

## **CHAPTER 3: THE BUDGET PROCESS**

### **3.1 PURPOSE**

Previous chapters delineated the general principles that apply to SCO budgetary management and the various sources of funds that finance SCO operating costs. This chapter provides an overview of the organizations and milestones associated with the SCO budget process. Once the annual Foreign Operations Appropriation Act (FOAA) is enacted, DSCA/CMP allocates SAAF budget authority to the GCCMD, who in turn, allocate to the individual SCOs.

### **3.2 ORGANIZATIONS INVOLVED IN THE BUDGET PROCESS**

#### **3.2.1 CONGRESS**

Congress authorizes and appropriates many of the funds used by the SCOs. In particular, FMF administrative funds are authorized in the annual Foreign Operations Appropriation. Moreover, the proposed budgetary and staffing levels for SCOs are included in the Congressional Budget Justification (CBJ) and are subject to Congressional review and approval. Congress also authorizes and appropriates funds for various Military Department (MILDEP) programs, to include O&M funds for SCOs with DoD missions.

#### **3.2.2 OFFICE OF MANAGEMENT AND BUDGET (OMB)**

OMB assists the President in the preparation of the annual U.S.G. budget and the formulation of government-wide fiscal policy. OMB controls the apportionment of appropriated funds (e.g., FMF, IMET, CTPF, OHDACA) for obligation and expenditure in support of SA activities. [OMB Circular A-11](#) specifies the Object Class Codes to be used by the Executive Branch to report execution (e.g., pay, travel, supplies).

#### **3.2.3 DEPARTMENT OF STATE**

The DoS has statutory responsibility for SA policy and provides the authority for these programs. The DoS also determines the level of assistance provided, including sales or grants to specific countries and international organizations. DSCA Strategy and Business Operation Directorates provide specific budget information to the DoS, which is responsible for the CBJ documentation within the Foreign Operations Budget submission.

##### **3.2.3.1 DOS FINANCIAL MANAGEMENT SUPPORT**

The DoS manages U.S. Diplomatic Missions (Embassies) overseas that may provide administrative support to the SCOs through the International Cooperative Administrative Support Services (ICASS) program. The DoS also manages two regional Global Financial Service Centers (GFSCs) that provide financial services to embassy tenants, to include the SCOs. When an Embassy Financial Management Office (FMO) makes check or cash payments on behalf of a SCO, the disbursement data related to the budgetary obligation is collected and sent

to the supporting GFSC. The GFSC forwards this data to the interagency clearinghouse, which, in turn, sends the information to the Defense Finance and Accounting Service, Indianapolis (DFAS-IN), and finally to the DoD accounting office who issued the funds. This process generally applies to all funds processed through an Embassy or other DoS managed operation.

### **3.2.4 OFFICE OF THE SECRETARY OF DEFENSE (OSD)**

The Undersecretary for Defense (Comptroller) (USD(C)) promulgates financial policy for the MILDEPs and the Defense Agencies. USD(C) is the principal advisor to the Secretary of Defense on all budgetary and fiscal matters, including the development and execution of the Defense Department's annual budget. As the Chief Financial Officer, the USD(C) also oversees the Department's financial policy, financial management systems, and business modernization efforts.

### **3.2.5 JOINT STAFF**

The Joint Staff (J-1) approves and publishes the Joint Table of Distribution (JTD) and Joint Manpower Plan (JMP), which authorize manpower billets for all GCCMDs, to include the SCOs. Each JTD/JMP includes separate sections for SA-funded and O&M-funded billets. All SCO JTD/JMP staffing actions to change existing manpower levels must be coordinated through the Ambassador, the GCCMD, the Joint Staff, and then through the DSCA Director for final adjudication and approval.

### **3.2.6 DEFENSE SECURITY COOPERATION AGENCY**

3.2.6.1 DSCA is the DoD focal point for policy and management oversight of SA programs executed by the DoD, to include the MILDEPs, Defense Agencies, GCCMDs, and SCOs. The DSCA/CMP is responsible for reviewing and approving the annual SA budget and for establishing policies associated with the administration of these funds. DSCA/CMP allocates SAAF to each GCCMD, which sub-allocate to the respective SCOs. DSCA/CMP monitors SCO staffing levels and assists each GCCMD process new staffing requirements through the JCS Joint Manpower Validation Process (JMVP) and requests for local overseas hires through the Personal Services Agreement (PSA) process.

3.2.6.2 DSCA works directly with the DoS on policy and reimbursement matters concerning ICASS agreements, which provide a variety of Embassy support to each SCO. A DSCA/CMP representative serves on the ICASS Interagency Working Group. DSCA reviews and approves ICASS information twice a year and works through the GCCMDs to resolve any issues or anomalies.

3.2.6.3 DSCA/STR publishes the [DSCA 5105.38-M, Security Assistance Management Manual](#), which contains broad policies concerning SCO budgets. DSCA is also the parent agency for DISAM, which is responsible for SCO personnel education and is the designated manager for the SAARMS application.

### **3.2.7 DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS)**

3.2.7.1 Reporting to the USD(C), the Director, DFAS, is responsible for the preparation and update of selected chapters within the FMR, to include [Volume 15 - Security Assistance Policy and Procedures](#). Volume 15 provides official policy and procedures for all SA accounting and finance guidelines.

3.2.7.2 DFAS-IN is responsible for issuing accounting policy for SA funds. It prepares and submits financial reports to DSCA, OMB, and Treasury for assigned SA Treasury accounts. Any DFAS-IN Accounting Procedure Memorandum provides accounting policy for SA funds applicable to each SCO and GCCMD HQ. DFAS also maintains the official financial and accounting records generated by each GCCMD and SCO through SAARMS, the General Accounting and Finance System (GAFS), and DoS FMO, etc.

3.2.7.3 All pay for U.S. civilian personnel assigned to each SCO is centrally paid through the Defense Civilian Pay System (DCPS), located at DFAS-IN. DFAS-IN processes bi-weekly payroll reports, which are then provided to each GCCMD for review.

### **3.2.8 MILITARY DEPARTMENTS (MILDEPS)**

Each MILDEP serves as the administrative agency for delegated SCO support functions. MILDEPs also are the principal implementing agency for FMS cases. Such cases may be a source of travel/temporary duty (TDY) funding for SCO personnel attending Program Management Reviews or other case related requirements, to include training teams.

### **3.2.9 GEOGRAPHIC COMBATANT COMMANDS (GCCMDS)**

3.2.9.1 The GCCMDs are the headquarters of and command authority for each SCO, per [Department of Defense Directive \(DoDD\) 5132.30](#) and provide staff and administrative support functions, (e.g., Judge Advocate, Comptroller, and information technology).

3.2.9.2 Each GCCMD Comptroller receives the annual Budget Call Memorandum from DSCA/CMP and subsequently transmits a Budget Call to the SCOs with GCCMD-specific guidance. The GCCMD reviews and endorse a proposed SCO budget prior to submission back to DSCA/CMP. When the fiscal year begins, and either a permanent or continuing appropriation is enacted, DSCA/CMP allocates SAAF to the GCCMD, which provides the SCOs with annual and quarterly SA budget authority.

### **3.2.10 EMBASSY**

3.2.10.1 The Ambassador or COM is the President's representative to the Host Nation, leads the Embassy country team, and sets local policy that apply to all USG offices in country. SCO personnel serve under COM authority, performing security assistance functions under the direction of the Ambassador.

3.2.10.2 The Embassy Financial Management Officer (FMO) provides support to the SCO in accordance with the terms of the local ICASS agreement. Each SCO should have a signed ICASS agreement stipulating the ICASS services provided by the Embassy.

3.2.10.3 The Embassy may also provide contracting officer services on behalf of the SCO, unless the SCO has a contracting officer assigned.

### **3.2.11 SECURITY COOPERATION ORGANIZATION (SCO)**

The SCO is the generic term used to identify the DoD entity located in a foreign country that has responsibility for executing security cooperation and assistance management functions. This includes military assistance and advisory groups (MAG), offices of defense and military cooperation (ODC and OMC), liaison groups, and in some situations, Defense Attaché personnel performing security assistance functions. The SDO/DATT is responsible for the overall management of the SCO programs and budget, including preparation, execution, and the requisite management and internal controls.

## **3.3 BUDGET RELATED FUNCTIONS**

### **3.3.1 BUDGET FUNCTIONS OF THE GCCMD HEADQUARTERS (HQ)**

Each GCCMD HQ is required to perform the following SCO budget-related functions to implement fiscal management laws, policies, regulations, and directives:

3.3.1.1 Provide technical guidance and direction on financial matters.

3.3.1.2 Review budgetary performance against the budget execution plan.

3.3.1.3 Evaluate, integrate, and validate funded and unfunded requirements (UFRs).

3.3.1.4 Issue supplementary budget policy, preparation guidance, and procedures for budget submissions.

3.3.1.5 Consolidate and analyze each SCO budget submission.

3.3.1.6 Articulate and justify budget requirements to DSCA/CMP.

3.3.1.7 Coordinate budget and fiscal management actions with DSCA/CMP and SCOs.

3.3.1.8 Provide the first level of technical assistance to each SCO in the use of SAARMS.

### **3.3.2 BUDGET FUNCTIONS OF THE SCO**

3.3.2.1 Develop the budget for requirements to support assigned missions based on the funding source.

3.3.2.2 Maintain internal obligation and expenditure records in the Budget Execution application in SAARMS. Official finance and accounting records are generated by the Embassy

or DFAS-IN. Disbursements need to be maintained by the originator at the SCO, Embassy or DFAS. Each SCO needs to maintain adequate records of all obligations and disbursements.

3.3.2.3 Maintain all financial records (Voucher Auditor's Detail Report (VADR)) generated by the Embassies or received by the SCO (invoices, contracts, etc.).

3.3.2.4 Reconcile current year financial and accounting reports monthly. Use the reconciliation report within the budget execution application and the monthly disbursing report sent by DFAS-IN.

3.3.2.5 Reconcile prior year financial and accounting reports at least quarterly and report results to the GCCMD and DFAS-IN. All cancelling year accounts must be reconciled by August 1<sup>st</sup> of the fiscal year in which they cancel (for example, cancelling funds for FY2008 must be reconciled and ready for cancellation no later than 1 August of 2013).

3.3.2.6 Review all accounting records in accordance with the [Financial Management Regulation \(FMR\), Volume 3, Chapter 8, "Standards for Recording and Reviewing Commitments and Obligations"](#) during three reporting periods of each fiscal year as part of the Tri-Annual Review (January 31, May 31, and September 30). Validate all unliquidated obligations (ULOs) and ensure they are accurate and properly documented to support a continued need to carry the obligation and remaining unliquidated amount forward. This review applies to current year and all expired year obligations.

3.3.2.7 Establish separate internal controls for all operating funds to prevent over-obligation or over-expenditure. Assure funds are used according to regulation and procedure. Identify excess funds for return to the GCCMD for re-allocation to cover existing unfunded requirements, or to DSCA/CMP in a timely manner. Identify SCO excess funds and report such to the GCCMD, or not later than the 1 August of the budget execution year.

3.3.2.8 Ensure funds are allocated and available before obligating the USG.

3.3.2.9 Maintain separate records and accounts within the SAARMS Budget Execution application for each source of funds (e.g., SAAF, O&M, and Defense Cooperation in Armaments).

3.3.2.10 Maintain complete and separate records for Official Representation Funds (ORF) and REP Fund Authority, which shall not be commingled or redistributed among other expense categories. These records must include perpetual inventories of consumable and expendable items purchased for representational purposes. As a reminder, no personal type items may be purchased with ORF or REP funds in accordance with DoD regulation.

3.3.2.11 Maintain separate records for contributed currency and AIK support and provide required documentation to the GCCMD upon request or when new agreements/actions are initiated.

3.3.2.12 Review funding requirements for consistency with established policy and mission priorities and ensure resources are sufficient to support “must-pay” requirements (e.g., payroll, housing, dependent education, utilities). The SDO/DATT must make decisions on discretionary requirements when funds are limited. Justify and prioritize requests for additional resources and UFRs during the budget preparation process and/or in time of need. UFRs exceeding the SCO authorized budget must be submitted to the GCCMD for additional funding consideration, and potential submission to DSCA/CMP.

3.3.2.13 Review ICASS agreements and associated charges semiannually to verify that the services provided meet standards and more importantly that the billing is accurate. Ensure FMS case-funded and O&M-funded personnel are supported through separate ICASS agreements and not the SCO SA agreement. The SCO is responsible for each signed agreement and for each corresponding source of funding. The SCO shall work with the DoS to correct any billing discrepancies.

3.3.2.14 Manage operating requirements effectively within established funding allocations, policy, and guidelines.

3.3.2.15 Forecast new requirements, refine recurring requirements, and delete one-time items purchased in the previous year during the budget preparation process to create baseline requirements.

## **3.4 ANNUAL SECURITY ASSISTANCE PROGRAM BUDGET REVIEW**

### **3.4.1 PLANNING GUIDANCE**

In late October/early November, planning guidance is issued by the DSCA Director to the MILDEPs, including each GCCMD, to provide annual strategic focus, instructions, and guidance relative to the upcoming POM/Budget.

### **3.4.2 PROGRAM BUDGET REVIEW**

3.4.2.1 By mid-December, a Program Budget Review (PBR) document is issued jointly by the DSCA Principal Director for Strategy and the Principal Director for Business Operations that provides the framework for the Department to prepare budget submissions. The guidance covers the period of the prior fiscal year, the current budget execution year, the next budget year, and two programming out-years.

3.4.2.2 Once the PBR is issued, each GCCMD has until mid-March to collect budget inputs from each SCO and consolidate the data for submission to DSCA/CMP. The GCCMD may increase or decrease individual SCO budgets and may fund individual SCO UFRs within the GCCMD budget target prior to final POM/Budget submission. The GCCMD will provide each applicable SCO with updated and/or changed budget data and targets.

3.4.2.3 DSCA/CMP consolidates the worldwide SCO budget submissions for review and analysis, and further consolidation into the overall DSCA Program/Budget. Starting in mid-

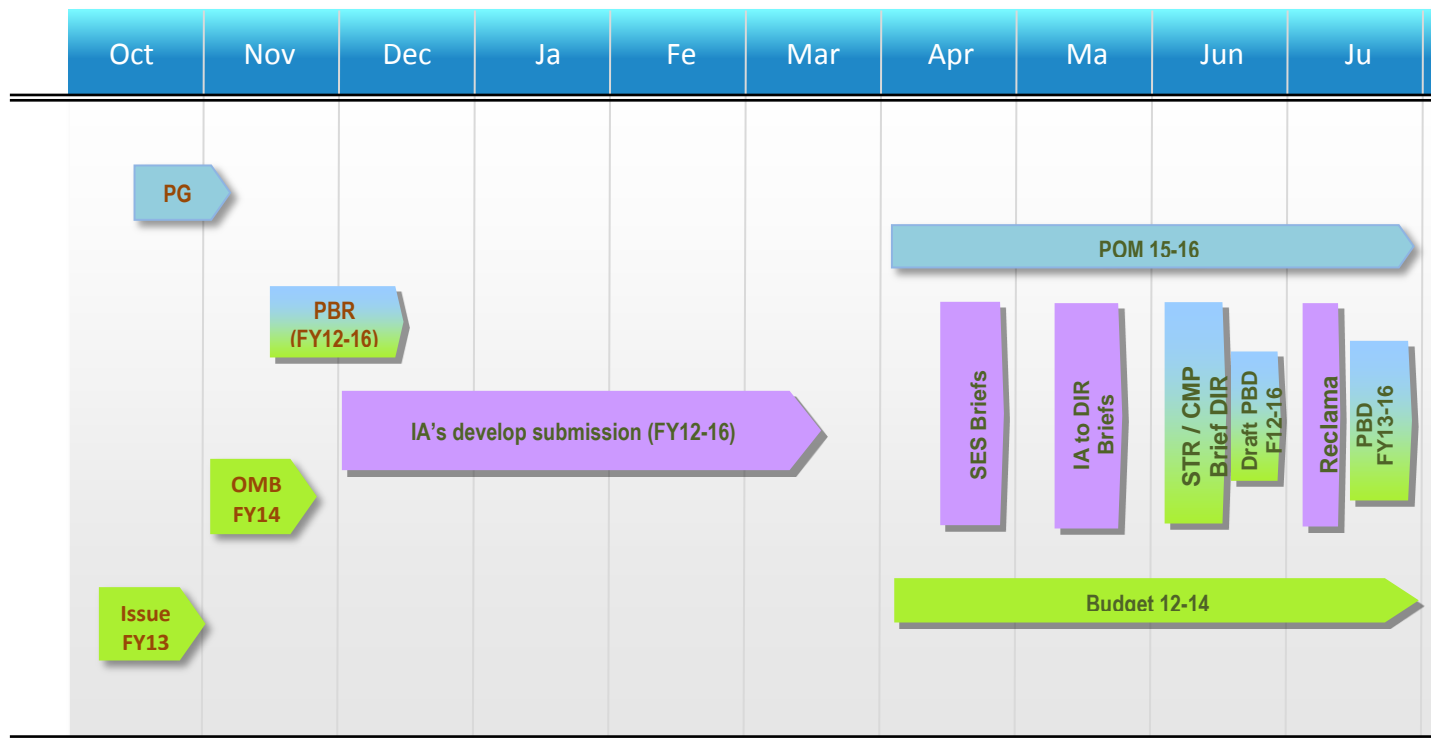
April of each year, the Program/Budget is briefed to DSCA leadership. During the review, SCO Program/Budget targets may be adjusted.

3.4.2.4 In early July, a draft Program/Budget Document (PBD) is issued by the DSCA Director. If there are changes to GCCMD targets, you will have until mid-July to reclaim the draft decision, providing any additional justification or clarifying information deemed necessary or important.

3.4.2.5 By the end of July, The DSCA Director will issue a final PBD. This document will assign final targets for the upcoming budget year and two program out-years. DSCA/CMP and DSCA/STR brief the OMB on our budget authority request for the upcoming budget year, to include a recap of prior year execution, current budget year execution and any trends in program out-years.

3.4.2.6 In February, the President's Budget, to include the CBJ and other supporting documents are transmitted to Congress. The various congressional committees then start hearings, committee mark-up, and House-Senate reconciliation processes that culminate in the approval of a Foreign Operations Authorization/Appropriations Act (FOAA). The Program/Budget process remains in flux until Congress agrees on a budget, the President signs the legislative, and an annual Foreign Operations Act is enacted.

3.4.2.7 Figure 3-1 below provides a graphical presentation of the new combined DSCA Program/Budget cycle. The graphic provides a depiction of events for FY2013.



PG – Planning Guidance

PBD – Program and Budget Decision\*

PBR – Program and Budget Review



### 3.5 BUDGET EXECUTION CYCLE

#### 3.5.1 ALLOCATION & ALLOTMENTS

In October, DSCA/CMP issues an approved Annual Funding Program (AFP) to each GCCMD for the HQ and SCO accounts. Based upon the AFP, DSCA issues a FAD each quarter to each GCCMD. The GCCMDs, in turn, release budget execution authority to each SCO, providing a copy to DFAS-IN. Before issuing a budget authority to a SCO, the GCCMD must ensure the total amount corresponds and matches the FAD issued by DSCA. This funding allocation provides each SCO with the authority to obligate and expend funds for local operating expenses. DSCA/CMP provides quarterly funding on the following basis:

1<sup>st</sup> Quarter – 30%



2<sup>nd</sup> Quarter – 25%  
3<sup>rd</sup> Quarter – 25%  
4<sup>th</sup> Quarter – 20%

If a GCCMD requires a different distribution of funds, they should notify DSCA/CMP in their budget submission. DSCA/CMP will try to accommodate GCCMD requests based on sufficient justification.

### **3.5.2 OBLIGATIONS AND EXPENDITURES**

3.5.2.1 The SCO enters the obligation authority, generates obligations, and record payments (expenditures) in the SAARMS Budget Execution Application. When processing transactions, the keys to reconciliation are the document number and accounting classification integrity. In effect, the document number (and accounting classification/fund citation for purchase requests or services) must be perpetuated throughout all financial phases of a transaction (i.e., from commitment, obligation, expenditure, and disbursement). This principle must be conveyed to the Embassy FMO to allow correct expenditure data to flow to the GFSC. SAARMS includes a cross walk as part of the documentation required by the Embassy FMO and is required for all non-SAARMS transactions processed through the Embassy. If the correct document number, accounting classification and crosswalk are not submitted to the FMO, and the Embassy FMO assigns a document number without cross reference to and perpetuation of each of the initial SCO obligation document numbers, this makes subsequent reconciliation of obligation and expenditure transactions far more complex and time consuming – for the SCO and DFAS-IN.

3.5.2.2 The SCO and DFAS-IN are responsible for reconciling transactions utilizing the documentation maintained in their office (i.e. DFAS-IN provides the SCO supporting data or documentation to facilitate matching expenditures to obligations). The SCO will enter the information provided by DFAS-IN into the proper SAARMS records.

### **3.5.4 SAARMS**

SAARMS is a web-based feeder system that allows the SCO to perform day to day financial and procurement operations, purchasing, budgeting and reconciliation. This system also provides reports to DFAS-IN. The Execution Application provides a means by which the SCO can maintain financial control with the posting/processing of transaction amounts. However, the official accounting records are maintained by DFAS-IN. The SAARMS Budget Preparation Application is the tool used for the preparation of the SCO budget. For more details on SAARMS, please refer to the [SAARMS Handbook](#).

## **3.6 REPORTING**

### **3.6.1 WORKLOAD**

3.6.1.1 SCO staffing varies according to the SA workload and workload associated with the other SC programs. As a general rule, more than 50% of an individual's workload must be performing SA functions in order to justify that the billet is funded from SAAF resources.

3.6.1.2 DSCA approves the SA funded billets by SCO. Once authorized and SCO staffing is approved, it is published by the JCS J-1 in the respective GCCMD JTD or JMP. There are a finite number of manpower billets available across the Department. In order to obtain approval to increase SCO staffing levels, the JCS Joint Manpower Validation Process (JMVP) is used. This process involves active participation by the JCS, Services, GCCMDs, and DSCA in validating requirements and shifting billets from one organization to another, as required.

3.6.1.3 In addition, it is important that the SCO uses SAARMS to capture workload reporting to allow improved and appropriate resource allocation. This workload reporting directly influences future manpower funding for Program and Budget justification and resourcing. The Resource Allocation Baseline Report allows DSCA to Program/Budget data by object class and by fiscal year. The report requires the SDO/DATT to provide the percentage of effort the office expended during the preceding 12 months for each of 11 separate functions.

3.6.1.4 The SDO/DATT should consider all SA management functions performed by the SCO as a whole, regardless of who performs each function. The management of SA workload should be accurately captured and divided into the functions listed in Appendix D. The resource allocation allows DSCA to accurately allocate expenses between the FMS Trust Fund Administrative Surcharge Account and appropriated FMF Administrative funds. It further provides the basis and justification for the Agency request to State to support a required level of support to execute SA programs appropriately. The allocation of workload to function is an extremely important function and must be accomplished accurately. In general, a SCO for large grant aid recipient countries should have higher FMF Administrative requirements. A SCO should insert zeros for those functions not performed by the SCO.

3.6.1.5 There is a new function titled Business Sustaining Activities (BSA), which automatically allocates SCO overhead activities to FMS Trust Fund Administrative Surcharge Account and appropriated FMF Administrative funds (See Appendix D for details on FMS/FMF Functions).

## **3.6.2 STATUS OF FUNDS REPORT**

3.6.2.1 The SAARMS Budget Execution Application automatically generates a Status of Funds Report that is included in the data upload to DFAS-IN. These reports show the cumulative obligations and associated percentages of obligations by budget category/object class. They also calculate the percentage of variance of the actual from the planned totals. This is a valuable tool for the SCO, the GCCMD, and DFAS-IN to track spending profiles as the budget year progresses.

3.6.2.2 DFAS-IN generates a monthly Status of Funds Report, reflecting the cumulative annual and quarterly funding, cumulative obligations, and year to date expenditures from the

official accounting and finance system. This Status of Funds report is provided to DSCA and each GCCMD in order to track obligation and expenditure profiles.

### **3.7 SUMMARY**

3.7.1.1 The SCO Program/Budget process starts with the DSCA Planning Guidance and the Program/Budget Review request, which each GCCMD transmits to the SCOs. Each SCO must use the SAARMS Budget Preparation Application to prepare the annual budget.

3.7.1.2 Once the GCCMD and DSCA/CMP review and approve the SCO budgets in the final Program and Budget Document, and following the Congressional budget cycle and enactment of the requisite legislation, DSCA/CMP releases quarterly allocations and an AFP to the GCCMD, which in turn transmit budget execution authority to the SCOs and DFAS-IN.

3.7.1.3 Upon commencement of the execution cycle, the SCO uses the SAARMS Budget Execution Application to "load" its budget limitation categories and proceeds to record transactions (i.e., commitments, obligations, and expenditures) as they occur. An important aspect of the execution process is the reconciliation of outstanding or unmatched transactions, so that DFAS-IN and the SCO records are current and accurate.