

Chapter 4 – Financial Management

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References

- (a) SECNAVINST 7000.27A, Comptroller Organizations
- (b) SECNAVINST 5200.35E, DoN Managers' Internal Control (MIC) Program
- (c) DoD Directive 7000.14-R, Financial Management Regulation
- (d) 31 USC 3528
- (e) Public Law 104-106 Section 913
- (f) 31 USC 1301(a), Application
- (g) 31 USC 1502, Balances Available
- (h) 31 USC 1341, Limitations on Expending and Obligating Amounts
- (i) 31 USC 1342, Limitation on Voluntary Services
- (j) 31 USC 1517, Prohibited Obligations and Expenditures
- (k) 31 USC 1349
- (l) 31 USC 1350
- (m) 31 USC 1518
- (n) 31 USC 1519
- (o) NAVSO-P 1000, DoN Financial Policy Manual
- (p) NAVSEAINST 5000.5
- (q) NAVSO P-3006
- (r) Assistant Secretary of the Navy, (Financial Management and Comptroller) (ASN(FM&C)) memo dated 3 May 2002
- (s) NAVSEAINST 5450.36
- (t) 41 USC 23
- (u) 31 USC 1535
- (v) Public Law 104-134, Debt Collection Improvement Act of 1996
- (w) 5 CFR 1315, Prompt Payment Act, PL 97-177

Figures

Figure 4-1. SUPSHIP Task Funding Decision Tree4-1

Chapter 4 – Financial Management

4.1 Financial Management

A command's program for the proper administration of funds is an integral part of effective management. There are specific responsibilities associated with managing public funds which go to the highest levels of SUPSHIP organizations. The goal of this chapter is to explain the importance of proper financial management within the SUPSHIPS and with their customers. For the Department of the Navy, [SECNAVINST 7000.27A](#) (Comptroller Organizations), reference (a), is the authority and provides the guidance for the establishment, periodic reviews and approval of comptroller organizations. This directive assigns responsibility to the commanding officer for ensuring the command has a financial management organization capable of proper and effective administration of funds complying with applicable laws, regulations, policies, procedures, and sound financial practices.

Key to achieving this objective is an understanding of the integration of budgeting, accounting and performance measurement while adhering to the legislative requirements for financial management in the federal government.

4.2 Responsibilities

4.2.1 Commanding Officer

The responsibility for the administration of all authorizations of funds granted to the commanding officer cannot be delegated in whole or in part within the command. The Supervisor of Shipbuilding, as the SUPSHIP commanding officer, is legally responsible and accountable for the financial integrity of the SUPSHIP. This requires establishing and maintaining internal control systems to ensure that:

- All available funds are identified, controlled and recorded in the official accounting records from the time received until subdivided to others or obligated and expended.
- All available funds are identified with authorized purposes by account and period of availability for new obligations and period of availability for expenditures.
- All special and recurring provisions and limitations on the obligation and expenditure of funds are identified and documented for all available funds and accounts.
- All proposed obligations of funds are reviewed to ensure that sufficient funds are available to cover the obligations, that the purpose of the obligations is consistent with the authorized purposes of the funds or accounts, and that the obligation does not violate any special or recurring provisions and limitations on the incurrence of obligations.

The proper stewardship of Federal resources is a fundamental responsibility of command. These internal control requirements apply to all appropriations and funds provided to the

command. Further guidance can be found in reference (b), [SECNAVINST 5200.35E](#) (DoN Managers' Internal Control (MIC) Program).

4.2.1.1 Actions

Commanding officers are obligated to take all necessary actions to establish accountability and enhance the administrative control of funds, including:

- Hiring a qualified comptroller and establishing an organizational structure which provides unfettered access and a direct reporting chain from the comptroller to the commanding officer.
- Establishing and maintaining adequate fiscal controls to prevent the over-authorization, over-commitment, over-obligation, or over-expenditure of funds made available to the activity. Prompt reporting of any violation is also required.
- Issuing an activity instruction providing for the authority, responsibility and procedures required in the administrative control of funds.
- Delegating funds administration authority to individuals at the appropriate level to ensure that the individuals are personally aware of the necessary detail to establish total accountability. Funds administrators should be in a position that enables them to provide absolute technical input to funds control. Overall financial management remains the responsibility of the activity comptroller.
- Ensuring that subordinates delegated the authority to act as funds administrators are authorized in writing, by name, clearly specifying the extent of the authority.
- Ensuring that delegated funds administrators are familiar with the statutory responsibilities inherent in the administration of funds.

4.2.2 Comptroller

The Comptroller is the senior person in the SUPSHIP finance office and the chief financial advisor to the Supervisor. Responsibility for the command's financial management and integrity is inherent in this position. The Comptroller shall ensure that the requirements of [Department of Defense \(DoD\) Financial Management Regulation \(FMR\) 7000.14-R](#), reference (c), are met. In addition, the Comptroller will establish a system of internal controls to ensure all government resources are used efficiently and effectively to achieve intended program results in a way that is consistent with applicable laws and regulations and minimizes the potential for waste, fraud and mismanagement.

As referenced in enclosure (1) of [SECNAVINST 7000.27A](#), the comptroller organization has overall responsibility for financial management in five major functional areas:

- **Budget Formulation** includes those actions performed in development, review, justification, and presentation of the budget estimates and requires the organization to consider expected demand and the resources required to meet that demand. The focus is on prioritizing these requirements and requesting adequate resources to achieve the highest priorities in each year. It also creates a baseline against which actual results can be compared.
- **Budget Execution** encompasses those budgetary actions required to effectively and efficiently accomplish the programs for which funds were requested and appropriated. The process must ensure that funds are administered in accordance with the law and administrative policies and regulations of higher authority.
- **Managerial Accounting** concepts and standards are aimed at providing reliable and timely information on the full cost of programs. It involves establishing accounting control over assets provided to the command and the accumulation and preparation of financial information on a regular basis for analysis and decision-making.
- **Program Analysis** is the process of identification, measurement, analysis, interpretation, and communication of financial information. This information is used by management to plan, evaluate, make decisions, and improve operational efficiency within an organization and assure appropriate use of, and accountability for, its resources.
- **Performance Measurement** is the process of tying financial data to results. It emphasizes objectively assessing operational performance and effectiveness using valid, identifiable criteria; analyzing data, information and results; identifying trends and deviations; and projecting future outcomes to guide programmatic decision-making and risk management. Because it measures progress towards achievement of goals and objectives, it is also a long-term planning tool that can justify resource allocation.

Inherent in the Comptroller's responsibilities are the requirements to ensure:

- prompt recording of authorizations, commitments and obligations in budgetary accounts;
- monitoring the recording of assets, liabilities and expenses in proprietary accounts;
- monitoring the processes of pre-validation and certification of payments;
- matching disbursements to obligations and accounts payable;
- issuing and accepting funding documents which obligate direct appropriations, working capital or customer funds;
- timely billing of costs incurred against funding documents, and the prompt matching of collections associated with those billings;
- certifying completeness and accuracy of those transactions included in financial

statements and reports prepared by the Defense Finance and Accounting Service on behalf of the activity.

4.2.3 Funds Administrators

Individuals who are delegated authority by the Supervisor to authorize, commit, obligate, and expend specific funds related to a specified authority and responsibility are agents of the Comptroller. Departmental Accountable Officials provide source information, data or service to a certifying official in support of the payment process. Examples include: employees who certify vouchers for payment, travel authorizing officials, purchase cardholders, and certification officials for time and attendance records. These officials are responsible for providing timely and accurate data to ensure that payments are supportable, legal and computed correctly. [31 USC 3528](#), reference (d), applies.

Certifying Officers and Departmental Accountable Officials are to be designated in writing, and are required to be familiar with their responsibilities as detailed in [31 USC 3528](#), reference (d), and [DoD FMR Volume 5 Chapter 33](#), reference (c). Because they are responsible for providing technical input to financial management processes and under the 1996 legislation, [Public Law 104-106 Section 913](#), reference (e), they “shall be pecuniarily liable for any wrong payment or over-obligation of government funds resulting from his or her negligent performance of duties.” For this reason, accountable officials must uphold the highest standards with regard to proper payments and obligations of federal funds.

4.3 Fiscal Law and Regulations

SUPSHIP funding must be administered in accordance with laws established by Congress, as well as policies and regulations promulgated by the Navy and DoD, to enforce the provisions of proper financial management. The Comptroller is the allocation holder, and with the Supervisor, ultimately responsible for establishing tight fiscal controls. The Comptroller will obtain guidance, as needed, from the NAVSEA Comptroller to resolve any questions on the interpretation of fiscal laws and regulations.

4.3.1 Purpose, Time and Amount

Purpose, Time and Amount limit the availability of budgetary resources for obligation and expenditure. The following are the laws that establish funding control requirements.

The three laws that apply to amount violations form the cornerstone of the Anti-Deficiency Act (ADA). Violations of the Purpose and Time statutes may result in an ADA violation if insufficient funds are available in the correct appropriation to rectify the error.

- **PURPOSE (Necessary Expense Doctrine):** [31 USC 1301\(a\)](#), Application, reference (f), states that appropriations will be applied only to the objects for which the appropriations were made, except as otherwise provided by law. There is no requirement to report a violation of this statute. The accounting, however, must be corrected to reflect the proper funding. This accounting correction can lead to a reportable violation of the ADA if the proper funds were not available at the time of the obligation or expenditure.
- **TIME (Bona Fide Needs Rule):** [31 USC 1502](#), Balances Available, reference (g), states that the balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title. However, the appropriation or fund is not available for expenditure for a period beyond the period unless otherwise authorized by law.
- **AMOUNT (ADA):** [31 USC 1341](#), Limitations on Expending and Obligating Amounts, reference (h), states that an officer or employee of the United States may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation or involve the Government in any contract or other obligation for the payment of money before an appropriation is made, unless authorized by law.
- **AMOUNT (ADA):** [31 USC 1342](#), Limitation on Voluntary Services, reference (i), states that no officer or employee of the United States will accept voluntary services not authorized by law, except in cases of emergency involving safety of human life or protection of property.
- **AMOUNT (ADA):** [31 USC 1517](#), Prohibited Obligations and Expenditures, reference (j), states that an officer or employee of the United States may not make or authorize an expenditure or obligation exceeding an apportionment or the amount permitted by regulations prescribed.

4.3.2 Violation Reporting

When an obligation or expenditure of funds in excess of the amount available in an appropriation occurs, the violation must be reported in accordance with the [Financial Management Regulation \(FMR\), Volume 14](#). If a violation occurs at the SUPSHIP level, the SUPSHIP Comptroller is obligated to notify the Supervisor of the violation within ten working days and must immediately contact SEA 04Z and SEA 01 with all relevant details. NAVSEA will conduct a preliminary investigation, to include the advice of legal counsel, to determine if a violation has occurred and the nature and scope of the violation.

Depending upon the findings and if sufficient funds exist within the appropriation at the NAVSEA headquarters level, the issue may be resolved in-house. If a violation is confirmed which cannot be resolved at the Headquarters level, the results of the preliminary review must be submitted up the chain-of-command to the Assistant Secretary of the Navy

(Financial Management and Comptroller), who will review and forward to the Undersecretary of Defense (Comptroller), who will perform a final review and determination and when necessary, prepare the letters reporting the violation to the President, the Office of Management and Budget, and Congress.

4.3.3 Funding Violation Penalties

Penalties for violation of [31 USC 1341](#) and [1342](#) are contained in [31 USC 1349](#), reference (k), and [31 USC 1350](#), reference (l), while penalties for violation of [31 USC 1517](#) are contained in [31 USC 1518](#), reference (m), and [31 USC 1519](#), reference (n). In both cases, violators are subject to appropriate administrative discipline including, when circumstances warrant, suspension from duty without pay or removal from office. For knowing and willful violations, the penalty is a fine of not more than \$5,000, imprisonment of not more than two years, or both.

4.4 Types of Appropriations

4.4.1 Appropriations

An appropriation is the authority provided by an Act of Congress to incur obligations for specified purposes and to make payments for them out of the Treasury. The following is a brief description of the types of appropriations often encountered by SUPSHIPs. They are generally classified as either expenses or investments. Expenses are the costs incurred to operate and maintain the organization. Investments are costs that result in the acquisition of or an addition to end items. Refer to the Department of the Navy Financial Policy Manual, [NAVSO-P 1000](#), reference (o), and the [DoD FMR Volume 1](#) for more detailed explanations of appropriations.

4.4.1.1 Operations & Maintenance, Navy (O&MN)

O&MN funds are used for expenses, not otherwise provided for, necessary for the operation and maintenance of the Navy and Marine Corps, as authorized by law. Per the Expense/Investment criteria, equipment purchases under this appropriation are limited to a system unit price of less than \$250,000. This limitation is subject to change by Congress, and the current limitation is contained in the [DoD FMR, 010201](#). O&MN funds are available for new obligations for one fiscal year and are appropriated and authorized for use on an annual basis. This appropriation funds SUPSHIPs' operations and includes salaries, general and administrative (G&A), travel, and training costs.

4.4.1.2 Operations & Maintenance, Naval Reserve (O&MNR)

O&MNR funds are used for expenses, not otherwise provided for, necessary for the operation and maintenance, including training, organization, and administration, of the Navy Reserve; repair of facilities and equipment; hire of passenger motor vehicles; travel and transportation; care of the dead; recruiting; procurement of services, supplies, and equipment; and communications. Equipment purchases under this appropriation are limited

to a unit price of less than \$250,000. O&MNR funds are available for new obligations for one fiscal year and are appropriated and authorized for use on an annual basis.

4.4.1.3 Shipbuilding and Conversion, Navy (SCN)

SCN funds are used for investments to finance the construction of new ships and conversion of existing ships, including service life extensions and nuclear refueling overhauls. Included in the SCN appropriation are hull, mechanical and electrical equipment, electronics, guns, torpedo and missile launching systems, and communications systems. It also includes plant equipment, ship outfitting and post delivery projects, machines, and tools. This appropriation is a multi-year appropriation and normally remains available for obligation for five fiscal years or the obligation work limiting date (OWLD) of the ship under construction. The OWLD is established as 11 months following completion of fitting out the ship, and the OWLD date of the last hull in a class of ships governs when the appropriation is scheduled to expire.

4.4.1.4 Weapons Procurement, Navy (WPN)

WPN funds are used for investments to finance the procurement of missiles, torpedoes, guns, munitions, and supporting equipment, and the installation of modernization equipment. This appropriation is a multi-year appropriation and remains available for new obligations for three fiscal years.

4.4.1.5 Other Procurement, Navy (OPN)

OPN funds are used for investments to finance the procurement, production and modernization of equipment not otherwise provided for. Such equipment ranges from the latest electronic sensors to training equipment and spare parts. The system unit price of this equipment must be in excess of \$250,000. This appropriation is a multi-year appropriation and remains available for obligation for three fiscal years.

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

RDT&E funds are used for expenses and investments for the development of a new system, such as basic and applied research, advanced technology development, demonstration and validation, engineering development, developmental and operational testing, and evaluation of test results. The cost of operation of dedicated research and development installations and activities are also appropriated under RDT&E. This appropriation is a multi-year appropriation and remains available for obligation for two fiscal years; however, RDT&E follows an incremental funding policy and is budgeted to cover the costs expected to be incurred during a 12-month period.

4.4.1.7 Navy Working Capital Fund (NWCF)

The Navy Working Capital Fund (NWCF) is a branch of the family of Department of Defense (DoD) Working Capital Funds. The NWCF is a revolving fund, an account or fund that relies on sales revenue rather than direct Congressional appropriations to finance its operations. It is intended to generate adequate revenue to cover the full costs of its operations, and to

finance the fund's continuing operations without fiscal year limitations. A revolving fund is intended to operate on a break-even basis over time; that is, it neither makes a profit nor incurs a loss.

Navy activities financed through the NWCF perform a wide variety of functions including Supply Management, Depot Maintenance, Research and Development, Transportation, and Base Support. The NWCF continues to pursue some important efforts to improve efficiency and maximize effectiveness. Success in these endeavors is critical to ensuring that the Department of the Navy can afford both the ongoing support costs of fleet operations and the necessary reinvestment in new platforms and weapons systems. SUPSHIPs are not NWCF activities, but on occasion, may need to purchase services from or work with NWCF activities.

4.5 Budgeting and Accounting

4.5.1 SUPSHIP Mission Budgets

Funding and manpower controls evolve over time and are based on Program Objective Memorandum/Program Review (POM/PR) requests as part of the Planning, Programming, Budgeting and Execution process within DoD. This process for the SUPSHIPs begins 30 months in advance of the beginning of an execution year. The SUPSHIP Workforce Forecasting Tool - Pricing Model (SWFT-PM) is the performance and pricing model used to analyze future year requirements and will be addressed in greater detail in the future release of chapter 17 of this manual.

Annual Financial Management Plans are developed for each SUPSHIP and provided to SEA 04Z for review, consolidation and integration into Department of Navy, Office of the Secretary of Defense and President's budget submissions. The division of mission funding to each SUPSHIP is based on projected manning requirements (End Strength and Full-Time Equivalent (FTE) controls) and the amount of funding available in the execution year.

Once in the year of execution, funds are issued by NAVSEA on at least a quarterly basis on Resource Authorizations, [NAVCOMPT Form 2168/1](#); these documents are frequently called Operating Budgets (OBs). They are tracked in both Standard Accounting and Reporting System Headquarters Claimant Modules (STARS-HCM) and STARS Field Level (STARS-FL). Each SUPSHIP has STARS-HCM and STARS-FL capabilities.

SUPSHIPs must review budget requirements quarterly. Requests for adjustments (increases and decreases) in a quarterly cash allocation or the annual planning amount must reach NAVSEA by the 15th day of the month before the beginning of the ensuing quarter. In addition, NAVSEA 04Z will conduct a mid-year review of the SUPSHIP OB during the January-March timeframe. SUPSHIPs will provide funding shortfalls with detailed justification to SEA 04Z for inclusion in NAVSEA mid-year review requests.

4.5.2 The Standard Accounting and Reporting Systems (STARS)

STARS is the official accounting system for most Navy organizations, including NAVSEA. The SUPSHIPs have access and use both the STARS-HCM and the STARS-FL modules to maintain accounting and general ledger data. The use of STARS provides accurate, detailed, and timely information to financial managers at various levels with the visibility necessary to execute original programs. STARS allows headquarters and field activity users to have immediate access to program information. STARS was designed to include a budget execution phase and allows financial managers, other Systems Commands (SYSCOMs), and other budget review levels access to actual progress against approved budget line items.

As the NAVSEA comptroller distributes funds to various financial managers, the transactions are recorded in STARS-HCM. Financial managers may issue funds usage documents or provide funds to other financial managers through the NAVSEA comptroller. One method for providing funds to financial managers is through the issuance of a Project Directive (PD), broken down by line item (PDLI), which is recorded in STARS-HCM and provides funds availability to the recipient activity. The current funds level of a PDLI cannot be exceeded if that PDLI has been assigned a line item limit indicator. As each accounting transaction is recorded in STARS-HCM, all related programs are concurrently updated.

SUPSHIPs perform local accounting in STARS and are responsible for:

- recording commitment and obligation transactions in STARS-HCM chargeable to project directives
- performing periodic reviews of unliquidated obligations and unmatched disbursements
- validating expenditures
- advising the funds grantor of excess funds available for recapture

This allows headquarters financial managers to have current information on the status of funds by terminal inquiry. The terminal inquiries provide a variety of information including funds status, document status, and current accounting month transaction history, which eliminates the need for most memoranda records. Funds obligated in STARS are not immediately available for invoice payments; it takes 24 hours for the system to update all the validation tables. Invoices processed the same day as the obligation will suspend until these tables are updated. This system also eliminates the need for some message reports on the status of funds and expedites the funds authorization and recoupment process.

4.6 Funds Provided to SUPSHIPs

4.6.1 SUPSHIP Mission Funds

The SUPSHIPs are mission-funded activities financed with appropriated O&MN funds. Department of the Navy Financial Policy Manual, [NAVSO-P 1000](#), provides guidance in budgeting and financial management of funds granted under a NAVSEA O&MN appropriation for salaries and for the general and administration expenses (G&A) incurred in the daily operation of the SUPSHIP.

4.6.2 Ship Construction Funds

The Program Executive Offices (PEOs) budget for and fund ship new construction programs and carrier refueling overhauls (RCOH) from SCN and RDT&E appropriations. Based on the estimates of the program managers, the Naval Sea Systems Command (NAVSEASYS COM) prepares annual budget requests which are submitted for review. The budget process follows the same process as SUPSHIP O&MN, and calls for sequential submissions up the chain starting with the Navy Budget in the summer, the Office of the Secretary of Defense (OSD) Budget normally submitted in the fall, and culminates in the President's Budget submission to the Office of Management and Budget (OMB) in February of each year. Once the funding is made available to the program offices in the year of execution, funding for various items is forwarded to the SUPSHIP via a Ship Project Directive (SPD). SPDs authorize the SUPSHIPs to initiate action to accomplish tasks specified in the SPD at a total cost not-to-exceed the funds negotiated and cited on the document. [NAVSEAINST 5000.5](#), reference (p), provides additional information on SPDs.

4.6.3 Foreign Military Sales (FMS) Funds

Foreign Military Sales (FMS) provide military assistance through the sale of defense articles and services to eligible foreign governments and international organizations. The United States normally receives full reimbursement for costs associated with these sales. Most sales are made on a "dependable undertaking" basis. To ensure that the U.S. Government will not suffer a loss resulting from the sale, the foreign government agrees to provide cash to cover payments to contractors and to reimburse the Department of the Navy for work performed. Initially, most obligational authority is in the form of unfunded contract authority where the cash needed for expenditures is not available. Defense Finance and Accounting Service (DFAS) Defense Accounting Office (DAO)-DENVER is responsible for obtaining the required cash, as needed, from foreign customers on a quarterly basis.

Funding for FMS work is provided to the SUPSHIP from NAVSEA 01 for salaries, travel and administrative expenses directly related to FMS projects within the Continental United States (CONUS). Funding is sent to the SUPSHIP via an SPD from the cognizant program office for travel and salaries directly related to the FMS CASE but occurring outside CONUS. [DoD FMR Volume 15](#) provides additional information regarding financial management of FMS.

4.6.4 Ship Repair Funds

The Fleet Commands (FLTCOMs) budget and fund ship repairs from O&MN and O&MNR appropriations, as applicable. The funds are normally authorized to SUPSHIP for specific use by the Type Commander (TYCOM) responsible for a ship. These funds pay for contractual costs of authorized repairs and for incidental costs, which include:

- Naval Supervising Activity (NSA) material;
- Travel and salary cost for overseas shipchecks;
- Alterations Equivalent to a Repair (AERs) and preparation of drawings or sketches to be contracted out; and
- Electronics field changes on installed equipments.

SUPSHIPS receive ship repair funds from FLTCOMs on [NAVCOMPT Form 2168](#), commonly referred to as a Technical Operating Budget (TOB), to establish planning estimates for each ship scheduled for repair. TYCOMs establish planning estimates relative to the (TOB) funding for the SUPSHIP. A TOB is subject to the statutory authority and limitations of existing laws and statutes described in [paragraph 4.3](#) of this chapter.

Details on ship repair funds, including current year and prior year availabilities, may be found in the Department of the Navy Financial Management Policy Manual, [NAVSO-P 1000](#), paragraphs 074200 and 074220.

4.6.5 Fleet Modernization Program (FMP) Funds

Effective in FY90, the FMP was transferred from the O&MN and O&MNR appropriations to the OPN appropriation. The transfer shifted the emphasis from ship alteration to equipment orientation. Installation of equipment is now funded with the same appropriation and fiscal year funds that procured the equipment. NAVSEA provides funds to SUPSHIPS on PDs for the accomplishment of Title K Ship Alterations (SHIPALTs), electronics field changes for installed equipment, and ordnance alterations (ORDALTs). This funding covers expenses incidental to the accomplishment of alterations, such as:

- Preparation and reproduction of alteration drawings contracted out; and
- Travel costs, other than local, for overseas shipchecks of alterations.

Title D and F SHIPALTs are addressed in [paragraph 4.7.2](#).

4.6.6 Berthing Funds

Messing and berthing is a very complex issue due to the various types of funds that are used to pay the expenses. Expenses can be funded by SCN, TDY or military allowances,

depending on the type of orders issued to the sailor. For SCN funded ship availabilities, the cost of berthing is part of the investment cost of the availability and is funded by NAVSEA using SCN funds. NAVSEA provides these funds to the SUPSHIPs through PDs. For O&MN funded ship availabilities, the cost of berthing is funded by the FLTCOM in the O&MN appropriation. Berthing for crewmembers of new construction platforms varies based on several factors.

For surface ships, crew members are ordered to ships under construction as either a member of the Pre-Commissioning Unit (PCU) that is geographically located at the shipbuilder's yard, or as part of the Pre-Commissioning Detachment (PCD) which is located at a fleet concentration area, normally in the projected homeport of the ship being built. For nuclear-powered ships, crew members are ordered directly to the PCU at the shipbuilder's yard. PCU members are ordered to the ship in increments. Some of these increments are for a period of time greater than 180 days before delivery. In these circumstances, the member is issued orders "For Duty In Connection With Fitting Out (DUTY CFO) (ACC-106)", which allows the member to execute a Permanent Change of Station (PCS). The member is entitled to:

- Move family members/household goods to the PCU, and
- Receive basic allowance for housing (BAH) or government quarters, if available.

A second set of PCS orders will be issued entitling the member to move family members and household goods to the ship's ultimate homeport once it has been designated.

If the crew member will be at the PCU less than 180 days, the orders are written as Temporary Duty In Connection With Fitting Out (TEM DU CFO/ACC-352), with the ultimate duty station designated as the ship in its selected homeport. These orders do not authorize PCS to the shipbuilder's yard. The member is entitled to per diem while on TEM DU at the PCU, and to move family members/household goods to the post-commissioning homeport after the Chief of Naval Operations (CNO) makes the official homeport announcement. Per diem ceases at the scheduled date of delivery for surface ships and at the designated move aboard date for carriers and submarines. Carrier and submarine move aboard dates are generally earlier than the delivery date. At delivery the ship should be habitable. If the Navy accepts delivery of a ship that is uninhabitable, program managers are responsible to pay for pre-com crew housing using SCN end cost funds until the ship becomes habitable.

The administrative division of the PCU processes military orders for assigned crewmembers and verifies who is entitled to government quarters. The PCU is also responsible for providing that information to the installation responsible for arranging military or commercial berthing. If SCN funded berthing is required, the SUPSHIP comptroller receives funding from the program office in order to pay the cost of the required berthing. Certification of entitlement from the PCU is used to validate the payment. After commissioning, messing and berthing expenses become the responsibility of the Fleet.

The feeding or messing of the pre-com crews is not an allowable cost using SCN funds. Military members receive a Basic Allowance for Subsistence (BAS) which is a cash allowance to offset the cost of a member's meals.

4.6.7 Commander Naval Installations (CNI) Funds

Commander Naval Installations Command (CNIC) has overall shore installation management responsibility and authority as the Budget Submitting Office for installations support and is the Navy point of contact for installation policy and program execution oversight. Base support responsibilities vary by region and SUPSHIP. In some cases, minimal funding is transferred to the SUPSHIPS for purchase of cell phones, pagers, long distance service, and vehicles.

4.6.8 Environmental Compliance Oversight Funds

Environmental Compliance Oversight funds are used to support the SUPSHIPS' Environmental, Safety and Health (ESH) programs. This funding supports salaries of civilian personnel involved in ESH programs, projects to ensure that contractor oversight in the ESH arena is effectively conducted, and awareness training that is provided to the contractor, SUPSHIP and ship's force personnel. Environmental funding is provided by NAVSEA 04Z to the SUPSHIPS via a [NAVCOMPT 2168](#).

4.7 Funding Methods

4.7.1 Operating Budgets (OB)

An allotment is a distribution of budget authority to an execution level accounting entity. It authorizes the incurrence of obligations in a specified amount for the purpose of the SUPSHIP mission as described in the budget submission. NAVSEA provides O&MN funding to SUPSHIPS via an allotment called the SUPSHIP's Operating Budget (OB). It is required to be administered in accordance with existing laws and statutes described in [paragraph 4.3](#) of this chapter.

4.7.2 Technical Operating Budgets (TOBs)

FLTCOMs provide ship repair funds (Active and Reserve) and funds for the accomplishment of Titles D and F SHIPALTs by means of TOBs. A TOB is apart from a regular operating budget and may be issued by a claimant or expense limitation holder to a responsibility center, either within the chain of command or across command lines. It is issued for implementation and execution of a headquarters-administered, centrally-managed procurement program. The use of a TOB as a funding instrument for the purpose authorized does not change the basic policy of funding mission operations by a single operating budget through command lines.

The TOB carries the same obligation and expense authority contained in regular operating budgets and is subject to the same administrative and statutory controls, as described in [paragraph 4.3](#) of this chapter.

SUPSHIPs use the STARS-FL system to control FLTCOM TOB funds. The SUPSHIP is responsible only for obligating transactions in STARS-FL; the Authorized Accounting Agency (AAA) is responsible for posting expenditures. The Defense Finance and Accounting Service (DFAS) - Cleveland Center is the designated AAA for FLTCOM TOBs. The AAA will prepare and submit official accounting reports as required by the [DoD Financial Management Regulations](#) and [NAVSO P-3006](#), reference (q). The SUPSHIP should maintain only necessary records and should not duplicate records readily available through accounting systems.

4.7.3 Reimbursable Orders

Reimbursable orders are written agreements between components of the Federal Government requiring the performance of work or services by one component and payment by the other component which cover the cost of property, work or services. The [DoD FMR Volume 3, Chapter 15](#) provides general reimbursement policy. [DoD FMR Volume 11A](#) contains more detailed guidance regarding reimbursable operations, policies and procedures. All funded, reimbursable orders, including those of an Economy Act Order (EAO) per Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)) memo dated 3 May 2002, reference (r), are subject to the recipient activity projecting that at least 51 percent of the funds will be used for "in-house" work. If less than 51 percent of the work will be in-house effort, the funding for tasks to be contracted out should be provided on a Request for Contractual Procurement (RCP). SUPSHIPs should not accept reimbursable orders when no in-house salaries are to be charged. Reimbursable order accounting requires additional SUPSHIP effort in order to support documentation and accounting workload.

4.7.3.1 Policy

In accordance with [FMR Volume 11A](#), an activity performing a service or furnishing material to another entity shall be reimbursed **unless** the performing entity has been provided appropriated funds for that purpose. Because SUPSHIPs are provided appropriated funds for the purpose of performing their assigned mission ([NAVSEAINST 5450.36](#)), reference (s), they may only accept reimbursable orders for work that falls outside the scope of their mission. Failure to comply with this requirement could result in a violation of [31 USC 1301](#) (Purpose Act), and possibly [31 USC 1341](#) (ADA) as well.

The SUPSHIP Funding Decision Tree, [Figure 4-1](#), was developed to assist SUPSHIPs in determining whether a customer requested task falls within or outside the scope of the SUPSHIP mission. The decision tree asks a series of general questions that apply to all taskings, and if necessary, follows with additional questions based on the nature of the tasking and the mission area under which the tasking would fall. SUPSHIP personnel should

request SEA 04Z1 assistance in resolving any tasking that is not clearly addressed by the Decision Tree.

4.7.3.2 Types of Reimbursable Orders

4.7.3.2.1 Project Order (PO)

A project order is a specific, definite and certain order issued under the authority contained in [41 USC 23](#), reference (t), for the production of material; for repair, maintenance, or overhaul; or for other specific work and services to be performed. It serves to specifically define the work to be accomplished and the terms of the order in much the same manner as contracts with a commercial enterprise. Project orders, once issued, can carry over until completion. However, similar to contracts, project orders must be for hardware or a 'non-severable' service only.

Funds shall be obligated when the performing activity signs acceptance of the project order. The accounting is the responsibility of the accepting activity. The funds provided on a project order cannot be exceeded without written amendment by the ordering activity and are subject to the same fiscal limitations that are contained within the appropriation from which they are funded. Expiration dates of project orders may not extend beyond the point in time in which the ordering appropriation will be cancelled (generally, five years after the appropriation expires for new obligations). Because of the expiring funds limitation, the order must stand the test of a bona fide need to be issued in the current fiscal year and a bona fide intent that the performing activity intends to proceed with the execution of the request without undue delay.

Project orders are subject to the recipient activity projecting that at least 51 percent of the funds will be used for "in-house" work. If less than 51 percent of the work will be in-house effort, the funding for tasks to be contracted out should be provided on an RCP, Request for Contractual Procurement. When funding is sent via a Project Order to another Navy activity, the [NAVCOMPT Form 2273](#) is used.

4.7.3.2.2 Economy Act Order (EAO)

Like the project order, an Economy Act Order provides authority for federal agencies to order goods and services from other federal agencies, including other Military Departments and Defense Agencies. The order is issued, however, under the authority contained in [31 USC 1535](#), reference (u), and is intended for work or services of a recurring nature where the scope of the work is not specific. These orders are typically used for inter-service support agreements for services such as administrative or janitorial work, utilities, and transportation. However, services such as testing and evaluation and level of effort work-years may be covered by an EAO. When funding is sent to another Navy activity for reimbursable services, the [NAVCOMPT Form 2275](#) is used. This form is commonly called a "Work Request."

The funds are obligated upon acceptance and the accounting for these funds becomes the responsibility of the accepting activity. The funds provided by an EAO cannot be exceeded without written amendment by the ordering activity. An EAO citing an annual or multi-year appropriation must serve a bona fide need arising or existing in the fiscal year (or years) for which the appropriation is available for obligation. Work requests must terminate upon expiration of the appropriation cited on the document.

4.7.4 Military Interdepartmental Purchase Request (MIPR)

Military Interdepartmental Purchase Requests provide authority to order material, supplies, equipment, work, and services between Department of Defense activities and federal agencies. MIPRs can be received or issued by SUPSHIPs for orders placed with non-Navy DoD activities and federal agencies via [DD Form 448](#). For MIPRs issued by SUPSHIPs, obligations are recorded at the time the orders are issued. Examples of MIPR use include: orders placed with the GSA, Federal Prison Industries, Government Printing Offices, Defense Supply Agencies, printing plants authorized to be established by the Joint Committee on Printing, and the Navy Publications and Printing Service Management Office. Many orders placed with these agencies are required by law.

4.7.5 Direct Citations

Direct citations are requests from one Government activity to another to contract for material, equipment or services. The requesting activity provides their accounting data and the performing activity cites the requesting activity's complete line of accounting directly on the contract. The accounting function remains the responsibility of the requesting activity and its AAA. The funding cited on the document will not be exceeded without an amendment issued by the requesting activity. The funds retain all legal limitations that existed when the requesting activity accepted them.

Requests for Contractual Procurement (RCP) can be issued on either the [NAVCOMPT Form 2276](#) or [2276A](#) to pass direct citation authority to other Navy Activities. These documents are issued when the receiving activity will contract out at least half of the work. When the performing activity signs acceptance, they are agreeing to perform the work; however, direct cite obligations are not recorded until the contract is awarded. The performing activity must comply with fiscal law and all restrictive statements contained in the document and ensure that confirmed copies of the contracts or orders that result are promptly provided to the requesting activity and its AAA for posting of obligations and expenditures.

4.7.6 Letters of Authority (LOA)

A Letter of Authority (LOA) can be used in funding work or services in instances when the activity requesting the work or services does not have the authority to issue a TOB and no other appropriate funding document can be identified for use. LOAs authorize the recipient to direct-cite the funds of the requesting activity on applicable financial documents. Therefore, LOAs must contain complete line of accounting data, a statement of the maximum dollar amount authorized, and the purpose for which the LOA is issued. If the LOA requires

requisitioning material from stock, a universal fund code should be provided. The LOA should be assigned a standard document number and it must provide for acceptance by the performing activity.

The document becomes effective when the performing activity signs acceptance. A formal funding document will be issued as soon as possible. SUPSHIPs will promptly provide a copy of all financial documents issued to the requesting activity. Due to this requirement for official accounting at the source activity, the use of LOAs should be minimized.

4.8 General Classifications of Funds Transactions

All expenditures must be preceded by an authorization to expend from the available funds. In theory, every transaction progresses through the four stages of initiation, commitment, obligation, and expenditure.

The four stages of funds transactions are described as follows:

- **Initiation:** An administrative reservation of funds based on procurement directives, requests, or equivalent instruments that authorize preliminary negotiations, but require that funds be certified by the official responsible for the administrative control of funds before incurrence of the obligation. Initiations are entered into memorandum accounts to help keep pre-commitment actions, such as approved procurement programs, within the available subdivision of funds. Initiations identify funds to be set aside for planning purposes before establishment of commitments or obligations. Initiations will not be maintained as a part of the official fiscal records.
- **Commitment:** A firm administrative reservation of funds based on solid procurement directives, unaccepted customer orders, requisitions, authorizations to issue travel orders, or equivalent instruments which authorize the recipient to create obligations without further recourse to the official responsible for certifying the availability of funds. A commitment is generally recorded when the comptroller signs the document to certify that the funds are available and properly cited for the effort. Only warranted or authorized personnel can legally obligate government funds.
- **Obligation:** A firm commitment of funds incurred when an order is placed, contract is awarded, service is received, travel orders are issued, and similar transactions are entered into requiring future payment of money in an agreed amount. By law, obligations must be supported by documentary evidence of a mutual agreement in writing. Each individual transaction must meet the test of the following principles:
 - A determination that the specific goods, supplies or services required according to contracts entered into or orders placed obligating an appropriation are intended to meet a bona fide need of the fiscal year charged; and

- Contracts entered into or orders placed for goods, supplies or services will be executed only with a bona fide intent that the performing activity will commence work and perform the contract without unnecessary delay.
- **Expenditure:** A disbursement and accounts payable transaction processed by the SUPSHIP or disbursing office, as applicable, that results in a reflection of expenditures. The Debt Collection Improvement Act of 1996, [Public Law 104-134](#), reference (v), requires payments on all Federal contracts to be made via Electronic Funds Transfer (EFT) if the solicitation was issued after June 26, 1996. [DoD FMR Volume 5 Chapter 24](#) applies. All DoD Vendors are required to be registered in the Central Contractor Registration (CCR) database as DFAS payment offices use the EFT data provided in the CCR in order to issue EFT payments. There are only limited exceptions to this mandate.

4.9 Prompt Payment Act, 5 CFR 1315

In 1982, Congress enacted the Prompt Payment Act, [PL 97-177 \(now 5 CFR 1315\)](#), reference (w). The Prompt Payment Act was passed to help ensure federal agencies pay vendors in a timely manner, pay interest when payments are made late, and take discounts only when payments are made by the discount date. The Prompt Payment Act requires an assessment of late interest penalties against agencies that pay vendors after a payment due date. The late payment interest rate was established under the Contract Disputes Act and is referred to as the "Renegotiation Board Interest Rate," the "Contract Disputes Act Interest Rate," and the "Prompt Payment Act Interest Rate."

4.9.1 Usual Reasons for Late Payment

- **Improper or Late Distribution of Contract** - This is the primary reason that payments are made late.
- **Direct Cite Funding** - Many payment problems arise in this category. The funding activity, not the SUPSHIP, inputs obligations for direct cite lines of accounting. If the obligation is not input or is input incorrectly, the SUPSHIP cannot correct the obligation because the SUPSHIP does not have access to the funding activity's Unit Identification Code (UIC) in the accounting systems. Many activities that issue direct cite funds do not use STARS; therefore, the DFAS office must obtain a guarantee from the activity that the obligation is awaiting payment, also known as a pre-validation.
- **Credit Modifications** (also known as a Delete or Down Cost Modification) - Contractors tend to ignore delete modifications or bill them at a much later date. SUPSHIP financial personnel should input delete modifications into the accounting system as soon as possible to avoid overpayment. When validation is attempted, insufficient funds are available. The result is the contractor has to resubmit the invoice.
- **Misapplied Payments** - Misapplied payments are the most time-consuming reason for late processing of invoices. The processing of previous payments to the wrong line of

accounting results in insufficient funds. It often takes a great deal of time to identify and correct the problem.

4.9.2 Progress Payments and Prompt Payment Requirements

Per [DoD FMR Volume 10 chapter 7](#), progress payments are not subject to the Prompt Payment Act. They are considered to be contract financing payments and are paid based on specific payment terms contained in the contract. Department of Defense policy is to make contract financing payments as expeditiously as possible. The standard due date unless otherwise specified is 7 days for progress payments.

4.10 Reports

SUPSHIPs are required to prepare several financial reports on a periodic basis. Some of the primary reports are addressed individually below. Other reports and datacalls to support budgets, reviews and funding allocations are requested from the comptrollers on an as-needed basis.

4.10.1 CIVPERS Reports

4.10.1.1 Full Time Equivalent (FTE) Report

The FTE report includes actual hours executed by direct, reimbursable and FMS categories and explains deviations to phased controls. This report is due by the 6th of each month.

4.10.1.2 SUPSHIP Monthly Attrition Report

The SUPSHIP Monthly Attrition Report details actual civilian personnel reductions at each activity. This report is due by the 6th of each month.

4.10.1.3 SUPSHIP Monthly Accretion Report

The SUPSHIP Monthly Accretion Report details actual civilian personnel increases at each activity. This report is due by the 6th of each month.

4.10.1.4 Bi-Weekly SUPSHIP Hiring Status Report

The SUPSHIP Hiring Status Report details actual civilian hires from the activities' initial action to the date the new hire becomes effective and/or the permanent conversion of reimbursable positions to direct. This report is due the first Tuesday at the end of each pay period.

4.10.2 Funds Status Report

4.10.2.1 SUPSHIP EOB Monthly Fund Status Report

The SUPSHIP EOB Monthly Fund Status Report details, by object class code, the current status of funding allocation. Financial reports are a tool to display the status and use of SUPSHIP resources. For managers to exercise proper stewardship over their resources, it is essential that financial reports be accurate and timely. SUPSHIP comptrollers are responsible for the accuracy and completeness of financial information in reports which present the financial effects of the SUPSHIP's operation. This report is due the 15th of each month.

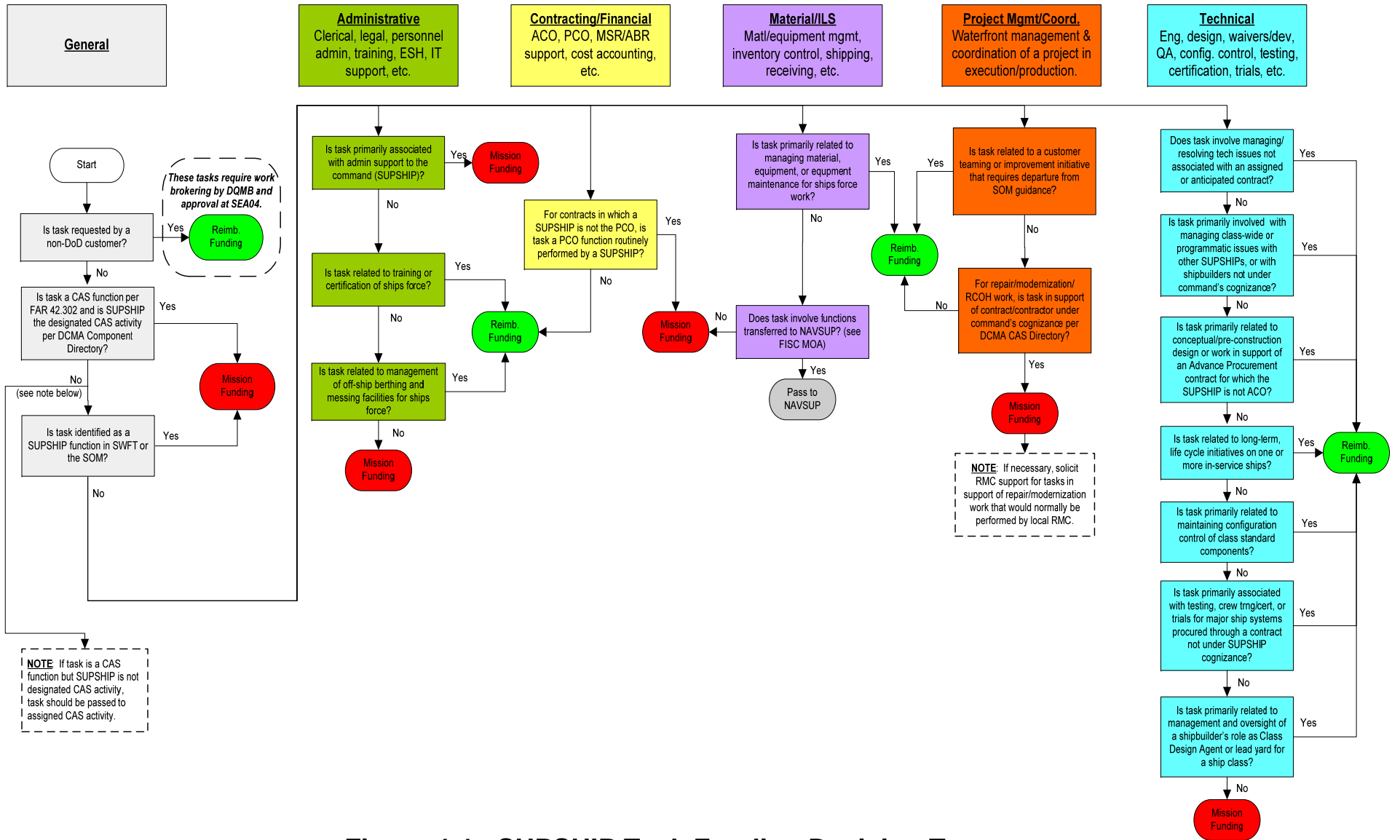


Figure 4-1. SUPSHIP Task Funding Decision Tree