

VOLUME 6B, CHAPTER 13: “ADJUSTMENTS, ELIMINATIONS, AND OTHER SPECIAL INTRAGOVERNMENTAL RECONCILIATION PROCEDURES”

SUMMARY OF MAJOR CHANGES

All changes are denoted by **blue font**.

Substantive revisions are denoted by an * symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue and underlined font**.

The previous version dated June 2009 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reworded and reformatted chapter for clarity and ease of reading. Revised electronic links in accordance with Financial Management Regulation (FMR) updating procedures.	Update
All	Revised references to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Financial Reporting Guidance. This guidance is now produced by Department of Defense Audited Financial Statements Reporting & Analysis (DoD AFSR&A).	Update
All	Updated references to the Intragovernmental Transactions Accounting Policy Guide (APG). This information has been incorporated into Volume 1, Part 2, Chapter 4700 of the Treasury Financial Manual (TFM), “Agency Reporting Requirements for the Financial Report of the United States Government.”	Update
1303	Deleted the list of categories used to report reciprocal intra-governmental transactions and provided a link to Volume 1, Part 2, Chapter 4700 of the TFM that contains an updated list of these categories.	Delete
130503.B	Updated chapter to reflect the current procedures to be followed for elimination waiver adjustments.	Update
130904	Updated to reflect the current reporting requirement to report all transactions with the Foreign Military Trust Fund as federal.	Update

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CHAPTER 13

ADJUSTMENTS, ELIMINATIONS, AND OTHER SPECIAL INTRAGOVERNMENTAL RECONCILIATION PROCEDURES

1301 OVERVIEW

*130101. Purpose

This chapter provides general instructions for preparing worksheets in support of trading partner exchange of data, eliminating intragovernmental transactions from the Department of Defense (DoD) quarterly and annual financial statements, and providing elimination information to the Department of Treasury (hereafter referred to as “Treasury”), for use in preparing the Governmentwide financial statements. Additional information regarding the elimination process and adjusting entries can be found in the [DoD Audited Financial Statements Reporting & Analysis \(DoD AFSR&A\) Financial Reporting Guidance](#), hereafter referred to as “DoD AFSR&A Guidance.”

130102. Scope

For the most part, DoD’s current accounting systems do not capture trading partner information at the level required to eliminate intragovernmental transactions. Therefore, current systems cannot produce the data necessary for reconciliations between buyers and sellers. This chapter provides interim policies and procedures to be used until required systems and process improvements can be implemented.

1302 BACKGROUND

*130201. Intragovernmental Balances

All DoD reporting entities are required to report intragovernmental account balances in their financial statements and eliminate appropriate intra-DoD balances. Intragovernmental account balances are classified by category and level. The category of transaction refers to the nature of the accounting event that resulted in the transaction. Refer to [section 1303](#) of this chapter for [information addressing](#) categories of transactions. The level of the transaction refers to the nature of the trading partner involved. Refer to [section 1305](#) of this chapter for [information addressing](#) the levels of intragovernmental trading partners. The objective of eliminating intragovernmental account balances is to offset the effect of transactions between a DoD Component and other federal agencies, DoD reporting entities, and organizations within a DoD Component. The Statement of Budgetary Resources is presented as a combined statement and thus intragovernmental budgetary accounts are currently not coded or eliminated. For intra-DoD accounts receivable, revenues, and advances from others (unearned revenue) it is presumed that the amounts reported by the seller are more accurate than the corresponding amounts reported by the buyer. As a result, the Defense Finance and Accounting Service (DFAS) and DoD reporting entities use information from the DoD reporting entity making sales, or providing services (“seller-side”), to another DoD reporting entity who would be the recipient and

purchaser of those goods or services (“buyer-side”) as the basis for reporting most of its intra-DoD balances. For DoD reporting entities [that](#) are not waived from elimination adjustments, intra-DoD accounts payable, expenses, advances, and assets (where the information is available) must be adjusted to match the seller records. [Refer to paragraph 130503.B of this chapter for waiver requirements.](#) Additional information on the intragovernmental process can be found in the [DoD AFSR&A Guidance](#) and the Defense Departmental Reporting System - Audited Financial Statements (DDRS-AFS) User Manuals, “[Module IX-Query.](#)”

*130202. [Eliminating Entries](#)

Eliminating entries shall be based on the information provided by the seller/service provider unless a waiver is obtained. [Refer to paragraph 130503.B. of this chapter for waiver requirements.](#) Information regarding the data that is required for financial reporting and the steps DoD reporting entities and accounting centers (DFAS Centers and United States Army Corps of Engineers (USACE) – Finance Center) must take to collect, review, and adjust summary level trading partner data prior to eliminating the effect of intra-DoD transactions can be found in the [DoD AFSR&A Guidance](#). This guidance also includes examples of basic journal entries that should be made at the departmental level to [record adjustments for unrecorded buyer-side transactions needed to match seller performance and eliminate the effects of intra-DoD transactions.](#) As information for current year capitalized assets is captured, buyer side adjustments may include that information. [Refer to section 1304 of this chapter for information addressing intragovernmental capitalized purchases.](#)

1303 RECIPROCAL ACCOUNT TRANSACTIONS

*The transactions for which intragovernmental data shall be collected will be divided into the [reciprocal categories and the reciprocal United States Standard General Ledger \(USSGL\) accounts that comprise these categories.](#) [These requirements are identified in Appendices 6 and 7 of Volume 1, Part 2, Chapter 4700 of the Treasury Financial Manual \(TFM\), “Agency Reporting Requirements for the Financial Report of the United States Government” \(TFM 2-4700\).](#) [Refer to paragraph 130502.A. of this chapter, for intragovernmental transaction guidance.](#)

1304 INTRAGOVERNMENTAL CAPITALIZED PURCHASES

*All current year capitalized asset purchase amounts must be captured and reported in USSGL [accounts 8801 “Offset for Purchases of Assets,” 8802 “Purchases of Property, Plant, and Equipment,” 8803 “Purchases of Inventory and Related Property,” and 8804 “Purchases of Assets – Other.”](#) These accounts must identify whether the items capitalized were purchased from [nonfederal sources or federal agencies.](#) Where the capitalized items are from [federal agencies, the agencies trading partner codes must be captured.](#) [This information will be used to prepare the financial statements and reconcile reciprocal accounts with the federal trading partners.](#) The full reconciliation equation “[expense plus current year capitalized acquisitions from a federal agency will equal the reciprocal federal agency revenue](#)” is reflected in the Buy/Sell Costs/Revenues category for elimination of intragovernmental transactions and is addressed in [TFM 2-4700.](#)

1305 LEVELS OF INTRAGOVERNMENTAL TRADING PARTNERS

130501. Trading partners

The USSGL accounts shall be assigned either a federal (F) or a nonfederal (N) attribute. When an account is assigned an “F” attribute, a trading partner identification attribute shall also be assigned. There are three levels of intragovernmental trading partners for which intragovernmental transactions must be identified.

130502. Level 1 Trading Partners – Non-DoD Federal Agencies

Level 1 transactions are between DoD and other federal agencies, e.g., between the Department of the Air Force and the Department of Commerce. Level 1 transaction balances are identified by the Treasury Trading Partner codes and attributes attached to the USSGL accounts and are used to eliminate intragovernmental transactions during preparation of the “Financial Report of the United States Government” (*FR*). Level 1 transactions include sales of goods and services and specialized transactions, such as loans, interest receivable, other post-employment benefits, or civil service retirement benefit payments. DoD reporting entities are to document the procedures used to identify and verify the accuracy of their intragovernmental assets, liabilities, revenues and expense balances.

*A. Intragovernmental Transactions. Treasury Financial Management Service (FMS) issued the TFM 2-4700 to streamline the accounting procedures regarding intragovernmental transactions and provide a means for federal entities to ensure accurate recording, reporting, and reconciliation. All DoD entities executing or participating in intragovernmental acquisitions (either internal to DoD or external with other federal partners) are required to follow the Intragovernmental Business Rules contained in appendix 10 of the TFM 2-4700, and to exchange and capture the pertinent data elements specified. Treasury eliminates all Intragovernmental transactions when preparing the FR. Since Treasury eliminates these amounts, the accounting centers must ensure that the balances confirmed with the trading partners agree with the balance submitted via the Federal Agencies' Centralized Trial-Balance System (*FACTS*) I and in the Governmentwide Financial Reporting System (*GFRS*).

B. Intragovernmental Fiduciary Transactions. Selected Level 1 information for transactions with the Treasury Investments, Borrowings, and Federal Financing Bank; the Department of Labor Federal Employees Compensation Act transactions; and the Office of Personnel Management (OPM) Employee Benefit transactions for Retirement, Health Insurance, and Life Insurance are specifically required to be fully reconciled. Reconciliation of the intragovernmental fiduciary transactions is performed in the Treasury web-based Intragovernmental Fiduciary Confirmation System (*IFCS*). Treasury eliminates these amounts when preparing the FR. Accounting centers shall ensure that the balances confirmed with the trading partners agree with the balances submitted via FACTS I and in GFRS.

130503. Level 2 and 3 Trading Partners – Other DoD Reporting Entities

Level 2 balances result from transactions between DoD reporting entities, e.g., between the Department of the Army Working Capital Funds (WCF) and the Department of the Navy General Funds (GF). The DoD reporting entities are identified in section 0105 of Volume 6B, Chapter 1. Level 2 transactions are identified by trading partner codes and supplemental internal DoD codes. Level 3 trading partners are within a DoD Component. Level 3 transactions are between Components of the DoD audited financial statement reporting entities, i.e., Army WCF, Supply Management and Army WCF, Depot Maintenance, Other; and Department of the Navy GF, Operations and Maintenance and Department of the Navy GF, Research Development, Test, and Evaluation. There are up to four sublevels of eliminations. The elimination totals are shown on the DoD Component's supporting consolidating statements. For example, the Navy GF Level 3 eliminations would be between: (A) Navy and Marine Corps; (B) Navy Military Personnel and Navy Procurement; (C) Navy Military Personnel trial balance AT17AA1_1453 and Navy Reserve Personnel trial balance AT17AA1_1405; and (D) internally within Navy Military Personnel trial balance AT17AA1_1453.

A. Elimination Adjustments. Accounting centers, in conjunction with the supported DoD reporting entities, will accumulate seller-side data at the buyer entity code trial balance level and use it to adjust buyer side accounts. These steps are for Levels 2 and 3 only. This action will not affect the Level 1 balances identified in paragraph 130502 of this chapter.

1. Step 1. DoD reporting entities will ensure that their reported seller-side balances are accurate and compliant, including proper revenue recognition and timely liquidation of receivables to avoid erroneous adjustments being forced to their customer's buyer-side balances. The accounting centers shall work with their customers to aggregate the seller-side balances at the buyer's entity code trial balance level. When gathering, reviewing, and exchanging data with trading partners internal to DoD at all levels, the accounting centers shall ensure that the seller-side data provided is complete and accurate. The accounting centers must review data with the customers before exchanging the data with their DoD trading partners. This review shall identify any abnormal balances, such as negative revenue. The accounting centers shall work with their customers to resolve the abnormal balances and correct them before exchanging DoD trading partner data. These balances will include all Level 2 and 3 transaction amounts for the reciprocal accounts described in section 1303 of this chapter, for the entity code trial balance levels they service. In conjunction with the identification and application of supported undistributed collections (refer to Volume 6B, Chapter 4 for guidance related to the application of undistributed transactions) to outstanding accounts receivable, sellers may identify a portion of such undistributed transactions as relating to federal partners and may allocate a portion to reduce accounts receivable for specific partners. Supported undistributed collections applied to reduce accounts receivable balances should be identified to the respective partners during the information exchange previously discussed. No supported undistributed collections or disbursements should be allocated to either accounts receivable or payable balances with waived entities (refer to paragraph 130503.B. of this chapter), however, specifically identifiable amounts will be assigned to waived entities. Each accounting center shall input the seller-side totals (adjusted for waived buyers) into DDRS-AFS.

2. Step 2. After the seller-side balances are input into DDRS-AFS, the accounting center maintaining the departmental level general ledger accounts for the buyer reporting entity will generally post departmental level adjusting entries to balance the appropriate account balances with the seller-side records in DDRS-AFS. DoD buyers with supporting documentation may challenge DoD sellers in accordance with timeframes contained in the Financial Statement and Agency Financial Report Schedule.

3. Step 3. Any changes made to seller-side data after data was exchanged with a trading partner shall be communicated to the trading partner. These changes shall be communicated by reissuing only the revised seller-side data to respective trading partners.

4. Step 4. The Level 2 and Level 3 eliminations shall be computed as part of the process of preparing the entity and supporting schedule level financial statements. The accounting centers must ensure that the buyer-side and seller-side data are in balance before the elimination entries are prepared.

5. Step 5. All elimination adjusting entries shall be reversed at the beginning of the next reporting period.

*B. Waiver from Elimination Adjustments. In some instances, a DoD reporting entity may believe that its buyer-side data is more complete, accurate, and supported than is the associated seller-side data. The DoD reporting entity with the supported buyer-side data must send a memorandum to DoD AFSR&A requesting a waiver from elimination adjustments. The request must be submitted by December 1 of each fiscal year. The request must include independent auditor validation (internal or external) of trading partner data submitted for the financial statements of the most recent fiscal year ended. The independent validation should include random sampling of an established population and procedures must be adequate to support a determination as to the validity of the submitter's data. Results of the test, including record counts and amounts tested and outcomes, must accompany the request. Initial requests must always be accompanied by this independent validation. If approved, the waiver shall remain in effect indefinitely, until such time as conditions warrant reconsideration. All waived entities shall certify by December 1 of each year that the conditions that existed when the waiver was granted continue to exist. Specifically, Components shall confirm that:

1. No changes to their intragovernmental procedures have occurred since the waiver was granted; and

2. There are no auditor- and management-identified internal control weaknesses associated with intragovernmental transaction processing and reporting; and

3. The Component has not experienced significant valid challenges to the waived entity's reported balances

C. [Approved Waivers](#). Exemptions from [elimination adjustments](#) must be coordinated in advance of the December 1 waiver request due date. If the waiver request is approved, all of the following apply:

1. The DoD reporting entities will identify both seller-side and buyer-side balances to their supporting accounting center. The accounting center supporting the reporting entity will provide the customer buyer-side details to the accounting center supporting the seller. The accounting center supporting the seller will identify any adjustments that may be required to force seller-side balances to agree with the buyer-side balances provided. The desired sellers may challenge the buyer-side balances in accordance with procedures in paragraph [130503.C.2](#). The accounting center supporting the seller will enter the final seller-side balances into DDRS-AFS.

* 2. If the seller disagrees with the buyer-side balances supplied by waived entities, they should dispute the balances. If waived buyer-side balances are disputed, the waived entity must work with their supporting accounting center to provide documentation to support the buyer-side data. If the reconciliation identifies that adjustments are required, such adjustments will be recorded in accordance with time frames established annually by the [DoD AFSR&A](#) Guidance. Both the buyer and seller will report all waived entity challenges to [DoD AFSR&A](#), regardless of outcome, within 30 days of the quarter-end.

* 3. If both the buyer and seller have been waived from buyer-side adjustments, the waived entities shall work with one another and their respective accounting centers to reconcile the balances and to identify any reconciling items that must be considered during the eliminations process. Both waived entities will report all challenges to [DoD AFSR&A](#), regardless of outcome, within 30 days of the quarter-end.

*1306 ELIMINATION OF BUDGETARY ACCOUNTS (4000 SERIES ACCOUNTS)

The budgetary information shall be presented on a combined basis, with no elimination of budgetary accounts, in order to be consistent with information reported on the “Report on Budget Execution and Budgetary Resources” ([SF 133](#)) in accordance with Office of Management and Budget (OMB) Circular [A-11](#), “Preparation, Submission, and Execution of the Budget.”

1307 RECONCILIATION WITH OTHER REPORTS

All information reported in any other external reports shall be reviewed for consistency with the information included in the quarterly and the annual audited financial statements.

1308 RECONCILIATION WITH LEVEL 1 TRADING PARTNERS

*130801. [Reconciliation](#)

OMB Circular [A-136](#), “Financial Reporting Requirements,” requires reporting entities to reconcile intragovernmental reciprocal accounts described in section 1303 of this chapter, with

their trading partners. [The TFM 2-4700](#) includes guidance to facilitate the reconciliation of intragovernmental transactions.

130802. [Legacy Systems](#)

The lack of federal identifiers within the legacy systems limits the ability of some DoD reporting entities to accurately compile and report intragovernmental balances with other federal partners. This may require that some DoD reporting entities devise methodologies to estimate the associated partner balances. When applicable, the affected DoD reporting entities shall develop and document an estimation methodology. This methodology may include, but is not limited to, the assessment of balances provided or previously reported by Level 1 partners. If Level 1 partner balances are used to estimate DoD balances for reporting, those balances must first be either reconciled with the Level 1 partners, or at a minimum, assessed for reasonableness by the DoD reporting entity.

*130803. [Intragovernmental Reporting and Analysis System \(IRAS\)](#)

Each quarter, Treasury populates detailed trading partner data into IRAS. The IRAS provides comparisons of balances reported by all federal partners and facilitates intragovernmental consolidation and elimination required for Governmentwide reporting. As an output of the IRAS comparison, Treasury will provide quarterly Intragovernmental Material Differences Reports by Treasury Index to each Military Service (Departments 17, 21, 57), USACE (Department 96), and the Other Defense Organizations (Department 97). These reports will be reviewed and explanations for differences will be provided to Treasury in accordance with requirements contained in the [TFM 2-4700](#), and in the [DoD AFSR&A Guidance](#).

130804. [FACTS I & GFRS](#)

Treasury shall use the Level 1 trading partner amounts reported in FACTS I, along with information submitted in GFRS, to compile the elimination entries necessary to prepare the FR.

1309 FEDERAL TRADING PARTNER CODES

130901. [Trading Partner Codes](#)

Trading partner code information is reported to Treasury by FACTS I Attributes and in GFRS. The [trading partner](#) codes are used in conjunction with the general ledger account information to identify amounts that must be eliminated when preparing financial statements. Treasury requires the Treasury Index agency code to be used by all federal agencies for these purposes. A complete list of trading partner codes and additional guidance may be found in Appendix 5 of the (TFM 2-4700).

130902. [Trading Partner Effect of Prior Period Adjustments](#)

When it is determined that a prior period adjustment is necessary for a transaction involving another federal agency, the accounting centers shall identify the trading partner and

determine how the transaction was recorded. Additionally, the accounting centers must work with the trading partner to inform the Treasury about the prior period adjustment. This will assist Treasury with eliminations on the Governmentwide financial statements.

130903. Nonfederal Trading Partners

All accounting centers and DoD reporting entities are responsible to properly identify transactions and account balances as federal or nonfederal. The identification of transactions as federal or nonfederal is not always clear, as nonfederal entities may have names suggesting they are federal. For example, the U.S. Department of Agriculture (USDA) Graduate School is a nonfederal trading partner.

*130904. Foreign Military Sales Trust Fund Reporting

In general, DoD Components performing reimbursable activities on behalf of the Foreign Military Sales Trust Fund (11X8242) shall recognize related accounts receivable and revenue as federal citing entity code 11X8242 as the Level 1 trading partner. Administrative service-related transactions with the Defense Security Cooperation Agency (DSCA), which manages the Trust Fund, are recorded as intragovernmental activities. Revenue and accounts receivable related to activities performed by the Defense Contract Management Agency (DCMA), as well as contract audit or financial management activities performed by the Defense Contract Audit Agency (DCAA) and DFAS for the Trust Fund, are intragovernmental and are funded through the surcharge to cover administrative items. Transactions occurring prior to a final transaction with the Trust Fund may be coded as intragovernmental. For example, if a foreign country bought planes, which required modification by the Department of the Navy, the aircraft modifications performed by the Navy WCF for the Navy GF would be intragovernmental. The actual transfer of the planes to the Trust Fund would be classified as federal. All Non-Trust Fund Sales to foreign countries, such as acquisition and cross-servicing agreements, shall be recognized as nonfederal.