) PBDs/RMDs/RDDs/MIDs.

b. <u>SECDEF Meeting With the President</u>

(1) Each year the Secretary of Defense and the Director of OMB meet with the President as part of the final Presidential determinations regarding the budget and to resolve any outstanding issues between OMB and SECDEF. The decisions resulting from this meeting can include new inflation indices, end strength numbers, specific Defense program decisions challenged by OMB or of extraordinary national significance, and new Defense Budget totals.

(2) After this meeting, OSD issues PBDs/RMDs/RDDs/MIDs that incorporate the President's decisions in the Defense budget. Similar to the PBDs/RMDs/RDDs/MIDs reflecting MBI decisions, these PBDs/RMDs/RDDs/MIDs may be issued as new or as changed/revised ("C"/"R" versions).

7. Conclusion of the OSD/OMB Review.

The SECDEF meeting with the President concludes the decision-making phase of the OSD/OMB review. However, in addition to the issuance of PBDs/RMDs/RDDs/MIDs documenting these decisions, more work often remains to incorporate these final decisions into the budget estimates.

a. <u>Wrap-up PBDs/RMDs/RDDs/MIDs.</u>

At or near the end of the OSD/OMB review, summary PBDs/RMDs/RDDs/MIDs are normally issued that address the totals approved for each appropriation, correct any major errors, and assess the financing of the revised current year estimates. PBDs/RMDs/RDDs/MIDs also are prepared to incorporate final Congressional action on the current year and its impact on the budget year.

b. OMB Printing Process

(1) OMB establishes a work schedule that is designed to allow the budget document, the Budget of the United States, to be printed in time to be transmitted with the President's Budget Message on the first Monday in February. The first priority after final Presidential decisions is the incorporation of these decisions in the detail required by OMB.

(2) In early December, after the actual year accounting results have been updated in the budget, OMB locks the prior year column of the budget. No additional changes to the prior year column are permitted.

(3) Immediately after Presidential decisions on the current and budget years, OMB establishes TOA and obligation controls by appropriation and budget activity as well as budget authority, outlay, and object class controls by appropriation. Once these controls are established and provided to OMB, no additional changes are allowed.

c. DON Controls for the President's Budget

(1) Final decisions must also be incorporated into the detailed budget. Often final decisions are not specific and may affect all or virtually all line items in the budget. In these cases, OMB and OSD sometimes establish appropriation and budget activity controls before the line item distribution is completed.

(2) FMB issues controls by appropriation, budget activity, line item, activity/sub-activity group and special interest; program element (R&D), and project (R&D, MCN, MCNR, FHCON). Civilian personnel workyear controls are issued by appropriation, fund, budget line item, and type of hire (U.S. Direct, Foreign National Direct, and Foreign National Indirect, direct and reimbursable). Normally, these controls are initially issued at the appropriation level with the detailed controls below that level issued only to affected budget submitting offices. No deviations from these controls are permitted.

8. Schedule.

The specific schedule for the various events involved in the OSD/OMB budget review varies each cycle. The schedule is keyed to the need to submit the President's Budget to Congress on the first Monday in February. Specific dates are published in FMB Budget Guidance Memoranda.

CHAPTER 5

Submission of the President's Budget and the Congressional Review

By law the President is required to transmit an annual budget request to the Congress for the entire Federal government. In accordance with the Constitution, only the Congress can propose the appropriation of federal money. This chapter describes how the President, through OMB and OSD, fulfills this legal responsibility and how the Congress carries out its Constitutional responsibility. It also provides guidance and instructions for the DON's participation in both the submission of estimates supporting the President's Budget and in the Congressional review process.

1. Overview of the Process.

The starting point for the Congressional review phase of the budget process is the President's transmittal of the budget to the Congress. Within the Executive Branch, however, preparation of material supporting the President's Budget begins near the end of the OSD/OMB budget review. OMB establishes topline agency budget controls after final Presidential decisions, OSD establishes appropriation controls within this topline by issuance of final PBDs/RMDs/RDDs/MIDs, and finally FMB establishes line item and budget submitting office controls within these appropriation controls. These controls are established to allow OMB, OSD, and the DON to prepare budget documents and justification material that consistently support the President's Budget from the total federal level down to the individual program and line item level. After receipt of the President's Budget, the Congress conducts hearings with Executive Branch representatives, ranging from the Director of OMB and the Secretary of Defense to individual program managers in the DON. After reviewing the President's Budget in committees, the Congress approves a budget resolution, binding only on the actions of its committees, which sets ceilings on the total Federal budget and the National Defense function. It then approves legislation authorizing the establishment and nature of federal programs and approves legislation that would appropriate money to fund these programs. In addition to participating in the Committees' reviews of the budget, the Department of Defense participates in the legislative process by providing to the committees, over the signature of the Secretary of Defense, its views on differing authorization and appropriation bills proposed by the two bodies of Congress. Upon occasion, the President will transmit to the Congress an amendment to the budget request before the Congress passes the appropriation bills, and may also transmit supplemental appropriation requests.

2. Purpose and Objectives.

The budget estimates submitted to, and reviewed by, the Congress provide the basis for the Congress to make the final resource allocation decisions that result in the enactment of appropriations.

a. The President's Budget.

The Budget and Accounting Act of 1921 requires that the President submit to the Congress an annual budget request for the entire Federal government. This law enables the President to use the "power of the purse" to establish national priorities through the budget process. The President's Budget submitted to the Congress sets forth the overall financial plan for the Federal Government indicating the priorities and proposals for government programs and financing as well as the detailed budget requests for the individual departments and agencies. Within the DON, the development of estimates included in the President's Budget occurs during the DON and OSD/OMB budget reviews. Budget submitting offices participate in those reviews and are also responsible for the initial preparation of much of the justification material supporting the budget estimates provided to the Congress. This ensures that offices responsible for executing the budget also participate in its formulation.

b. The Congressional Review.

The Congress carries out much of its Constitutional authority over Federal revenue and spending through the process of reviewing and marking up the President's Budget request. Article 1, Section 8 of the Constitution states that...."The Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defense and general Welfare of the United States; Article 1, Section 9 states that "No money shall be drawn from the Treasury but in Consequence of Appropriations made by Law;...." Within the DON, procedures have been developed to allow participation to the extent possible in the Congressional process by budget submitting offices and sponsors to ensure that the offices responsible for budget execution and program development provide necessary support for the budgeted program and are aware of the reasons for decisions made in this process.

3. The President's Budget Submission to the Congress.

The budget submission to the Congress begins with the publication of control numbers. It includes the transmittal of the President's Budget message and the preparation and submission of budget documents by OMB, OSD, and the DON. It also includes the transmittal of any subsequent budget amendments and supplementals. This section generally describes the budget submission to the Congress, while Part IV provides detailed guidance on required budget documents.

a. Publication of Control Numbers

(1) The issuance of control numbers is both the final step in the OSD/OMB budget review and the first step in preparing the President's Budget. OMB issues controls to the Department of Defense, by OSD to the Department of the Navy, and by FMB to individual budget submitting offices within the Department of the Navy.

(2) Although OMB sets controls initially at the DOD total level, OSD is required to establish controls at the level of detail used in the OMB budget publications (e.g., appropriation, budget activity, object class). OSD in turn issues controls by

appropriation and budget activity, but requires that the DON establish controls at the level of detail that is used in OSD budget publications (e.g., procurement line items, R&D program elements, MILCON projects).

(3) The controls issued by FMB reflect the constraints established by OMB and OSD as well as those established within the DON. They form the basis for the preparation of all material supporting the President's Budget by all offices throughout the DON bearing responsibility for preparing budget material. The use of these controls by all offices ensures that the Department's budget estimates are consistently presented along with those of OMB and OSD.

b. Appropriation and Authorization Language and Other Proposed Legislation.

The President's Budget is submitted to the Congress in the form of proposed legislation of three categories: proposed appropriation bills, proposed authorization bills, and other proposed legislation. The proposed appropriation bills contain statutory language for each appropriation as well as a set of general provisions. The proposed authorization bills contain the necessary language for each authorization title and a set of general provisions. In those cases that the budget estimates depend upon changes in other legislation, OMB requires that proposed legislative changes be prepared in support of the President's Budget. Such legislative proposals are normally transmitted to the Congress separately from the President's Budget. While the appropriations requests do not normally include the financial impact of changes in other legislation, this financial impact is identified in the budget estimates under the category of proposed legislative changes.

c. The Budget Message of the President and OMB Published Documents.

The President's Budget message to the Congress is a major policy statement in which the President sets forth priorities for allocating national resources. It discusses problems facing the nation, identifies goals, programs and policies to address these problems, explains the overall revenue and spending plans in support of programs and policies, and reports on past accomplishments. The budget documents prepared by OMB expand on the themes contained in the President's message and provide detailed information on the various appropriations and funds that comprise the budget.

d. The Secretary of Defense's Annual Report to the President and the Congress and Other DOD Budget Documents.

This report is the Secretary's policy statement concerning National Defense. The Office of the Secretary of Defense also publishes documents that provide summary statistical and programmatic overviews of the Defense Budget.

e. DON Posture Statements and Summary Documents.

The Secretary of the Navy, the Chief of Naval Operations, and the Headquarters, Marine Corps prepare posture statements for the Congress that provide their views on the state of the DON and

its two component military services. FMB publishes documents that provide statistical, budgetary and programmatic highlights of the DON budget.

f. Detailed Budget Justification Material

(1) Several books are prepared for each appropriation that constitutes the formal justification of the budget estimates. Information and data are provided by entitlement category for the Military Personnel appropriations, by budget activity and activity group for the Operation and Maintenance accounts, by budget activity and line item for the Procurement appropriations, by program element and project for the RDT&E appropriations, by budget activity and project for the Military Construction and Family Housing appropriations, and activity group for the Navy Working Capital Fund. Information on selected special interest areas such as communications, intelligence, and information technology is provided to specific OSD organizations for inclusion in OSD budget books.

(2) These books include the Justification of Estimates, O&M Data Book, and the Budget Item Justification Sheets.

(3) As directed by the Secretary of Defense in December 2011, beginning with President's Budget 2012, the cost to produce budget material submitted to Congress must be captured and displayed. A key cost factor is the manhours required to produce these documents. BSOs will track and report hours dedicated to produce justification materials at a level no lower than one command level below the BSO.

g. Other Supporting Information.

In addition to the material submitted to the Congress as justification for the President's Budget Request, other material is prepared for both Congressional and internal DOD use that must be consistent with the President's Budget.

(1) The Future Years Defense Program (FYDP) is updated after submission of the President's Budget to agree with the estimates included in the budget. The FYDP summarizes the SECDEF approved programs as prescribed in PBDs/RMDs/RDDs/PDMs, and other SECDEF decision documents for the DoD. It resides in an automated database that is published three times a year. It contains forces, manpower and total obligational authority identified to a program element structure aggregated into the eleven major defense programs (strategic forces; general purpose forces; intelligence and communications; airlift and sealift; guard and reserve forces; research, development, test and evaluation; central supply and maintenance; training, medical and other general personnel activities; administration and associated activities; support of other nations; and special operations forces).

(2) Selected Acquisition Reports (SARs) submitted to the Congress in February each year must agree with the estimates included in the President's Budget.

(3) Other reports required by the Congress that display resources, such as the Defense Manpower Report, must also be consistent with the resources contained in the President's Budget.

h. Budget Amendments, Supplemental Requests, and Rescission Proposals.

While the President is required annually to submit a budget to the Congress, that request may be amended at any time before the Congress has enacted appropriations. This amendment may take the form of off-setting changes, an increase, or a decrease to the original budget request. Normally, the President transmits supplemental requests and proposes rescissions for the current fiscal year along with the annual budget request, although they may be done at other times also. Generally, the Congress requires a formal transmittal from the President before recognizing an Executive Department amendment, supplemental request, or rescission. However, the Congress can initiate a supplemental appropriation or rescind previous appropriations without a request from the Executive Branch.

4. The Legislative Process.

Under the basic legislative process, Congress approves appropriation and authorization bills that become law when signed by the President or by Congressional override of a veto.

a. The Creation of a Law

(1) A member of either the House or the Senate must first introduce a bill. The leadership of the House or Senate refers the bill to one or more committees. The bill may then be referred to a subcommittee, or the full committee may take action on it.

(2) The subcommittee or committee holds hearings (gathers information) on the bill, and then marks it up (votes to approve it with or without changes). If handled at the subcommittee level, an approved bill is next reported to the full committee where it is marked up. After committee approval, the bill is reported to the full House or Senate for a vote.

(3) The House floor procedure is governed by a rule on the amendment process for each bill that may limit the number or nature of amendments allowed. In the Senate, any member can offer amendments to a bill under consideration. After debating and voting on any proposed amendments, the members vote on the entire bill, as amended. Passage of appropriations and authorization bills usually requires a majority vote. If passed, a bill is sent to the other body for consideration.

(4) If significant differences exist in bills that have been passed by the House and the Senate, then a conference committee is formed to reconcile the differences. Each body appoints its own members, usually (but not necessarily) from the committees originating the bill. Once the conference committee has approved a bill, it is reported back to the full House and Senate. If the majority of House and Senate members approve the

compromise bill, it becomes an enrolled bill and is sent to the President. If either disapproves, it is returned to Conference.

(5) The President may sign legislation approved by Congress, veto it, or choose not to sign it. If the President signs the legislation, it becomes law. If the President vetoes it, it is returned to the Congress that may then vote to override the veto. If a two-thirds majority of both the House and Senate vote to override the President's veto, the legislation becomes a law. If the President chooses not to sign the legislation, it becomes a law after ten days if the Congress is in session. If the Congress has adjourned its second session, then the legislation becomes void. This is called a "pocket veto." In this case, the Congress has no opportunity to override the President's decision.

b. Legislation Required for the DOD Budget

(1) Congressional approval of the Department of Defense Budget normally requires the enactment of a concurrent budget resolution (binding only on Congress) and three public laws.

(2) The budget resolution sets spending totals for the Federal Government and for the Defense Function overall.

(3) The three public laws provide first for authorization of appropriations, and secondly, for the appropriations themselves. The three acts are entitled as follows:

National Defense Authorization Act
Department of Defense Appropriation Act
Military Construction Appropriation Act

(4) In addition, supplemental requests and rescission proposals also require Acts of Congress. Supplementals and rescissions may be approved by the Congress in separate acts or may be included in one of the basic appropriation acts.

(5) The next three sections of this chapter describe the budget resolution, authorization acts, and appropriation acts in more detail.

5. The Budget Resolution and Enforcement Procedures.

The requirement for a budget resolution originated in the Congressional Budget and Impoundment Control Act of 1974. The Budget Act enables more effective consideration of budget matters by requiring government-wide budget estimates, including revenues, expenditures, the deficit and public debt, be approved by Congress before individual authorization and appropriation bills are enacted.

a. Enforcement.

Both the House and the Senate approve the concurrent budget resolution, but it does not require the President's signature and it does not have the force of law. Instead, the budget resolution controls the budgetary actions of the committees within Congress through a series of procedures and prohibitions provided in the Budget Act.

b. Composition of the Budget Resolution.

The budget resolution sets forth the government-wide levels of budget revenues, outlays, budget authority, deficit or surplus, and the level of Federal debt for the coming fiscal year. It also distributes budget authority and outlays by broad functional categories (e.g., National Defense, Education, Health, etc.). Recent amendments to the Budget Act contain specific ceilings (or caps) on the total level of appropriated budget authority and outlays that the budget resolution cannot exceed within the aggregate totals.

c. The Committees Involved.

The budget resolution falls under the jurisdiction of the Budget Committees in both the House and the Senate. These committees do not have any subcommittees.

d. Hearings.

The Budget Committees conduct broad hearings with senior officials from the Executive Branch, Members of Congress, and experts from the private sector. Normally, Executive Branch witnesses include the Director of the Office of Management and Budget, Secretary of the Treasury, and selected agency heads (e.g., the Secretary of Defense). The committees may also hold hearings on particular subjects that could involve witnesses from the DON.

e. Other Information Gathered by the Budget Committees.

By 25 February of each year the Appropriations and other standing committees of the House and Senate are scheduled to provide a report to the Budget Committees that recommends funding levels in their areas of jurisdiction. These reports tend to be extremely broad in their discussions of funding priorities. The Congressional Budget Office also submits a report by 15 February that evaluates the President's Budget request. Finally, Budget Committee Members or their staff may request individual briefings or specific information from the Executive Branch.

f. Committee Reports and Floor Action.

The Senate Budget Committee is scheduled to report a budget resolution by 1 April. The House Budget Committee usually acts before the Senate Budget Committee. The two committees prepare their budget resolutions and reports independently and the resolutions are debated and amended on the floor of each body. After both the House and Senate have passed their versions of the budget resolution, a conference committee is formed, normally with members selected from the Budget Committees. The conference then works out a compromise resolution that is reported to both bodies for approval. Congress is scheduled to complete action on the budget

resolution by 15 April, followed by the start of appropriation action. However, should final action on the budget resolution not occur by 15 May, consideration of appropriation bills could begin in the House.

g. <u>The Budget Resolution and Appropriation Ceilings</u>

(1) The budget resolution represents an agreement between the House and Senate concerning the overall size of the federal budget, and the general composition of the budget in terms of functional categories. Although it also does not have the force of law, the budget resolution is a central part of the budget process in Congress. As a concurrent resolution, it represents an agreement between the House and Senate that establishes budget priorities, and defines the parameters for all subsequent budgetary actions. The spending, revenue, and public debt legislation necessary to implement decisions agreed to in the budget resolution are subsequently enacted separately.

(2) Following approval of the budget resolution by the House and Senate, the Budget Committees allocate to the appropriations committees the budget authority and outlays available to them under the discretionary ceilings. The appropriations committees must then publicly report their planned subdivision of these totals to appropriation subcommittees, including the defense-related subcommittees. The reported appropriation bills cannot exceed the subcommittee allocations without being subject to objection or point of order on the floor of either body. Such points of order can preclude further consideration of the bill.

(3) Toward the end of the appropriations process, the subdivision for the defense-related appropriation bills and other appropriation bills is often adjusted while maintaining the original Budget Committee allocation for total discretionary budget authority and outlays.

(4) In addition to the Budget Act restrictions on appropriation bills relative to the discretionary appropriation ceilings, any spending created outside the appropriations process which would cause a budget resolution's spending aggregates to be exceeded, or any tax bill which would cause revenues to be reduced below the aggregate level, is subject to a point of order.

h. <u>Scorekeeping.</u>

The Budget Committees, assisted by the Congressional Budget Office (CBO), closely monitor appropriation bills to identify any conflict with a completed budget resolution or Budget Act requirements in general. CBO reports detail the estimated cost of each reported appropriation bill (budget authority and estimated outlays) and its relationship to the Appropriations Committees' discretionary spending allocations. Members of Congress can use the CBO scorekeeping reports as the basis for their objection to the consideration of a particular

appropriation bill. In some cases, consideration of an appropriation bill by the House or Senate will be postponed until it is altered to satisfy the budgetary objections.

i. Reconciliation Bill.

The aggregate spending and revenue totals approved in a budget resolution often assume anticipated savings in programs that do not require annual review, usually entitlement programs such as food stamps, as well as anticipated revenue increases. Rather than consider individual bills from many committees to address the required changes in law to achieve these savings or revenue increases, the legislation is combined in an omnibus reconciliation bill. The committees involved are directed by a completed budget resolution to report legislation to the Budget Committees that achieve specified savings or revenue increases. The Budget Committees consolidate the legislation and manage consideration of the reconciliation bill through House, Senate and conference committee action. A reconciliation bill, like an appropriation bill, requires enactment into law. Any reconciliation process must be completed by 15 June in the House.

6. The Authorization Process.

The requirement for a Defense authorization originated in the enactment of section 412(b) of Public Law 86-149 in 1959. This law has been amended many times since then and is now codified in Title 10 of the United States Code, Section 138.

a. Introduction

(1) Annual authorizing legislation is required for almost all Department of Defense appropriations, including operation and maintenance, procurement, research and development, military construction, family housing construction, and the Navy Working Capital Fund. The authorizing legislation establishes individual programs, how they will operate, and often sets a maximum ceiling on the amounts that may be subsequently appropriated by the Congress. The authorization acts do not convey authority to obligate or expend funds. Such authority is contained only in appropriation acts.

(2) The annual authorizing legislation establishes a ceiling on active military and average reserve strength, and on military training levels.

(3) The authorizing legislation also contains general provisions that require the Department to take certain actions, place limits on the activities of the Department, or provide the Department some discretion or flexibility in carrying out the act. For example, general provisions might require the Secretary of Defense to submit a report on some program, might limit procurement of some program to American companies only, or might allow the Secretary of Defense to exceed end strength levels under certain conditions. These general provisions may also contain revisions to permanent legislation that affects the Department.

(4) All authorization is contained in the National Defense Authorization Act. After enactment, the Congress may amend this act. For example, if the Department submits a supplemental appropriations request, it may be necessary for additional authorization legislation to be enacted before supplemental appropriations can be passed.

(5) The National Defense Authorization Act normally contains the following categories (titles) of authorization:

Division A
I Procurement
II Research, Development, Test, and Evaluation
III Operation and Maintenance
IV Military Personnel Authorizations
V Military Personnel Policy
VI Compensation and Other Personnel Benefits
VII Health Care
VIII Acquisition Policy, Acquisition Management
IX DOD Organization and Management
X General Provisions
XI Civilian Personnel

Division B
Military Construction/Family Housing

Division C
Department of Energy National Security Authorization

b. The Committees Involved

(1) The authorization bill falls under the jurisdiction of the House and Senate Armed Services Committee.

(2) Both committees review the President's Budget and develop the authorization bill through subcommittees. The House Armed Services Committee currently has the following subcommittees:

- Tactical Air and Land Forces
- Strategic Forces
- Emerging Threats and Capabilities
- Seapower and Projection Forces
- Military Personnel
- Readiness
- Oversight and Investigations

(3) The Senate Armed Services Committee currently has the following subcommittees:

- Seapower
- Airland
- Readiness and Management Support
- Strategic Forces
- Personnel
- Emerging Threats and Capabilities

Both committees may establish new subcommittees or disestablish existing ones at their own discretion.

c. Hearings

(1) The House and Senate Armed Services Committees and their subcommittees gather information for marking up the authorization bill through the process of hearings. Either the full committee or the subcommittees may hold hearings.

(2) Normally the first hearings held are posture hearings conducted by the full committee with the Secretary of Defense and the Chairman of the Joint Chiefs of Staff. They are followed by posture hearings with the Secretaries of the Military Departments and the Service Chiefs.

(3) Following the posture hearings, more detailed hearings are conducted by the subcommittees, although the full committees may also conduct additional hearings on detailed subjects that are of interest to the full committee. Witnesses at these hearings may include Deputy, Under, and Assistant Secretaries from throughout the Defense Department, senior military officers and civilian executives, and individual program managers or sponsors.

(4) The committees or subcommittees may also conduct hearings with witnesses from outside the Department of Defense, including former military and civilian officials and academic, technical, or business experts.

(5) Hearings may be closed or open. Normally, hearings are closed whenever it is necessary to cover classified subjects. Unclassified subjects are covered in open hearings with the public free to attend.

(6) All testimony at hearings is recorded to allow a subsequent publication of an unclassified record of the hearings.

d. Other Information Gathered by the Committee.

The committees also gather information relevant to their review of the budget by other means. The committees have, of course, all the supporting documentation submitted in support of the President's Budget. The members and staff supplement this information by visiting military

installations or Defense contractors, by requesting briefings on specific subjects, or simply by requesting that additional information or answers to questions (either in writing or verbally) be provided by the Department. The committees also review Government Accountability Office (GAO) and other audit reports that are relevant to the Department's budget request.

e. Committee Reports and Floor Actions

(1) The authorization bill requested by the President is referred to the House and Senate Armed Services Committees. Each portion of the bill is first marked up by the cognizant subcommittees. Each proposed change is voted on and then the entire section, as amended, is voted on and, if passed, reported to the full committee.

(2) The full committee then considers the bill as reported by the subcommittees. Proposed changes are considered as amendments to the bill. The full committee then votes on the bill, as amended, and, if approved, reports the bill to the floor. The Department receives a copy of the full committee report shortly after the bill is reported to the floor.

(3) On the floor of the House and Senate the bill is defended by the Chairmen of the authorization committees. In the House, the bill may have a rule limiting amendments to certain Members for certain amendments. In the Senate any Member can offer amendments. Amendments in order are debated and then voted on. After consideration of all amendments, the bill, as amended, is then voted on. Once both bodies approve a bill it is then sent to conference for resolution of any significant differences and reported back to each body for final approval.

f. The Conference Bill and Final Legislation

(1) In view of the varying concerns of the House and Senate, a conference is almost always necessary. The members of the conference committee are normally appointed from the membership of the authorizing committees.

(2) The conference does not consider any changes in those cases where the bill from the House and the bill from the Senate are identical. For example, if both bills reduce a specific program by $50 million from the President's request, that program will not be addressed by the conference. The conference only addresses differences that exist between the two bills. For example, if the House bill cuts a program by $50 million and the Senate bill adds $50 million to the same program, then the conference may approve the full decrease, the full increase, or something in between.

(3) In considering differences between the two bills, the conference usually takes into account the DOD position that is provided by the Secretary of Defense.

(4) After approval by the conference, the Authorization Bill is reported to both the House and Senate for approval. A copy of the conference report is made available to the Department. If either body disapproves, it is returned to the Conference. If both approve, it goes to the President for signature.

7. The Appropriations Process.

As stated in Chapter 1, the requirement for appropriations originating from the Congress is contained in the Constitution. The appropriations process followed by the Congress is its way of carrying out this responsibility. The Congress may appropriate funds with many constraints, or with almost no constraints, for a very narrow purpose, or for a broadly defined purpose. The Congress has the power to decide what will be appropriated and how it will be appropriated.

a. Introduction

(1) The Congress handles appropriations for the Department of Defense in two acts: the Department of Defense Appropriation Act and the Military Construction Appropriation Act. Supplemental appropriation requests require additional acts, which may be drafted in a way to cover government-wide requirements or only those of the Department of Defense.

(2) The Department of Defense Appropriation Act normally contains the following categories (titles) of appropriations:

I Military Personnel
II Operation and Maintenance
III Procurement
IV Research, Development, Test, and Evaluation
V Revolving and Management Funds
VI Other Department of Defense Programs
VII Related Agencies
VIII General Provisions

The Military Construction Appropriation Act normally contains the following categories of appropriations.

Military Construction
NATO Infrastructure
Family Housing
Base Realignment and Closure

These acts provide the specific amounts appropriated, the purpose for which the funds are appropriated, and general provisions applicable to the appropriations.

(3) Unless otherwise specified, the general provisions apply to all appropriations contained in the act. Like those in the Authorization Act, many require the Department to take certain action, place limits on the Department's appropriations, or provide greater flexibility than contained in the language of the individual appropriations. For example, a general provision might require the Secretary of Defense to submit a report, might limit obligation of funds for some kind of activity (such as travel), or might allow the

Secretary of Defense to transfer funds from one appropriation to another under certain circumstances.

b. <u>The Committees Involved</u>

(1) Appropriation bills fall under the jurisdiction of the Appropriations Committees of both the House and Senate.

(2) Both committees review the President's Budget request for Defense through two subcommittees responsible for one of the two acts. In the House this is the Subcommittee on Defense and the Subcommittee on Military Construction. In the Senate it is the Subcommittee on Defense Appropriations and the Subcommittee on Military Construction.

c. <u>Hearings</u>

(1) The Appropriations Committees and their subcommittees gather information for marking up the appropriations bills through the process of hearings. Either the full committee or the subcommittees may hold hearings, but in the case of the Defense bills, virtually all hearings are conducted by the two subcommittees responsible for the bills.

(2) The first hearings normally held are posture hearings with the Secretary of Defense and the Chairman of the Joint Chiefs of Staff. They are followed by posture hearings with the Secretaries of the Military Departments and the Service Chiefs. Budget overview hearings are also held with the Commanders-in-Chief of Unified and Specified Commands, Under Secretary of Defense (Comptroller) and the Budget Officers from the Military Departments.

(3) The subject of follow-on hearings can be entire appropriation titles, individual appropriations, mission areas, or specific programs. Witnesses at these hearings include Deputy, Under, and Assistant Secretaries from throughout the Defense Department, senior military officers and civilian executives, and individual program managers or sponsors.

(4) The subcommittees may also conduct hearings with witnesses from outside the Department of Defense, including former military and civilian officials and academic, technical, or business experts.

(5) Hearings may be closed or open. Normally, hearings are only closed whenever it is necessary to go into classified subjects. Unclassified subjects are covered in open hearings with the public free to attend.

(6) All testimony at hearings is recorded to allow the subsequent publication of an unclassified record of the hearings.

d. Other Information Gathered by the Committees.

The committees also gather information relevant to their review of the budget by other means. They have all the supporting documentation submitted in support of the President's Budget. The members and their staffs supplement this information by visiting military installations or Defense contractors, by requesting briefings on specific subjects, or simply by requesting that additional information or answers to questions (either in writing or verbally) be provided by the Department. The committees also review GAO and other audit reports that are relevant to the President's Budget request. Finally, the House Appropriations Committee may request the Surveys and Investigations (S&I) staff to gather information and prepare reports in areas that the committee has an interest.

e. Committee Reports and Floor Action

(1) Appropriations as requested by the President are introduced as bills in the House and Senate and referred to the appropriations committees. By long-standing custom, appropriation bills originate in the House. Thus, the House Appropriations Committee develops their bill in response to the President's request and the Senate Appropriations Committee usually amends the bill passed by the House.

(2) Each bill is first marked up by the cognizant House subcommittee. Each proposed change to the bill is voted on and, if passed, reported to the full committee. The Department usually obtains a copy of the subcommittee (unnumbered) report at this time.

(3) The full House Appropriations Committee then considers the bill as reported by the subcommittee. Proposed changes are considered as amendments to the bill. The full committee then votes on the bill, as amended, and, if approved, reports the bill to the floor of the House. The Department obtains a copy of the report (numbered) after it is sent to the House floor.

(4) Since an authorization bill normally precedes the appropriation bill, the House Appropriations Committee will not send an appropriation bill to the floor until the necessary authorization has at least passed the House. Otherwise, any member may raise a point of order and have the appropriation bill withdrawn from the floor.

(5) On the floor of the House the bill is usually defended by the subcommittee chairman responsible for it. After debating and voting on any amendments allowed by the rule governing consideration of the bill, the bill, as amended, is voted on. If it passes, it is sent to the Senate.

(6) A similar process is followed in the Senate, except that the Senate committee marks up the House-passed bill rather than the President's proposal. The Senate committee also may request that the Department of Defense provide its position on all changes that the House made to the President's request. This is discussed in the appeals section (Section 9) later in this chapter.

(7) The Senate Appropriations Committee not only waits for the House to complete its action on the appropriation bill, it also normally waits for the final authorization act before reporting a bill to the Senate floor. Sometimes, however, subcommittee or full committee action is partially completed prior to the House completing its appropriation bill or the Congress completing the authorization act. On occasion the Senate Appropriations Committee will report out the bill while the authorization act is still in conference. In those cases the conference for the appropriation bill should correct any inconsistencies between the authorization act and the appropriation bill.

(8) Once on the floor of the Senate, the appropriation bill is processed similar to the way it is processed in the House except that the amendment process is much less constrained by rules of the Senate. Once passed by the Senate, the bill is sent to a conference committee to resolve differences with the House.

f. <u>The Conference Bill and Final Legislation</u>

(1) In view of the varying concerns of the House and Senate, a conference is almost always necessary. Members of the conference committee are normally appointed from the membership of the Appropriations Committees.

(2) As is the case with the authorization conference, the committee only considers changes in those cases in which the two bills differ.

(3) In considering differences between the two bills, the conference usually takes into account the DOD position that is provided by the Secretary of Defense.

(4) After approval by the conference, the appropriation bill is reported to both the House and Senate. The Department obtains a copy of the report. If either body of Congress disapproves, the bill is returned to conference. If both approve, it goes to the President for signature.

8. Guidance for Department of the Navy Participation.

The Congressional budget review requires the participation of many offices and personnel in the DON. This participation includes preparing witness statements, testifying at hearings, reviewing testimony, answering questions for the record, briefing committee or staff members, answering ad hoc questions, and preparing backup or point papers for DON witnesses. This section provides guidance for each of these activities.

<u>a. Policy Guidance</u>

(1) Whether testifying before a Congressional Committee, briefing a committee staff, or providing an answer to an ad hoc question, two policies set by the Office of Management and Budget must be followed.

(a) Witnesses representing the DON must support the President's Budget.

1. Witnesses will give frank and complete answers to all questions.

2. Witnesses will avoid volunteering personal opinions that reflect positions inconsistent with the program or appropriation requests the President has transmitted to the Congress.

3. In responding to specific questions on program and appropriation requests, witnesses will refrain from providing plans for the use of appropriations that exceed the President's request. Witnesses, typically, bear responsibility for the conduct of one or a few programs, whereas the President must weigh carefully all of the needs of the Federal Government, and compare them against each other and against the revenues available to meet such needs. Where appropriate, witnesses should call attention to this difference in scope of responsibility in explaining why it is not proper for them to support efforts to raise appropriations above the amounts requested by the President.

4. Witnesses should be careful that their communications are not perceived to be an estimate, request for an appropriation, or an increase in an item of any such estimate or request. Witnesses are expected to support the President's budgetary decisions and seek adjustments to those decisions only through established procedures for budget amendments or supplemental appropriation requests if the Secretary of the Navy and the Secretary of Defense determine such action to be necessary.

(b) Disclosure of information about the President's Budget is restricted to that contained in or submitted in direct support of the President's Budget.

1. No information concerning the President's Budget may be provided outside the Department until the President has transmitted the budget to the Congress.

2. The President's Budget contains detailed budget estimates for the budget years of programs approved during the PPBES process. Data beyond the budget period is contained in budget backup documents and the selected acquisition reports. DON personnel are free to discuss the data contained in the President's Budget and backup documents within the limits of security classifications and public release restrictions (information limited to official use).

3. Budget estimates, justification material, and decision documents used during the DON and OSD/OMB budget reviews are not to be provided outside the Department unless requested in formal appropriation hearings by a Member of Congress in connection with the review of the budget after it has been transmitted to the Congress.

4. Since the formulation of the next budget overlaps the Congressional review of the previous budget, this policy is sometimes difficult to follow. A DON official could participate in the morning in a decision affecting a program in the POM and in the afternoon could be testifying before the Congress in support of that same program as it is contained in the President's Budget. However, it is important to remember that decisions made in the POM, PDM/PBD/RMD/RDD, and DON Budget review are subject to change until such time as the President submits the budget to the Congress. Any premature disclosure of such tentative decisions potentially could pre-empt the Presidential responsibility for developing and submitting the budget to the Congress.

5. The Future Years Defense Program and related programs databases are classified documents and contain decisions made during the PPBES process. The period beyond the budget years reflects internal DOD planning assumptions that have not undergone the same degree of budget scrutiny and are not presented in the level of detail found in budget documents. By DoD policy, this data may not be released outside the Executive Branch without the expressed written consent of the USD(C). The Future Years Defense Program is usually released by DoD to Congress in order to provide the larger context within which specific budget decisions are made. However, DON personnel may not discuss Future Years Defense Program data, except as reflected in the budget data discussed in paragraph (b) above. Any request for such Future Years Defense Program data, whether from the Congress or the public, should be referred to the Office of Budget (FMB32).

6. SECNAVINST 5740.26A of 15 January 1998, provides specific guidance on how to respond to Government Accountability Office (GAO) requests for access or release of information.

b. <u>Witness Statements</u>

(1) Section 010404 of the DoD Financial Management Regulation provides instructions for preparation of witness statements for testimony at hearings before congressional committees. The Office of Legislative Affairs (OLA) or the Office of Budget (FMBE) provides additional instructions and guidelines for preparing witness statements in separate correspondence.

(2) Statements are normally required only of the principal witness at a hearing.

(3) The different committees have different requirements for statements. It may be necessary to prepare a summary statement or an unclassified statement along with the regular statement.

(4) The committees usually require statements in advance of the scheduled hearings. In addition, all statements are reviewed by OSD for security and policy clearance. OLA or

FMBE are responsible for obtaining the OSD clearances and for delivering the statements to the committees.

(5) The staff of the principal witness is responsible for preparation of the statement in accordance with the instructions and schedules issued by OLA or FMBE. The staff is also responsible for ensuring that the content is consistent with the President's Budget.

c. Testifying at Hearings.

In testifying before a Congressional Committee, briefing a committee staff, or providing an answer to an ad hoc question, DON personnel must adhere to the Department's policies stated in paragraph 8.a. of this section. Witness lists for all hearings are coordinated through either OLA or FMBE. Normally, the principal witness gives testimony at the hearings. Supporting witnesses testify only when asked by the principal witness or when a member of the committee specifically directs a question to them.

d. Review of Transcripts

(1) Section 010405 of the DoD Financial Management Regulation provides instructions for processing transcripts of witness testimony at hearings before congressional committees. The Congressional committees have granted the Department's witnesses the courtesy of editing transcripts before they are printed for the record. This privilege is conditioned on the Department's meeting the Congressional suspense dates and not abusing the privilege by substantially altering the testimony. Editorial changes must be limited to correcting factual and grammatical errors and to clarifying meaning by punctuation or minor word changes. It is imperative that "over editing" does not occur because the committees will return transcripts that are "over edited."

(2) Witnesses and their staffs are responsible for reviewing these transcripts in accordance with the instructions and schedules set by OLA and FMBE. They are also responsible for ensuring that the edited testimony is factually correct.

e. Questions and Inserts for the Record

OLA and FMBE provide instructions each year on how to process such questions.

(1) Often there is not enough time during the hearings for the committee members to ask all the questions that they have about the budget request. Accordingly, they will give the witnesses questions to be answered for the record. These questions are answered in a specified format and provided back to the committees along with the transcript of the hearing.

(2) If a witness cannot answer a question or if the committee desires amplifying information that is too complex or detailed for testimony, this information is usually provided as an

insert to the record. These inserts are also prepared and processed with the transcripts. Specific instructions are provided by OLA and FMBE.

f. Briefings and Other Questions

(1) Quite often committee members or their staffs will request briefings or ask questions on specific programs outside the formal hearings process. All briefings and answers to questions must be coordinated through OLA and FMBE.

(2) Offices assigned responsibility for preparing the briefings or responding to the questions must treat these requests as if they were part of the formal hearing process. The instructions and deadlines issued by OLA and FMBE must be followed. The information provided must support the President's Budget.

g. Point Papers and Backup Papers

(1) Many point papers or backup papers are prepared to brief the Secretary of the Navy, the Chief of Naval Operations, the Commandant of the Marine Corps and other senior officials in preparation for their testimony before the Congress.

(2) The offices preparing these papers are responsible for ensuring that the information contained in these papers is consistent with the President's Budget.

(3) To ensure this consistency, all papers prepared for the SECNAV and CNO which contain budget information are reviewed by the Fiscal Management Division (N82)/ Office of Budget (FMB). Similarly, the Fiscal Division (FD) reviews papers prepared for the CMC.

(4) Secretariat witnesses should similarly clear briefing papers prepared for them with FMB.

9. Department of Defense Appeals.

After receiving committee reports on the authorization and appropriations bills, the Department of Defense prepares appeals that provide the Department's position on the changes approved by the committees. Section 010406 of the DoD Financial Management Regulation provides general guidance on the appeals process.

a. Policy

(1) The Secretary of Defense forwards appeals to relevant Congressional committees. The positions taken in these appeals are the position of the Secretary.

(2) Generally, appeals are required to support the original President's Budget. Additions to the budget are normally not supported by the Secretary. Reductions to the budget may be accepted if the Department agrees with the reasons for the reductions.

(3) Appeals are usually sent to the Senate committees after House committee action with additional appeals as necessary after House action. Appeals are always provided to the conference committees.

b. Procedures

(1) USD(C) provides general guidance and procedures to the DON for the appeal procedures. The Office of Budget establishes the internal DON policies and procedures to be used in responding to House and Senate actions on the defense authorization and appropriations requests. Detailed guidance on the preparation of appeals is contained in Chapter 12 of Part IV of this manual.

(2) Appeals are submitted in two parts, (1) a letter from the Secretary of Defense to the respective Committee Chairman requesting support for the Department's position on the most critical issues, and (2) a package of appeals stating the Department's position on funding adjustments and on bill language items with which the Department takes exception.

(3) Immediately upon receipt of Committee recommendations, FMB tasks applicable appropriation and program sponsors to prepare and submit appeals covering the funding adjustments and language items with which the sponsor takes the greatest issue. The letter sent to the Committees by the Secretary of Defense must, of necessity, be of reasonable size in order to ensure the Committee's attention is focused on the most important issues. Therefore, it is important that sponsors submit appeals for only the most important issues.

(4) Upon receipt of these appeals, the Director of the Office of Budget reviews all issues and prepares a letter forwarding the highest priority appeals. This letter is provided to the CNO (N8), CMC (FD), and the Secretariat for concurrence and is signed by the Secretary of the Navy.

(5) Following receipt of the recommended appeals from the DON and other Departments, the USD(C) prepares a draft letter, forwards it to the principal staff offices in the OSD and to the Military Departments for comment, incorporates pertinent comments, and submits it to the Secretary of Defense for signature. After submission to the applicable Congressional committees, a copy is provided to FMB for distribution within the DON.

c. Supplemental and Rescission Appeals.

The same policy and procedures apply to appeals on Congressional action concerning supplemental appropriations or rescissions of appropriations.

10. Conclusion of the Congressional Review.

Unlike the DON and OSD/OMB budget reviews, there is no single ending point to the Congressional review. The review ends, for the most part, as the President signs each

authorization act and appropriation act into law. Once the authorization and appropriation acts, including supplementals, are completed, the amounts contained in these acts become the control numbers for execution of the budget. Of course, Congress can consider at any time the rescission of prior year funding that is still available for this purpose.

11. Schedule.

The schedule for the Congressional review starts with the requirement that the President must send a budget request to the Congress on the first Monday in February. Other key dates, such as the passage of the concurrent budget resolution and all appropriation acts are also set by law. However, because the Congress does not always adhere to its own schedule of review, any schedule of the Congressional review process is subject to wide variation from year to year. FMB publishes specific schedules for budget submission, hearings by appropriations committees, and submission of Congressional appeals. OLA publishes specific schedules for hearings by the Budget and authorization committees.

CHAPTER 6

General Guidance for All Submissions

This chapter provides general guidance for the preparation and submission of budget materials for the three budget submissions: the initial Department of the Navy (DON) budget estimates, the submission of DON budget estimates to the Office of the Secretary of Defense and the Office of Management and Budget (OSD/OMB), and the annual President's Budget submission to Congress.

1. Budget Guidance Documents.

Standard guidance and procedures for the submission of budget materials for all submissions are contained in Volumes 2A and 2B of the Financial Management Regulation (FMR) (DoD Instruction 7000.14-R), this manual and OMB Circular A-11. **All references to the FMR in this manual relate to Volumes 2A and 2B**. DOD issues the FMR periodically, generally prior to the OSD/OMB review of initial budget estimates. Special instructions and one-time requirements are issued by the USD (Comptroller) via submission-specific budget calls to the DON and normally include guidance resulting from new laws or Congressional reports. The DoD submission- specific requirements are promulgated by the DON to budget submitting offices via FMB Budget Guidance Memoranda. OMB's Circular A-11 is updated annually.

This manual supplements the FMR with DON-specific guidance and procedures for all submissions. Instructions and formats for individual exhibits are contained in the FMR or the Appendices to this manual. Some budget exhibit templates are available at the Program/Budget Information System (PBIS) on-line web site. Additional budget requirements and scheduling information provided in FMB Budget Guidance Memoranda for specific submissions are also available on the PBIS web site.

2. Budget Submitting Offices.

Budget exhibits and backup material are prepared at various levels throughout the Department of the Navy. Offices and commands perform the tasks of preparing exhibits using input from the operating forces, shore activities, systems commands, and project managers. Headquarters Marine Corps, acting through the Director, Fiscal Division with participation from staff and command components, provides exhibits and material for Marine Corps appropriations.

3. Fiscal Years.

a. Prior Year (PY).

Estimates are based upon enacted appropriations, supplementals, and reprogramming actions approved and/or proposed to date. The best data available at the time of submission should be used. An update of prior year data is required in November of each year, when actual accounting information is available.

b. Current Year (CY).

As a baseline, CY control totals are based upon the amounts appropriated by the Congress adjusted for any proposed above or below threshold reprogramming actions, supplementals, rescissions, transfers or fact-of-life changes. Additionally, updates to the CY of the new President's Budget will incorporate all program or price changes, including all pending above or below threshold reprogramming actions.

c. Budget Years One (BY1)

(1) DON Submission: Budget estimates for BY1 are based on the Program Objectives Memorandum (POM) or Sponsor Program Proposals (SPPs) as approved by the Secretary of the Navy. Approved programs will be fully funded, using budget quality estimates. Pricing and program changes from the POM and from the President's Budget for BY1, will be clearly identified and fully justified.

(2) OSD/OMB Submission: Budget estimates for BY1 are based on guidance issued by USD(C) generally in June as adjusted for pricing, feasibility, fact-of-life, and other adjustments made during the DON review.

(3) President's Budget Submission: Budget estimates for BY1 are based on the amounts approved by the President and by the Secretary of Defense as reflected in PBDs/RMDs/RDDs/MIDs/PDM.

d. Second, Third, Fourth and Fifth Year of the Future Years Defense Program (FYDP) (BY2, BY3, BY4 and BY5).

(1) DON Submission: Outyear estimates, which are required for selected exhibits, are based on the program approved in the POM/SPP.

(2) OSD/OMB Submission: Control totals for the outyears are based on amounts approved in the OUSD(C) guidance as adjusted by changes resulting from the DON review.

(3) President's Budget Submission: Control totals for the outyears are based on amounts approved by the President and by the Secretary of Defense as reflected in PBDs/RMDs/RDDs/MIDs/PDM.

4. Issuance of Controls.

Funding controls are provided to budget submitting offices (BSOs) electronically. BSOs must ensure consistency and accuracy of all related budget data and schedules. These controls are used in preparing all summary budget data, as well as all detailed budget materials.

a. TOA controls are issued at the following level of detail:

- Budget Submitting Office
- PEO/DRPM
- Appropriation
- Budget Activity
- Line Item
- Activity/Sub-activity Group/Special Interest (all O&M accounts)
- Program Element (R&D)
- Project (R&D/MCN/MCNR/FHCON)
-Project/Activity (BRAC)

b. Military Personnel End Strength.

Military personnel end strength controls are provided to BSOs by appropriation, budget activity, and budget line item.

c. Civilian Personnel.

Civilian personnel end strength and civilian personnel full-time equivalent (FTE) targets are issued to BSOs by appropriation, fund, budget line item, and type hire (U.S. Direct, Foreign National Direct, and Foreign National Indirect, direct and reimbursable).

5. Pricing Guidance.

It is Department of the Navy policy to reflect the most likely or expected full costs for each estimated year for all appropriations. The proper pricing of budget estimates is a responsibility shared by both the BSOs and FMB. It is the responsibility of BSOs to ensure that detailed budget justification materials reflect the pricing decisions accommodated in the control amounts.

a. Military and Civilian Pay.

Funding for all pay raises is included in appropriation control amounts. Pay raise rates are provided in FMB Budget Guidance Memoranda.

b. Customers of the Navy Working Capital Fund.

Estimates for all purchases from supply and non-supply activity groups are to reflect fully escalated estimates. The current year is priced using the stabilized rates established for the President's Budget for that year. The budget years are priced in accordance with rates provided in FMB Budget Guidance Memoranda.

c. Fuel Purchases.

Fuel is priced using the specific per barrel costs approved by USD(C). These prices are published in FMB Budget Guidance Memoranda.

d. Prices Set by Statute or Regulation.

All items or programs for which payment is set by statute or administrative regulation (such as per diem payments, bonuses, postage, and GSA standard level user charges) are priced in accordance with the latest approved charge. Price escalation indices should not be used to increase these charges. The control amounts normally include funds for the currently approved rates. In those cases where controls include an approved charge scheduled to take effect at some specific future time, Budget Guidance Memoranda will identify the charge.

e. Foreign Currency Exchange Rates.

Foreign currency exchange rates applicable to overseas station allowances funded by Military Personnel, Operation and Maintenance, Military Construction and Family Housing appropriations must be priced in accordance with foreign currency exchange rates provided in Budget Guidance Memoranda. Procurement, and Research and Development appropriation estimates are to be based on current foreign exchange rates, except as specified in a current contract.

f. All Other Purchases and Services

(1) All remaining areas of the budget must reflect fully escalated estimates using the specific escalation indices provided in Budget Guidance Memoranda. Total Obligational Authority (TOA) and outlay indices published in Budget Guidance Memoranda, are based on the economic assumptions approved by OMB for use in developing budget estimates. These indices must be used in developing the detailed pricing estimates contained in the budget justification materials. However, in those cases when another Military Department, as the procurement agent for a particular item, provides the Department of the Navy with other pricing information, the price escalation indices used by that Military Department should be reflected in the price estimates. Individual BSOs are responsible for obtaining the appropriate price escalation information along with the pricing information directly from the procurement agent.

(2) Indices incorporate the standard appropriation outlay rates approved by OSD. When using these indices, the base year selected should be the year in which the latest actual contract price data is available. If no actual information is available, then the earliest estimated year should be used as the base year. The use of approved price escalation indices to estimate future increases due to inflation is mandatory except in those cases where other specific information is available. For example, price escalation indices would not be used to price programs where specific contractual options exist or to price manpower costs at a plant where an existing union contract has a pay increase scheduled to take effect on a specific date.

(3) The application of price escalation indices should be the last step in pricing. A base cost should first be developed that takes into consideration all other variables that may affect pricing. These include changes in the business environment, the physical characteristics of the product, and the production process, such as cost/quality price relationships,

learning curve efficiencies, and economic production rates. Further information on the use of these indices is available in Appendix I of this manual.

6. Changes to Approved Programs.

Pricing and other funding increases needed to support the approved program for the first year of the biennial budget submission, or for the apportionment submission, must be accommodated within TOA and manpower controls. Such increases may be incorporated into the budget submission as follows:

a. Intra-Appropriation.

In seeking a source of funds to pay for such increases, first consideration should be given to potential price decreases that may have occurred (since the approved program estimates were established) in other programs within the same appropriation under the cognizance of the BSO. If a source is not available, other approved programs must be reduced to accommodate the required increases. In this case, the BSO is responsible for initiating and coordinating resolution of program reductions with the appropriate resource sponsors. The appropriation sponsor should assist in this process as necessary.

b. Inter-Appropriation.

While it may be preferable to accommodate funding increases by reducing programs within the same appropriation, a lower priority program, funded in another appropriation, under the affected BSO's cognizance may also be used as a funding source. In this case, the BSO is responsible for initiating and coordinating resolution of program reductions with the appropriate resource sponsors. The appropriation sponsor should assist in this process as necessary. In all instances, program reductions are to be limited to lower priority programs. If the BSO cannot accommodate the adjustments internally, the BSOs should coordinate with cognizant FMB analysts and Resource Sponsors to identify sources and make adjustments via FMB issue paper. Such inter-appropriation transfers may occur only before the budget is submitted to Congress.

c. Changes to Approved Civilian Resources.

Submitting offices may submit changes to the approved targets to reflect a balanced program of civilian end strength, workyear, and costs to funded workload.

7. Unfunded Requirements.

Submission of unfunded requirements occur most often with or prior to the DON submission and should be submitted in the form of issue papers. Such deficiencies would include program decreases from the approved program, as well as other new, emergent, critical, unfunded requirements which could not be absorbed within controls due to pricing changes and fact-of-life adjustments which occurred since the approved program was established. A narrative justification explaining the need for additional funding should also be submitted. For Operation

and Maintenance accounts, the OM-6 Exhibit must be submitted. The format and instructions are provided in Appendix B of this manual.

8. Functional Transfers

Requests for approval of functional transfers may generally be submitted at any time throughout the fiscal year. These requests must be coordinated with the respective FMB Divisions. For those transfers approved during an off cycle period (e.g. during POM development) the functional transfers must also be coordinated with (N80) and HQMC (P&R). Proposed transfers must be coordinated among BSOs affected by the transfer. FMB will review and address each request separately. The decision may appear in the form of an issue paper or may be incorporated in execution. For the DON submission to FMB, the gaining BSO must submit an NC-4 exhibit in JMS with the PBIS load for all approved and proposed functional transfers. The template and instructions for the NC-4 are provided at the PBIS on-line web site. For those transfers approved outside the budget cycle, the transfer will be incorporated at the next possible update to BSO controls.

9. Preparation and Submission of Justification Materials.

Parts II, III and IV of this manual contain submission requirements tables for each appropriation, the Navy Working Capital Fund, trust, revolving and special funds, civilian personnel, and special interest areas. All budget materials required of BSOs for appropriations or funds under their cognizance must be submitted electronically via the Justification Management System (JMS) or by automated submission to the PBIS or the Budgetary Object Classification System (BOCS). An advance copy of individual exhibits may be provided directly to a requesting FMB analyst. However, this does not satisfy the requirement for a full budget submission.

a. Justification Management System (JMS).

The JMS will be used to collect and track the status of all justification material submitted to FMB. JMS provides a BSO index of material for all appropriations and funds to be submitted. The system is web-enabled to allow access from a web browser. Access to the material submitted to JMS is restricted to users with valid names and passwords. The system provides access to previously submitted budget materials as a starting point for developing revised budget materials. For budget material that requires consolidation (either within the BSO or at the FMB level) JMS allows for the collection of “partial” budgets which must be combined with other partials prior to submission to FMB or OSD.

b. Program Budget Information System (PBIS).

The PBIS data base provides an audit trail of adjustments throughout the budget process and is utilized to produce Total Obligational Authority (TOA) controls. Additionally, PBIS is used to provide detailed Department of the Navy budget information by appropriation, budget activity, and PBD/MID for the OSD/OMB submission.

c. Budgetary Object Classification System (BOCS).

The database is used to collect obligation data (not TOA) and to satisfy various DON and OSD budget exhibit requirements. The purpose of BOCS is to identify the distribution of program resources by the object to which they will be applied in budget execution (obligations). The object classifications defined in OMB Circular A-11 Section 83, represent types of services, articles or other items for which costs are incurred in carrying out a budgeted program. These objects are used for multiple purposes including the following:

(1) To reflect the obligation of funds for various types of program costs.

(2) To convey information supporting the pricing basis of estimates.

(3) To identify resources in special interest categories of the budget.

BOCS exhibit requirements for DON and OSD are satisfied through submitting the following:

(1)	OP-5 (Partial)	Summary of Increases and Decreases
(2)	OP-32	Summary of Price and Program Change
(3)	P-32	Procurement Purchases from Revolving Funds
(4)	R-32	Purchases from Revolving Funds
(5)	OP-26	Petroleum, Oil, and Lubricants (POL)
(6)	PB-15	Advisory and Assistance Services
(7)	PB-19	Contract Reporting by Appropriation
(8)	PB-2 (P&F)	Appropriation by Object Classification

All BSOs must submit BOCS data for each appropriation for which they obligate funds and for which they submit budget justification.

Inflation estimates are to be submitted by appropriation, budget activity, activity group, subactivity group or line item, inflation category, object classification, and auxiliary information codes. These estimates will be provided for PY and an identification of price and program increases and foreign currency adjustments to CY, and BY1.

d. Deadlines for Submissions.

Budget Guidance Memoranda provide submission dates for budget materials and all DON Office of Budget (FMB) events occurring during the DON budget review, the OSD/OMB budget submission and review, and the President's Budget submission to Congress. In order to meet external submission dates, it is mandatory for budget submitting offices to submit all budget materials on the dates set by FMB.

e. Consistency of Budget Materials.

Detailed exhibits must be in exact agreement and consistent with all summary budget exhibits, other budget justification materials, automated submissions, and published controls.

f. Budget Productivity Indicator.

The Budget Productivity Indicator (BPI) is used to track Budget Timeliness and Budget Quality for submitted budget exhibits. Each BSO receives a BPI score based on these two factors. In addition, as of December 2010, the Secretary of Defense requires that all studies and reports submitted to Congress must display the cost to produce such materials. The hours spent on preparation of these documents, or budget preparation hours, will be collected as a critical component for this calculation, though they will not count toward a BSO's BPI score. Additional information on BPI definitions and requirements is provided in FMB Budget Guidance Memoranda for specific submissions and is also available on the PBIS web site.

10. Uniform Budget and Fiscal Accounting Classifications

Section 0201 of the DoD Financial Management Regulation provides uniform functional title classifications and subdivisions thereof by which appropriation and fund accounts of the Department of Defense are required to be arranged, grouped, or classified in budgetary and fiscal presentations. Additionally, appropriate information by title, appropriation, or fund is available in the respective chapter of the FMR where applicable. (e.g., budget and fiscal accounting classifications and descriptions for active military personnel, Research, Development, Test, and Evaluation, military construction, family housing, and Base Realignment and Closure.