



**OFFICE OF THE UNDER SECRETARY OF DEFENSE**

1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

SEP 08 2005

COMPTROLLER

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
COMPTROLLER, DEFENSE LOGISTICS AGENCY  
COMPTROLLER, DEFENSE COMMISSARY AGENCY  
COMPTROLLER, U. S. TRANSPORTATION COMMAND  
COMPTROLLER, DEFENSE INFORMATION SYSTEMS  
AGENCY  
COMPTROLLER, DEFENSE SECURITY SERVICE  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Accounting and Reporting for Defense Working Capital Fund (DWCF)  
Contract Authority

The DWCF was apportioned more than \$62 billion in Contract Authority for fiscal year (FY) 2005. Contract Authority generally represents up to half or more of the total DWCF budgetary resources. Despite the huge dollars involved, accounting for Contract Authority has long been a source of confusion and/or inconsistencies. This memorandum establishes comprehensive accounting and reporting requirements for the DWCF Contract Authority. The attached guidance changes the nature of some previously established accounting methods and potentially changes FY balances reported and carried forward. This guidance will be incorporated into the "Department of Defense Financial Management Regulation", Volume 11B, Chapter 3, "Budgetary Resources."

The DWCF Contract Authority is apportioned and allocated to Components and business areas as a budgetary resource which can be obligated; however, Contract Authority is subject to specific limitations set forth by both statutory requirements and departmental policies. Statutory limitations state that "Contract Authority is issued in anticipation of reimbursements or in advance of available funding." The Department, therefore, allocates Contract Authority on a FY basis, subject to the statutory intent that it will be replaced by other budgetary resources or funded by cash from collections or appropriations. Apportioned and allocated Contract Authority does not include supporting Treasury cash balances. Contract Authority in the DWCF must be withdrawn if not used in the year allocated and also must be withdrawn when other budgetary resources are received absent increases in total budget authority.

Contract Authority is allocated in the Approved Operating Budgets (AOBs) to the DWCF Supply Management business areas, the Defense Reutilization and Marketing Service, the Defense Distribution Depots, and to the Capital Programs through the individual DWCF business areas. Non-supply and non-capital activities are allocated reimbursable authority, i.e., Anticipated Reimbursements. This policy also addresses the differentiation between Contract Authority and Anticipated Reimbursements. Each is considered separate budgetary resources; the allocation and the execution of one does not generate, increase, decrease, or lead to adjustments of the other, or increase or decrease the limitations stated in the DWCF AOBs. Any transactions or adjustments which commingle Contract Authority dollar amounts and Anticipated Reimbursement dollar amounts, or increase budgetary resources of one based on the other are considered to be erroneous.

Accounting for Contract Authority includes a new United States Standard General Ledger (USSGL) account 4132, "Substitution of Contract Authority," which must be used to offset customer orders received by DWCF activities that are financed by Contract Authority. Other Contract Authority accounts have been refined or redefined in accordance with this policy. This new account and supporting pro forma entries have been included in the most recent version of the U.S. Treasury Financial Manual (TFM). Accounting and reporting activities can refer to pro forma entries A187, A303, and F206 in the TFM. USSGL account 4132 will be reported on Line 6D of the SF 133, "Report on Budget Execution and Budgetary Resources," as a withdrawal of authority and will be closed for year-end reporting purposes to USSGL account 4139, "Contract Authority Carried Forward."

Proper accounting for Contract Authority is contingent on several critical factors which are controlled through financial management policies and the Program and Budget apportionment and allocation process which come under the purview of the Office of the Under Secretary of Defense(Comptroller)(Program/Budget)(Revolving Funds) (OUSD(C)(P/B)(RF)). These policies are in accordance with the following critical elements and have been coordinated with OUSD(C)(P/B)(RF):

- a. Contract Authority is apportioned and allocated for a single fiscal year.
- b. Obligation of current year allocated Estimated Contract Authority becomes Current Year Contract Authority Realized. Current year deobligations decrease Current Year Contract Authority Realized and increase the amount of Estimated Contract Authority available.
- c. Customer orders, cash transfers-in, and appropriations received substitute for and/or liquidate the balance of realized Contract Authority.

d. The depreciation and Capital Program surcharge portion of customer orders substitute for and/or liquidate the balance of the Capital Program Contract Authority realized. DWCF activities receiving Contract Authority for their Capital Programs must account for the substitution and must allocate collections for Capital depreciation and surcharges to effect liquidation.

e. Upward adjustments of prior year obligations use Estimated Contract Authority, thereby increasing current fiscal year Contract Authority realized.

f. Recoveries of DWCF Operating Program prior year obligations financed by Contract Authority decrease the outstanding balance of Contract Authority Carried Forward and increase Estimated Contract Authority available for use in the current year.

g. Recoveries of DWCF Capital Program prior year obligations decrease the balance of Contract Authority Carried Forward and increase Estimated Contract Authority available. However, use of Capital Program deobligations is subject to restrictions imposed by the Capital Program.

h. Any remaining unobligated Estimated Contract Authority is withdrawn during the fiscal year-end closeout.

i. Only the unliquidated amount of Contract Authority realized, i.e., Contract Authority that has been obligated, but not yet withdrawn, or liquidated due to customer orders, cash, or appropriations, is brought forward into the next fiscal year as Contract Authority Carried Forward. New Estimated Contract Authority is issued on October 1.

The policies included herein are effective in accordance with the Treasury reporting referenced above, i.e., for FY 2005 budget execution and budgetary resources. Reporting entities and the Defense Finance and Accounting Service (DFAS) should take action to ensure that FY 2005 year-end Contract Authority and obligation authority balances reflect the withdrawal of Contract Authority and related obligation authority and the net carryover of realized Contract Authority in accordance with this policy. Reporting entities and the DFAS should also take action to include Contract Authority accounting in new systems development and financial statements line item assertions. Additionally, addressees should provide this office with action plans for reviewing and ensuring that cumulative Contract Authority carryover amounts now stated on the SF 133 are accurate in accordance with these procedures on a retroactive basis. As stated in the attachment, the amount of Contract Authority carried forward on a cumulative basis represents debt which must be funded by customer orders, cash, or appropriations. This amount should be no greater than the amount of Contract Authority obligated, i.e., the difference between Contract Authority allocated, less the unused authority withdrawn, less customer orders and/or Capital Program depreciation, less other budgetary resources or cash allocated. Non-Supply Management DWCF activities should not report

Operating Program unobligated balances that include the Capital Program depreciation portion of customer orders received. These amounts should be reported on Line 6D of the SF 133. Supply Management and Capital Programs should not have unobligated balances after the withdrawal of unused Contract Authority at the close of the FY.

My point of contact for these accounting and reporting policies is Mr. Wayne Hudson. Mr. Hudson can be reached by phone at (703) 697-8281 or by e-mail at [wayne.hudson@osd.mil](mailto:wayne.hudson@osd.mil).

  
Teresa McKay  
Deputy Chief Financial Officer

Attachment:  
As stated