4-1. Introduction

a. National military decisions in support of foreign policy issues and national security matters are the responsibility of the President. Presidential decisions result from the analysis of these issues and matters, determination of alternative courses of action, evaluation of each, and presentation of pertinent knowledge to permit clear policy choices. The determination of the best course of action is made by the President. His decisions are announced in the Presidential Directives (PDs).

b. The Secretary of Defense, based on recommendations of the members of his staff, officials of the military departments, Joint Chiefs of Staff (JCS), and other Department of Defense (DOD) agencies, translates national security decisions, policies, and objectives into plans, programs, organizational assignments, and implementing guidance for the elements of DOD. The decisions of the Secretary of Defense are made under the authority of the Defense Reorganization Act of 1958. This legislation gave the Secretary of Defense, under the policy guidance and direction of the President, two distinct lines of authority; a direct line of command through JCS to the unified and specified commands and a line for administrative control of the military departments and management and support of the military forces. This administrative line of control is the basis of the Planning, Programing, and Budgeting System (PPBS) by which the Secretary of Defense submits DOD requirements to the President for inclusion in the presidential budget submitted annually to Congress.

c. Basically, the PPBS process can be summarized as follows:

1. From the threat perceived, strategy is developed to counter that which is most dangerous and most likely to materialize.
2. Force requirements are developed to support the strategy.
3. Programs are developed to document and justify the resources for achievement of force objectives, weapon systems objectives, and their logistics support.
4. Budgets are formulated to allocate the resources provided by Congress to support requirements for execution of approved programs.
5. The PPBS results in the DOD portion of the President’s budget which is submitted to Congress in January and is reflected in the DOD Five-Year Defense Program (FYDP).

d. Army programing and budgeting is accomplished within the context of the PPBS annual cycle. The programing phase is initiated on the basis of the strategic planning documents prepared annually by JCS and the fiscal guidance of the Secretary of Defense.

4-2. General

The magnitude of individual programs in support of military planning requires the commitment of resources over many years into the future. In fact, the first-year budget for these programs often represents only a small part of the total expenditures necessary if the end objectives are to be realized. Hence, the planned use of resources toward specific national objectives has become increasingly critical. From these kinds of considerations, two primary goals of overall defense management have emerged: first, there must be a continual analysis of total force structures for all the services in terms of common missions or national objectives; and second, the resource impact or financial requirements of proposed force structures must be projected over an extended period of years. These goals are met through a planning, programing, and budgeting process containing five major elements:

a. A program structure in terms of missions, forces, and weapon support systems.
b. The analysis and comparison of alternatives.
c. A continually updated FYDP.
d. Systematic year-round decisionmaking on new programs and changes.
e. Progress reporting to test the validity and administration of plans and programs.

4-3. Program Objectives vs. Resource Inputs

Until the early 1960s, military support management was based on a system of budgeting and control according to resource inputs rather than on any set of programmed national objectives. Military planning and budgeting were tailored to some arbitrary appropriation ceiling which Congress arrived at within the overall Federal budget. Although there is sound justification for not spending more on defense that the "economy can afford," the result was an inefficient allocation of
Figure 4-1. The DOD 10 major forces programs.
the resources which could be afforded. In practice, Congress would (and still does) approve a defense budget structured according to appropriation categories; for example, so much for military personnel, so much for new construction, and so on. The individual services would then get their cut of the pie and would have to make decisions concerning competing needs within the service. Herein lay the deficiency. To achieve the optimum allocation of resources in terms of missions, competing needs must be evaluated without regard to service boundaries. Thus, the first link in the planning-programing-budgeting chain is planning and programing according to missions or national objectives.

4-4. Planning and Programing According to Missions

a. Broadly considered, planning and programing at the present time in both DOD and the Department of the Army (DA) involve: first, the selection of meaningful courses of action through systematic analyses of alternatives. This is the planning emphasis in the planning-programing process. The more specific determination of resources necessary to follow the course of action is the programing emphasis. What this means is that in the planning, programing, and budgeting process, program decisions are made after comparing projected costs and effectiveness of feasible planning choices.

b. DOD is managed in terms of 10 major force programs. These 10 major programs represent the primary mission to be performed within DOD. These programs are defined in figure 4-1, emphasizing their meaning to the Army. Major force programs are made up of subunits called program elements. The program elements are the forces, weapon or support systems, and other types of activities through which the missions are accomplished. They are the categories according to which the forces, dollar costs, and manpower requirements are identified. Figure 4-2 is an illustration of program elements in the other services as well as the Army.

4-5. Budget Appropriations and Program Elements

a. The Army budget and accounting system is structured according to DOD program elements. Because of this, the program element structure is referred to as the program/budget structure. This makes the Army management system of accounts consistent with DOD program elements. In this way, the defense budget,

| PROGRAM 7. | CENTRAL SUPPLY AND MAINTENANCE: CONSISTS OF SUPPLY AND MAINTENANCE NOT ORGANIC TO OTHER PROGRAMS; INCLUDING NONDEPLOYABLE SUPPLY DEPOTS AND MAINTENANCE DEPOTS, BOTH INDUSTRIALLY FUNDED AND NON-INDUSTRIALLY FUNDED. |
| PROGRAM 8. | TRAINING, MEDICAL AND OTHER GENERAL PERSONNEL ACTIVITIES: CONSISTS OF TRAINING, MEDICAL AND OTHER ACTIVITIES ASSOCIATED WITH PERSONNEL, EXCLUDING TRAINING SPECIFICALLY IDENTIFIED WITH ANOTHER PROGRAM ELEMENT AND EXCLUDING HOUSING, SUBSISTENCE, MEDICAL, RECREATIONAL, AND SIMILAR COSTS THAT ARE ORGANIC TO ANOTHER PROGRAM ELEMENT (SUCH AS BASE OPERATIONS). |
| PROGRAM 9. | ADMINISTRATION AND ASSOCIATED ACTIVITIES: CONSISTS OF RESOURCES FOR THE ADMINISTRATIVE SUPPORT OF DEPARTMENTAL AND MAJOR ADMINISTRATIVE HEADQUARTERS, FIELD COMMANDS, AND ADMINISTRATIVE ACTIVITIES (NOT ELSEWHERE ACCOUNTED FOR), CONSTRUCTION SUPPORT ACTIVITIES, AND MISCELLANEOUS ACTIVITIES. |
| PROGRAM 10. | SUPPORT OF OTHER NATIONS: CONSISTS OF ELEMENTS IDENTIFIED TO THE SECURITY ASSISTANCE PROGRAM AND THE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAMS AND THOSE RESOURCES ASSIGNED TO ELEMENTS RELATED TO OR SUPPORTING THE MILITARY ASSISTANCE PROGRAM. |

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NOTE: THE ABOVE CATEGORIES ARE INCOMPLETE; ONLY A SAMPLING OF EACH IS INTENDED.

Figure 4-2. Sample other services program elements.
through the Army’s (as well as the other services’) financial accounting and reporting system, forms a closed continuous loop with the planning and programing processes.

b. In general, the Army consolidates certain accounts (this is done at DA level) to make its budget comparable with DOD program elements; there are significant differences from a management standpoint between structuring a budget according to appropriations and structuring it according to program elements.

c. In the case of appropriations, costs or obligations are viewed in terms of inputs to the system; e.g., personnel pay, new construction, and research. While this budgeting rationale affords control on how funds are to be expanded, it fails to indicate what, in terms of specific objectives, is actually being bought. Thus, the manager has no basis for evaluating how efficiently funds are being allocated among alternatives.

d. By budgeting according to program elements, on the other hand, appropriations can be made according to some kind of optimum payback criteria. Further, by collecting costs according to responsibility centers, which in effect are what the program elements are, there is a basis for measuring the relative performance of operating activities and sharpening the planning processes.

4-6. Planning, Programing, and Budgeting as a Closed Loop

a. Planning, programing, and budgeting is a continuous process. It should be thought of as a closed loop, with the link from budgeting back to planning being the Army Financial Management System. This concept is summarized in figure 4-3.

b. The basic point of entry into the loop is the long-range planning process, since this planning is general in terms of national objectives and specific missions. Consistent with these long-range plans, a more concrete plan is made for a 5-year period. This is the essential frame of reference for the whole planning, programing, and budgeting process and is known as the FYDP. It is expressed in terms of forces or areas of responsibility required to achieve the designated missions. The resources represented by these program elements are expressed in the FYDP by year and program element in terms of research, investment, operating expenses, force units involved, and military and civilian end strengths for mission or support activities.
c. Using this defense program as a guide, the Army prepares its budget for the coming year to meet its portion of the overall program. Then during the execution of the budget, through the Army accounting and reporting system, performance can be measured and a hard data base built to support future planning.

4-7. National Security Planning

a. Defense planning is concerned with strategic, tactical, and organizational concepts; technological forecasts; and intelligence estimates. Taken together, these lead to the broad force requirements needed to accomplish assigned missions during specified time frames. In a sense, the planning process provides answers to what, why, when, where, and who. The answers to how are provided in the programing phase.

b. Plans are of many types. Broad plans are made at the top echelons, while more detailed planning is conducted throughout the subordinate elements. The basic direction of the overall defense effort is governed by national security policy. These policies, prepared by the National Security Council (NSC), mainly from Presidential Review Memoranda, are contained in PDs.

c. In preparing the National Security Study Memoranda, drafts are referred to the Office of the Secretary of Defense (OSD), the military departments, and JCS to ensure military views are given due weight.

4-8. Joint Strategic Planning System

a. Translation of the basic national security policy into military objectives is accomplished by JCS through a Joint Strategic Planning System. This planning system consists of long-range, midrange, and short-range plans as explained below.

b. The Joint Long-Range Strategic Appraisal (JLRSA) considers the intelligence estimates and provides views of JCS concerning the role of US military power in the long-range period and outlines broad strategic implications which should be considered in the preparation of studies, estimates, appraisals, policies, plans, and research and development (R&D) objectives. As the name implies, it is a long-range plan.

c. The Joint Strategic Planning Document (JSPD) is a midrange planning document. It is used by JCS to advise the President, NSC, and the Secretary of Defense on the military strategy and force level needed to obtain national military objectives. Additionally, the JCS uses the document to state their position on matters of strategic importance to the national security for reference in Presidential and NSC-directed actions. The JSPD appraises the threat to U.S. interests worldwide and recommends military objectives and strategy to attain national objectives in the midrange period. It summarizes levels of JCS planning forces which, with reasonable assurance, could successfully execute approved strategy. Moreover, it comments on their attainability considering fiscal responsibility, manpower resources, and materiel availability as well as technology and industrial capacity. The document provides a foundation for recommendations on force planning guidance and changes to the Defense Guidance (DG).

d. The Joint Strategic Capabilities Plan (JSCP) provides guidance to the commanders of unified and specified commands and to chiefs of services for the accomplishment of military tasks, based on projected military capabilities and conditions, for the short-range period. The JSCP contains military strategy, based on projected available forces, to support the national security objectives and the derived military objectives; and it includes planning guidance on forces, logistics, intelligence, and the development of plans.

e. The Joint Program Assessment Memorandum (JPAM) is issued by JCS about 30 days after the military services publish their Program Objectives Memorandum (POM). The JPAM gives the views of JCS on the adequacy of the composite force and resource level presented in the service POMs. Specifically, the JPAM assesses force balance and capabilities including recommended levels of support. The Secretary of Defense considers this JCS analysis when deciding program issues during the summer issue cycle preceding final approval of service POMs.

4-9. Army Planning

a. Joint plans are, of necessity, quite broad in scope. They shape the long-range development of the three services and provide guidance for capabilities to be attained; however, supplemental refinement and updating are continuous requirements. Based on this, the services are directed by JCS, on an annual basis, to prepare or revise the departmental plans used in support of joint planning.

b. The Army Planning, Programing, Budgeting and Execution system (PPBES) is the management system employed by DA to insure effective use of resources (see AR 1–1). It responds to and is dependent upon the DOD PPBS and Joint Strategic Planning System. The system is designed to provide timely input of Army views which will appropriately influence the policy, strategy, force objectives, and other considerations of the Secretary of Defense and Joint Staff and also provide timely guidance to the Army Staff and commanders. The primary objectives of the Army PPBES are to explain the strategy, structure the forces, allocate resources, and ensure readiness of the total force. (See PPBES Handbook, published by the Director, Program Analysis and Evaluation, Office of the Chief of Staff, DA.)
c. The Army Strategic Appraisal is the basic document of Army Staff planning with regard to strategy and provides the basic threat analysis for use by the Army. It addresses the midrange period (3-10 years) and provides Army views on military policies and strategy based on Presidential, NSC, and OSD pronouncements. It is organized on a worldwide and regional basis, and contains: identification of national security interests and objectives and major national security policies; an analysis of the threat to the United States interests and objectives and identification of gaps in required intelligence; and regionally oriented appraisals, strategic concepts, and military objectives to achieve the national security objective.

d. The Army guidance document is based on the Army Strategic Appraisal; applicable policy and planning guidance of the Secretary of Defense; and the JSPD. It provides guidance to the Army Staff for developing the Army forces and appropriate support programs to execute the national strategy. It includes guidance for developing the objective force level, resource requirements, and alternative force levels which need detailed analysis.

e. The Army Force Program develops in detail the Army force structure approved by the Secretary of Defense for the current and budget years. The objective of the Army Force Program is to develop a balanced Army force which can be supported with sufficient resources to attain authorized levels of organization (ALOs). Approved planning forces from the POM in conjunction with command troop list submissions form the basis for structuring the programmed force. The approved programmed force is sent to the field for implementation. Each unit within the Army force structure is displayed and maintained in the Master (M) Force, a component part of the Force Accounting System. The Master Force is based on a continuous force programing procedure in accordance with the latest budget and structure decisions. The Army Force Program establishes the Active Army approved force (troop list) and the Active Army Military and Civilian Manpower Programs for the current and budget years; develops force programing guidance; provides a projection of asset demands and availability; presents a schedule of activations, inactivations, reorganizations, and deployment; and supports the Army budget request through the entire budget cycle.

f. The Army Mobilization and Operations Planning System (AMOPS) provides administrative and operational guidance to Army agencies, Army commands, and Army component commands of unified commands for the employment and/or support of Army forces in the short-range period. It reflects specific tasks and capabilities attainable within existing programs and budget limitations. The AMOPS uses the planning assumptions of, and is, the Army implementer for the JSCP.

4-10. The DOD Programing System

a. In the programing activity, the military objectives formulated in the planning phase are studied, and the first attempt is made to develop a dollar cost for resources involved in the accomplishment of these objectives. Up to this point, the resources required have been evaluated in broader terms, such as the overall number of forces which may be employed and other factors which would provide some definition of the quantities and qualities of materiel required. The programing process details in much more realistic terms the specific forces, what the specific requirements in materiel are, when they will be available, and their cost.

b. The focal point of DOD programing activities is the FYDP. Since reprogramming is a continuous process, the FYDP must be current to guide and control short-notice implementation and to govern planning for future periods. To keep it current, specific updating procedures have been prescribed by DOD. These require each military department to maintain current program data for submission to the Assistant Secretary of Defense (Comptroller) (ASD(C)) on an "on-call" basis reflecting reprogramming actions and manpower changes approved by the head of each military department, and other changes specifically approved or directed by the Secretary of Defense or ASD(C) since the previous update.

c. The proposed force changes are the most significant of all the reviews which to into updating the FYDP. Essentially, top-level attention is focused on "big ticket items" within DOD, referred to as major force-oriented issues. Top management attention is given to major force-oriented issues early in the planning, programing, and budgeting process and provides for continuing thorough analysis of these critical issues until decisions on them are made.

d. The POM is the means by which the Army, as well as each military department and defense agency, expresses its total program requirements to DOD. POMs are based on JSPD strategic guidance as modified by the OSD Defense Guidance. The POM must provide force, manpower, cost, materiel recommendations, rationale for proposed changes from the approved FYDP, risk assessment, and military advantages to be gained. DOD decisions of POM are processed as a Program Decision Memorandum (PDM).

e. Management control devices are found throughout the DOD programing systems. For example, mile-
stone schedules are required in many of the program element review reports and are used as a basis for overall management control. A "milestone" is a significant event or occurrence during the life or scheduling of an equipment item, extending through the development, production, and operational phases to obsolescence and removal from inventory. It indicates whether the particular item is developing as originally projected or whether it needs additional management attention to bring it to the desired operational state.

f. A threshold is another device used to control unilateral program changes. Thresholds are total obligation authority points beyond which prior DOD approval is required before a change can be made to an Army program.

4-11. Army Programing

a. The defense programing system is used by military departments, services, and other defense agencies. Internal procedures vary from service to service because of the differences among the services. The Air Force, for example, because of its functional organization and mission, is perhaps in the best position to relate programs to operations and operations to programs with a minimum of interpretation. The Navy, while in a better position than the Army to align operations with programs, has a more complex structure than the Air Force due to a vastly different mission in the scheme of national security. The Army has the most variety in a breakdown of its mission, coupled with a much wider diversification in arms and services. Other separate defense agencies are organized along functional lines, and the missions are relatively simple in comparison with those of the military departments.

b. Programing proceeds under guidance issued by the OSD. Within specified constraints, programing activity translates JCS and Army planning into a comprehensive and balanced allocation of projected forces, manpower, materiel, and funds for a 5-year period. The detailed allocation, published each May as the Army POM, goes to the Secretary of Defense for review in terms of overall defense needs. As approved by the Secretary of Defense, the POM established the Army 5-year program, whose first year provides the basis for developing annual budget estimates.

c. The Army programing system encompasses the areas from requirements review through program reporting and execution control. It provides a 5-year base program upon which detailed execution plans may be established. It formulates and records the major objectives of the Army and furnishes guidance to the Army Staff and major commands (MACOMs) and agencies in preparation of annual program execution schedules.

d. The Army programing system is a uniform method of relating programing, budgeting, accounting, manpower, and logistics management. Documentation of the programing system ties in closely with the overall DOD programing system. Program guidance to major commands and agencies is issued in the Program and Budget Guidance (PBG). It provides dollars and manpower resource guidance for the 28 commands and operating agencies which submit Program Analysis Resource Reviews (PARRs) and Command Operating Budgets (COBs). This document is updated and issued three times annually.

e. In developing, for inclusion in the POM, the specific Army forces required, materiel requirements and cost implications to meet the guidance in the Army Guidance, the Army makes several analyses. One, the U.S. Army Operational Readiness Analysis (OMNIBUS) is an annual assessment of the readiness of the current Army forces. It analyzes the projected conditions and capabilities at the end of the fiscal year (30 September) preceding the first year of the current POM. The Total Army Analysis (TAA) which is used to develop the Army’s program force, analyzes the force as of the end of the last fiscal year of the forthcoming POM. The Army Logistics Analysis (ALA) is conducted annually to assess the capabilities of the logistics system to support the OMNIBUS Force.

4-12. The Budget Structure

a. The budgeting phase of the planning, programing, and budgeting process basically is the translation of approved programs developed during the planning and programing phases into financial terms. As a common denominator of personnel, materiel, and services, dollars are used as the principal control vehicle in the administration of Army activities. The Army management system of accounts provides the mechanism for recording and reporting financial information for management control purposes.

b. The Army budget is only part of the total DOD budget which, in turn, is part of the overall Federal budget reviewed and approved by the Congress. Thus, a situation exists where the needs of the Congress make it necessary for DOD, and consequently the Army, to express its budgets in terms of appropriations and budget programs/activities, instead of just program elements. The major appropriations of the Army budget are shown in [figure 4-4]. These appropriations represent the various resource inputs which support Army operations. The Army budget categories are compatible with DOD program elements. The budget categories are the basis for the Army account structure. Correlation tables relate each account to the appropriate program element.
4-13. Budget Formulation

a. The Comptroller of the Army, subject to the authority and direction of the Secretary of the Army, has statutory responsibility for Army budgeting. The Comptroller discharges this function through the Director of the Army Budget. Formulation of the Army budget as part of the total DOD planning, programing, and budgeting process is continuous and it follows from the planning and programing activities. While planning and programing move from the highest echelons down, the budget is built from the lowest echelons up. The echelons in the budget formulation process actually correspond to the levels of responsibility for the various levels in the Army fiscal account structure. The budget programs under the Procurement Appropriations shown in figure 4-4, for example, are termed
"major programs." The Army General Staff and the Surgeon General are responsible for major programs. A further breakdown of the major program is called a subprogram. Subprograms consist of "program elements" which, in turn, consist of "activities." Finally, activities break down into "elements of expense." Hence, the process is essentially one of preparing budgets according to the management structure of accounts at the lowest responsibility levels, consolidating these in terms of higher responsibility levels, and aggregating into appropriation summaries.

b. The Army Management Structure (AMS) is a system of symbols and titles which identify the purpose and distribution of funds appropriated by Congress (see AR 37-100-XX).

c. From a management viewpoint at DA level, the important budget building blocks are the individual operating budgets at the major command levels (e.g., U.S. Army Materiel Command (AMC), U.S. Army Training and Doctrine Command (TRADOC), U.S. Army Forces Command (FORSOUTH)) and at the installation levels (e.g., Fort Benning and Letterkenny Army Depot).

d. The passage of the Congressional Budget and Impoundment Control Act of 1974 introduced a fiscal process with greater involvement on the part of the Congress. To assist the Congress in performing its increased responsibilities, the legislation provided for the formation of a budget committee within both the House and the Senate as well as a Congressional Budget Office to assist both Houses. The legislation requires Congress to make coordinated annual decisions on total Federal budget authority, outlays, revenues, public debt levels, and budget surplus or deficit. Impact on the budget year as well as outyears is to be considered by Congress. In addition, the legislation provides detailed procedures and deadlines for a congressional budget process tied to a fiscal year beginning on 1 October and ending on 30 September. Under this system, the President will submit his budget to Congress in January.

e. The new budget will cover the 12 months beginning the following 1 October. By 15 April, the House and Senate budget committees should propose resolutions offering a congressional version of the right spending levels for the period. Congress should complete action on the measure by 15 May to guide but not bind its decisions on individual spending bills and new proposals. By 15 September, revised resolutions must be adopted taking account of all spending Congress has voted with the inclusion of firm budget ceilings. If appropriations exceed the total in the resolution, Congress must cut spending, raise taxes, or consciously agree to an increased deficit so the figures balance by 25 September. Congress, by law, cannot adjourn until the job is accomplished. In theory, the system enables Congress to end what has been a piece-meal operation, and to deal with the issue of overall Federal spending, weighing programs against each other, and deciding where the emphasis and the money should go.

4-14. Budget Execution

a. The budget execution process can be thought of as being the budget formulation process in reverse. That is, while in the formulation process, higher echelons of authority were reviewing and adjusting appropriation estimates (needs) from lower echelons; in the execution process, the lower echelons must adjust their individual operating budgets to the appropriation levels approved by Congress.

b. Possibly the most important aspect of the budget execution process is that it serves as a vehicle for review and control of Army activities. Although Army appropriations are in the congressionally approved Presidential Budget, the services must continually reexamine and rejustify these funding needs through quarterly program reviews. The rationale for this is recognition that commanders can only estimate future needs. As the actual need for funds grows closer, situations can be appraised more accurately, and finer estimates (up or down) can be made on budget requirements. These refined estimates become the basis for control actions to realign resources and adjust requirements. Any realignment of resources must be performed within constraints placed upon reprogramming. These constraints are imposed by the Congress, the OSD, and others to withhold some authority to reprogram funds. The commander, advised by the financial management staff officer, should ensure that realignment is consistent with constraints imposed upon the command. Thus, the execution of the budget flows back into the planning and programing activities. The flow is made possible through the Army financial management system, based on AMS accounts and reports.

Section II. ARMY FINANCIAL MANAGEMENT

4-15. General

There are two basic concepts underlying Army financial management: a commander must be provided with the resources necessary to perform an assigned mission; and a commander must be held accountable for the use of those resources. Hence, the major elements of financial management also became important man-
management tools for the logistician. The systems for working capital funds and consumer funds, as well as the systems for accounting for expenses, obligations, and inventories, serve a twofold purpose. First, they facilitate the budget execution process and allow for the appraisal of individual operations. Second, they provide individual commanders with the means for planning, administering, and measuring the performance of their operations.

4-16. Working Capital Funds

a. DOD has continually stressed the use of commercial-type practices in the management of its resources to obtain maximum effectiveness, efficiency, and economy of operations. At the same time, the department is most interested in having an accounting system which reflects the cost of performance of its programs and activities. To achieve these results, the Secretary of Defense has been authorized the use of working capital funds. As a result, stock and industrial funds exist in each of the military services. These funds serve dual purposes:

1. To finance inventories of stores, supplies, materiel, and equipment.
2. To provide working capital for industrial-type activities and for commercial-type operations.

b. To finance these activities, the Secretary of Defense is authorized to have the Secretary of the Treasury transfer certain unused balances of appropriations available to the various military departments into special Treasury cash accounts for the various working capital funds which have been established. The amount is left to the discretion of the Secretary of Defense. Also, additional appropriations may be made by Congress to provide needed working capital in excess of that available. The working capital funds operate on the revolving fund concept, whereby once the fund has been set up sales to customers provide the necessary cash to continue operations.

c. Thus, a revolving fund is a fund established for a given purpose, and expenditures to accomplish the purpose are made from this fund. When the funded activity has rendered the service or produced the product for which it was created, it then recovers the cost from the individuals or agencies which contracted for the goods or service. In this way, to the extent the funded activity furnishes services or goods to individuals or organizations outside the Government, the Government is recovering its costs from such activities in cash. To the extent it is governmental agencies which benefit, the cost is charged against the appropriation of the benefiting agencies. In the latter instance, the cost of goods or services ordered by the users (consumers) is normally controlled by the amount of appropriated funds available to them.

d. From a management standpoint, all working capital funds, whether stock funds or industrial funds, have certain objectives. Some of the more important are:

1. To improve management through:

a) Creation of managerial and accounting units.

b) Organization of like activities to permit a balance between local management responsibility and authority and overall centralized control.

c) Use of commercial-type, accrual-basis accounting.

d) Closer accounting for the cost-of-performing functions with tighter control on costs.

e) Provisions of a basis for comparing costs with those of private industries.

2. To provide greater flexibility in financing and budgeting by making it no longer necessary to request annual appropriations from Congress to finance the operations of activities of this nature. Annual availability of appropriated funds can be ignored as a factor in timing purchases. At the same time, appropriate fiscal control over the conduct of these activities is exercised through the apportionment process (obligation authority).

3. To permit Congress to appropriate funds on the basis of what is to be used during the budgeted year, not on the basis of production. This contributes to the aims of a performance-type budget.

4. To provide the using agencies with cost data. Through the use of a consumer-type budget, maximum cost consciousness is promoted. Thus, critical appraisal of the benefits to be derived as compared to the cost to be incurred in connection with purchases from the funded activity is possible. Additionally, comparison of alternative uses for the funds available to the using agencies may be made.

4-17. The Army Stock Fund (AR 37-111)

a. In general, any stock fund is a revolving fund established to provide a simplified means of financing and accounting for the purchase, holding, and sale of consumable-type common-use items. When a stock fund is established, all inventories of supplies and equipment in the categories to be covered by the fund are given a dollar valuation as assets (capitalized). Additional cash for working capital is provided. As supplies and equipment are sold to customers, inventories are converted into cash. On the basis of past demands, forecast changes to these demands, and the inventory level,
new obligation authority is requested to replace the items needed. The cash generated from "sales" is used to pay the vendors for the materiel. The buyer-seller relationship created by the revolving fund concept is designed to achieve:

1. Freedom from the limitations of 1-year appropriations, permitting the purchase of stocks at times and in quantities which provide the most economic supply.

2. Economies in supply operations through the financial inventory accounting system, which causes the users to buy consumable supplies rather than receive them on a "free-issue" basis.

b. Over 90 percent of all line items of Army-managed wholesale inventories are procured by, held in inventory by, and sold from AMC. The retail divisions operate from a home office (MACOM) with separate branch offices located at various installations levels in CONUS, at corps and subordinate command level in Europe, and at command level in the Pacific areas. They procure, hold, and sell all items required by the consuming activities except for those principal and secondary items centrally controlled and financed with appropriated funds at the wholesale level. Retail divisions procure supplies and equipment from AMC, Defense Logistics Agency (DLA), General Services Administration (GSA), local nonmilitary sources, and in some instances, from other military services.

c. Management of the stock fund requires control of inventory levels from both an item and a dollar viewpoint. As such, there is a dollar limitation on the acquisition of inventory; e.g., Obligation Authority (OA) or Acquisition Authority (AA). This authority is the dollar limitation placed on the amount of inventory that any one stock fund entity may order during a fiscal period; e.g., quarter or year. Although cash may be available for purchasing inventory, the stock fund cannot ultimately spend it unless it has the proper authority to place the order. The administrative restriction of acquisition/obligational authority is imposed on the operation of the stock fund in order to control the inventory levels.

d. Responsibility for overall direction and supervision of the Army Stock Fund is vested within the Office of the Deputy Chief of Staff for Logistics (ODCSLOG). The responsibility for management and control of the wholesale stock fund is delegated to the Commander, AMC. Retail divisions are managed by each major command having retail supply responsibilities.

e. The Army has established certain criteria which must be met to qualify an item for inclusion in the Army Stock Fund. The fund includes inventories of consumable-type supplies and common-use, standard stock items, which may be considered to be consumed when they are sold (issued) to consumers.

f. The current method of stock fund operations within the Army preserves the use of the appropriated funds made available for supply support of the consuming activities, until the time the supplies are issued to those activities—thereby showing costs and expenses in the year they actually occur. This permits valid cost performance budgeting and accounting and facilitates the preparation of forecasts and control of the funds appropriated to support those budgets. A variation to that method of stock fund operation is the simultaneous obligation policy. That policy permits consumer funds to be obligated concurrently with stock fund obligations for those items that are not stocked or are at zero balance at the retail level. This procedure allows consumer funds to be obligated in the year the requisition is submitted, thereby reducing the potential loss of appropriated funds.

4-18. The DLA Stock Fund

a. This stock fund, the newest of those in DOD, was initiated in 1962. Modifications and changes through the summer of 1965 resulted in an organization comprising six centers (including five inventory control points (ICPs)), each under a single commodity manager.

b. These defense supply centers maintain centralized inventory control. All supply management functions, such as requisition processing, inventory accountability, financial accounting, reporting, billing, and collecting are performed at these centers. Servicing, administrative support, and technical advice are furnished by the Defense Logistics Service Center (DLSC), the Defense Industrial Plant Equipment Center (DIPEC), and the Defense Technical Information Center (DTIC).

c. DLA, using its own stock fund, is responsible for supplying support of commodity for DOD. Items purchased and held by the DLA Stock Fund are wholesale stock. The individual military service (customer) uses its own funds to obtain materials from the DLA Stock Fund.

4-19. The Army Industrial Fund (AR 37-110)

a. In general, an industrial fund is a revolving fund established to provide working capital for the operation of commercial-type or industrial-type activities which manufacture goods for or furnish services to, customers within the departments and agencies of DOD. Each industrial fund consists of
cash, accounts receivable, inventories of materiel, supplies, and work in process, and all other current assets except the land, plant, and equipment of the activity. The fund is used to finance the cost of goods produced or services rendered. The fund is reimbursed for the goods or services from the appropriate funds of the customer (consumer).

b. Industrial funding eliminates accounting for several appropriations, allotments, and suballotments by using the single revolving fund concept. It provides a more effective means of controlling costs of goods or services produced or rendered. Each industrial fund has an accounting system tailored to its specific purposes which shows its cost to produce goods or render services. The relationship between the industrial fund activities and the activities which order, receive, and pay for the end products or services to the industrial fund is similar to the relationship between the buyer and the seller in the marketplace. The industrial fund concept encourages cross-serving among the military departments and agencies of DOD to obtain the most economical use of facilities. The cost-of-performance budget is enhanced by eliminating "free issues" since the customers (consumers) must budget for the costs of the end products received from the industrial funds.

c. The operation of an installation or activity under an industrial fund is comparable to that of a business which produces and sells goods and services. The cost to produce those goods or services are included in the selling prices. The buyer of the goods or services is placed in the position of being able to find fault with the selling prices. This criticism extends to quality and speed of delivery of the goods or services ordered in comparison with relative cost of similar performing activities of outside agencies. This emphasizes effective and economical management of those activities for which the industrial fund concept has been devised. A recent innovation is the stabilized fixed-price/rate billing concept. This concept provides that buyers will be billed at fixed prices, fixed hourly rates, etc., which are set in advance of performance, and are not to be changed except for a change in scope of work.

d. Industrial funds have been installed at Army arsenals, depots, transportation terminals and research activities. Industrial fund charters have been issued to AMC and the Military Traffic Management Command (MTMC). The charters authorized and govern industrial fund operations pursuant to prescribed policies, procedures, and reporting requirements.

4-20. Consumer Funds

a. The concept of placing maximum responsibility for the management and control resources as close to the point of consumption or use of these resources as possible is consumer funding. The scope and significance of this funding have increased considerably by using working capital funds and by requiring cost-of-performance budgeting and detailed accounting and reporting. Each installation commander receives appropriated funds through the command channels. These funds finance operations and maintenance activities such as the pay of civilian personnel, locally contracted services (utilities and communications), and supplies and equipment procured from stock-funded sources, from GSA, or by local procurement from civilian sources. Under this concept, stock funds, and consumer (appropriated) funds become mutually supporting. The stock funds initially finance the costs of procuring and holding inventories; later the consumer funds reimburse the stock funds for supplies and equipment purchased from the stock fund. Through this procedure, cost-of-performance budgeting is accomplished since the funds appropriated by the Congress are expensed at the time of consumption of goods and services, and are not used for procuring and holding inventories. In essence, consumer funds are operating and maintenance funds used to pay for the items described above.

b. The Army has consumer funding at every post, camp, station, and separate activity worldwide which is incorporated into the Resource Management System. Under this system, the installation’s commander prepares a detailed Command Operating Budget and forecasts the requirements for a given fiscal year. The commander is subsequently provided with an allotment of funds, generally from the appropriation OMA, with which to procure the goods and services to support his approved Command Operating Budget. The commander is then held accountable for the use of those funds to accomplish the program.


a. The purpose of the CAWCF is to finance the process of acquiring components and assembly into conventional ammunition end items in support of the Army’s single manager for conventional ammunition (SMCA) mission.

b. The CAWCF is a cost control mechanism that fosters optimum consolidation of DOD and other
Federal requirements. Standard processes are established annually for DOD requirements and are discounted based on procurement savings realized.

4-21. Management Funds

a. In general, a management fund is a fund set up by contributions or authorizations from other funds or appropriations for the performance of a common task. Such funds are used to finance, administer, and account for either a continuing or a one-time project and for transactions involving appropriations of two or more commands or offices of a specified military department. Management fund accounts are established only upon approval of the Secretary of Defense. The accounts established may be managed and operated by a single department under its management fund either when its commands and offices are the only participants or when two or more departments or other agencies of DOD are participating in the project.

b. The Army Management Fund was created to simplify operations which are financed by two or more appropriations. Examples of activities which have been financed through the fund are:

1. Defense Telephone Service, Washington, DC.
2. Interagency transportation services.

4-22. Installation Funding

a. As a result of previous installation budget submissions to higher headquarters, funding is received at the installation in the form of obligation authority contained on a Funding Authorization Document (FAD). The command, to which the FAD is issued, is then responsible for preventing any overobligation or overexpenditure of funds. The funding or obligation authority received is of three types: direct obligation authority, funded reimbursement authority, and automatic reimbursement authority.

b. Direct obligation authority is for support of mission activity at the installation. It is a specific amount (or limit) which is cited on the FAD and is immediately available for obligation upon receipt of the FAD.

c. Funded reimbursement authority is for support of specific nonmission but essential activity at the installation. It is a specific amount (or limit) which is cited on the FAD, but it is not immediately available for obligation. It is available for obligation only upon receipt of a firm reimbursable order.

d. Automatic reimbursement authority is for support of nonmission but essential activity at the installation. The authority to engage in automatic reimbursement transactions, rather than any specific amount, is received on the FAD. It is not immediately available for obligation, but rather becomes available only upon receipt of a firm reimbursable order.

4-23. Nonappropriated Funds

a. Nonappropriated funds are established by authority of the Secretary of Defense. The purpose of these funds is to administer money used for the benefit of military and civilian personnel when such money is not appropriated by Congress. Although not related to logistics per se, nonappropriated funds may occasionally be the concern of logistics managers. (They also warrant brief mention in this text because they are often confused, by the uninitiated, with the reimbursement funds discussed above.)

b. The concept of the nonappropriated fund system is to supplement costs of programs initially provided, operated, and maintained through funds appropriated by Congress. Three general categories of nonappropriated funds are authorized within DOD. These are revenue-producing funds, welfare funds, and sundry or associated funds. These funds are locally self-generated and are self-sustaining. They are subject to DOD-wide uniform accounting and reporting procedures (see ARs 28-1 and 210-55).

4-24. Army Management Accounting

a. The Army accounting system is based on the conventional double-entry accrual method of bookkeeping. Every financial transaction is recorded in a ledger, using the double-entry system (a debit and a credit), in accordance with the equation, assets equal liabilities plus capital plus income minus expenses. This relationship or equation forms the basic model for the formulation of the budgets, the preparation of accounting reports, and the analyses of operation in terms of financial data.

b. In addition to being a basic double-entry system, the Army accounting system is also on an accrual (as opposed to cash) basis. In accrual accounting, costs are matched with related revenue within the same accounting period. The accrual method ensures revenue will be recorded when earned, which is not necessarily the same time the revenue is received. It also provides for the recording of costs and expenses when the benefit is received. This may not correspond to the time when the bill is paid or the legal obligation is incurred. The accrual method permits income and expenses to be matched in a specific accounting period. It records events when they occur regard-
The accrual system of accounting develops information on costs of goods and services used and on expenditures, disbursements, and obligations. It provides much useful data since it reflects the availability of funds and provides information on the available resources and their actual use. Cost data on the use of resources are essential to management for effective control.

c. The Army accounting system is part of the overall DOD accounting system (see AR 37–151). As such, it operates through command channels and is set up to provide a sound organizational basis for achieving the legislative objectives contained in Public Law 784, the Budget and Accounting Procedures Act of 1950, and to furnish reliable financial information required by DOD and the Office of Management and Budget (OMB). Additionally, its major objectives are to accomplish the following:

(1) Establish and maintain records and accounts of financial transactions and summaries of each accountable entry.

(2) Provide prompt and accurate payment of accounts to military and civilian personnel, contractors, and other vendors for services rendered and materiel furnished, to include the determination of entitlement.

(3) Provide the prompt collection of all amounts due DOD, the military services, or the U.S. Government.

(4) Furnish timely and accurate financial reports on the status of funds, costs, and property.

(5) Bring together all financial transactions concerned with appropriations, apportionments, allocations, allotments, commitments, obligations, receipts, disbursements, accrued expenditures, assets, liabilities, costs, revenues, and property in integrated accounting and finance systems.

d. The policy of assigning accounting functions to commands and to installations under jurisdiction of commands is based on the need to relate the functions to management responsibilities and budget administration at those levels. The entire accounting process is treated as a whole and provides a single, official set of records where it can best serve the activity that has primary responsibility. It is supported by procedures which ensure the recording of all financial transactions at the time and place they occur.

e. The structure relates the activities and records of the finance network as an integral part of the general accounting system to prevent duplication between finance activities and the installation accounting activities in recordkeeping and document handling. It also provides appropriate relationships between the accounting and financial levels (installation, command, and both bureau and departmental headquarters) without duplication, as well as suitable accounting relationships and procedures for the control of interdependent transactions.

4-25. Integrated Accounting

Integrated accounting systems are used to cover all functions of a specific operation. They establish the broad structure of related accounts, supporting records, and control and accrual features necessary to produce the financial data required for successful implementation of the departmental financial management plan under a common set procedures. They integrate appropriation, expenditure, and financial accounting for all assets, liabilities, revenue, and costs of operations. They provide for the establishment of summary control accounts for incorporation of financial data pertaining to industrial, stock, and management funds and permit consolidation of financial statements at all echelons of command consistent with management requirements.

4-26. Decentralized Accounting

While there are variations in the application of central office accounting control, the most commonly used provides that a central accounts office maintains ledgers which summarize the total investment. The detailed recording of assets, liabilities, and fund accounts is maintained in the records at the installation where the individual transaction affecting the accounts are easily and economically available. Changes are posted periodically on the books of the accounts office from accounting statements received from the installation reporting the results of their operations.

4-27. Supporting Systems

a. General. The flexibility and detail necessary for accounting of the widely divergent activities within the Army are provided for by the use of a number of books of original entry and related specialized accounting procedures and systems. The summary account in the general ledger represents the sum total of these many detailed accounts. The supporting systems with their detailed accounts are covered in the following paragraphs.

b. Appropriation and fund accounting.
(1) The Army maintains a system of administrative control which restricts obligation or expenditures against such appropriation or other fund to the amount available. It fixes responsibility for violations (see AR 37–20) and provides financial
reports on the status of funds administered by the Army.

(2) Appropriation and fund accounting provides the system to accomplish these objectives. It identifies and accounts for each appropriation as a separate entity throughout its existence from time of appropriation through apportionment, transfer, allocation, allotment, commitment, obligation, expenditure, liquidation, reimbursement, or refund, or until lapsed or merged into a successor account. It is a means of providing information for budget administration and for status-of-funds reports to higher authority.

(3) Unobligated balances reported for each appropriated fund must agree with the corresponding items shown in reports on sources of funds available and obligations incurred for the respective appropriated fund. Allocation status reports for each command are prepared by consolidating the allotment of status reports of its subordinate field activities with data provided by its own accounts. In the same manner, the appropriations status reports for each department are prepared through consolidation of the allocation status reports of the major commands and bureaus with data provided by its own accounts.

(4) Commitments are recorded only when supported by documentary evidence in accordance with departmental directives. Obligations are recorded against appropriations and funds only when supported by documentary evidence in accordance with criteria contained in Army directives.

c. Expense accounting. Expense accounting procedures are designed to identify the cost of labor, materiel, and services consumed or used in carrying out the missions and programs of the Army. Expense accounting provides financial data for the operating expense budgetary requirements and related financial analyses in connection with budget administration and program management under the operating budget concept.

d. Financial inventory accounting.

(1) Operations within the Army require many categories of materiel. Aircraft, conventional ammunition, ground support materiel and missile materiel are but a few. These categories are inventory segments within the logistics support system. Such inventory must be watched carefully and maintained under strict accountability. DOD assigns national stock numbers (NSNs) for use by all military services. The national stock numbering system and Federal cataloging procedures ensure all items of supply are uniformly described, classified, and numbered.

(2) Effective management of inventories and the overall management of finances require a carefully planned system for inventory reporting (see AR 710-1). Records are maintained of the value of receipt and expenditure transactions by class and Federal supply group (FSG). From these records, financial reports reflecting transactions and the value of inventories on hand are prepared for the ICPs. These financial records must be reconciled periodically with the individual stock record cards.

(3) Financial inventory accounting generally encompasses the acquisition, holding, consumption, and other disposition of inventories owned by the Army. This includes vehicles, tanks, aircraft, missiles, and propulsion units as well as inventories in transit, in storage, equipment in use, and industrial equipment reserve. Inventories in the hands of contractors and other military services are also included.

(4) The financial inventory accounting system uses the dollar as the common denominator to record and measure the status of supply operations by integrating or superimposing a dollar accounting system upon the item accounting system.

e. Cost accounting.

(1) Cost accounting is a system of accounting, analysis, and reporting on cost of production of goods or services and of operation of programs, activities, functions, and organizational units. The system may also embrace cost estimating, determination of cost standards based on engineering data, and comparison of actual and standard cost for the purpose of aiding cost control. The system may deal in nonfinancial (statistical) measures in lieu of or to augment financial measures. It is used when the required data cannot be obtained through general accounting processes. Cost accounting carries the classification of resources to the lowest level of detail. This extension in detail of data makes cost accounting subordinate to, and distinguishes it from, all other parts of the accounting system.

(2) Cost accounting is more specific in detail and complex in technique than the other supporting systems and is the most expensive to administer. It is designed to serve the following basic management requirements:

(a) Measurement of performance. Measurement of performance by cost accounting methods consists fundamentally of comparing current cost with some previously determined standard or with the results of other activities engaged in similar operations.

(b) Determination of the amount to be charged for products furnished or services performed on a reimbursable basis. Cost accounting provides the cost of end products or services
produced which can be used to support reimburse-
ment billings and to establish selling prices or
rates.

(c) Budget planning, execution, and control.
Cost accounting provides detailed and specific data
on past cost in a detailed classification for plan-
ning and justifying future budgets. It also provides
cost of actual performance related to budgeted cost
and reflects conformance of deviation from ex-
pected results.

(d) Determination of operating results. For
activities and operations financed from industrial
funds, cost accounting provides actual cost by
product or service for comparison with related
revenue for determination of gains or losses from
operations.

(e) Other management decisions. Through
the historical financial record of cost, accounting
provides a basis for determining future cost in-
volved in short- and long-range policy and operat-
ing alternatives, future program choices, force
levels, operating levels, and operating locations
and methods.

f. Real property accounting.
   (1) Real property is any interest in land (in-
cluding improvements of any kind, structures, and
fixtures permanently located on the premises) and
appurtenances to the land, under the control of the
Army.

   (2) Real property includes property located at
defense installations, in private contractors’
plants, and in other Government departments. It
does not include real property items in storage.
Real property is divided into four classes: land,
buildings and improvements, industrial production
equipment, and equipment other than industrial
production equipment. It is around these classes of
property that the inventory control and accounting
systems for real property are built.

   (3) Real property accounting includes account-
ing for real property in being, increases from
acquisition, construction, donation and transfer in,
decreases from transfer out, deletion, disposal,
destruction, and for the maintenance of real prop-
erty facilities. It applies to all real property as
defined in pertinent military regulations including
that occupied or held by contractors and occupied
by other agencies or individuals. It also includes
the accumulated (incurred) cost of construction in
progress being built by a specific department
under a departmentally administered contract and
by other military construction agencies and the
Bureau of Public Roads. Real property accounting
includes cost accounting for operations and main-
tenance of real property facilities and cost account-
ing for construction in progress. Real property
records provide the data needed for real property
reports required under law.

   (4) Real property accounting also provides
data necessary for examining and measuring facility
plans, programs, budgets, authorizations, and
cost in relation to departmental objectives by
furnishing a means for effectively controlling real
property facilities programs at all echelons.

4-28. References.
Army Regulations
1-1 Planning, Programming, and Budgeting
Within the Department of the Army
37-20 Administrative Control of Appropri-
ated Funds
37-24 Uniform Classification of General
Ledger Accounts
37-55 Uniform Depot Maintenance Cost Ac-
counting and Production Reporting
System
37-100-FY The Army Management Structure
(Fiscal Code)
37-108 General Accounting and Reporting for
Finance and Accounting Offices
37-110 Budgeting, Accounting, Reporting,
and Responsibilities for Industrial
Funded Installations and Activities
37-111 Working Capital Funds–Army Stock
Fund; Uniform Policies, Principles,
and Procedures Governing Army
Stock Fund Operations
37-151 Accounting and Reporting for Operat-
ing Agencies
215-1 Administrative of Army Morale, Wel-
fare, and Recreation Activities and
Nonappropriated Fund Instrumental-
ties
710-1 Centralized Inventory Management of
the Army Supply System