

**VOLUME 11B, CHAPTER 1 “DEFENSE WORKING CAPITAL FUNDS GENERAL
POLICIES AND 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 April 2010 is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
010103	Incorporated Annex 1, Objectives of the Defense Working Capital Funds, into the chapter.	Add
010403	Added requirement for DoD Components to bear the cost of legacy systems until fully transitioned to emerging/migratory systems.	Add
Figure 1-1	Added flowchart, “Legacy System Funding Decision Diagram.”	Add

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CHAPTER 1

DEFENSE WORKING CAPITAL FUNDS
GENERAL POLICIES AND REQUIREMENTS

0101 GENERAL

***010101.** Treasury Fund Symbol

The **Defense Working Capital Funds (DWCF)** are established under the authority of **10 U.S.C. 2208**. The Treasury Account Symbol for the DWCF is 97X4930. The Military Departments and Defense Agencies subnumbered account identifiers assigned are shown in the below table.

<u>DoD Component</u>	<u>Treasury Assigned Account No.</u>
Army	97X4930.001
Navy	97X4930.002
Air Force	97X4930.003
Defense Commissary Agency	97X4930.004
Defense Agencies	97X4930.005

010102. Activity Groups

The DWCF consist of individual activity groups that are managed by Department of Defense (DoD) Components for providing goods and services, on a reimbursable basis, to other activities within the DoD and to non-DoD activities when authorized.

***010103.** Charters

The DoD Component individual activity groups financed through the DWCF shall be chartered under the DWCF to achieve the **following** objectives:

A. The DWCF is designed to:

1. Provide a more effective means for controlling the costs of goods and services required, produced, or furnished by DWCF activities, and a more effective and flexible means for financing, budgeting, and accounting for the costs thereof.
2. Create and recognize contractual relationships between DWCF activities and those activities that budget for and order the end-products or services.
3. Provide managers of DWCF activities the financial authority and flexibility required to procure and effectively use manpower, materials, and other resources.

4. Encourage more cross-servicing among the DoD Components and among their operating agencies, with the aim of obtaining more economical use of facilities.

5. Facilitate budgeting for and reporting of the costs of end-products. This will underline the cost consequences of choosing between alternatives.

B. Specific objectives include the following:

1. Furnish managers of DWCF activities with modern management tools comparable to those utilized by efficient private enterprises engaged in similar types of activities.

2. Improve cost estimating and cost control through comparison of estimates and actual costs.

3. Obtain alert, forward-looking financial planning at DWCF activities by making them financially dependent on reimbursements received for goods and services furnished in fulfilling orders from customers.

4. Encourage producers of goods and services to coordinate labor forces and inventories with workload, budgeting, and cost control.

5. Instill in the officials of ordering Agencies a greater sense of responsibility and self-restraint in balancing the costs of specific goods and services to be ordered against the benefits and advantages of their procurement, especially in the light of alternative or competing demands.

6. Place ordering agencies in the position of critically evaluating purchase prices (that is, costs of performing activities) as well as quality and delivery-speed of goods and services ordered.

7. Enable ordering agencies to budget and account on an "end-product" basis (the same as when buying from commercial contractors), thereby simplifying budget presentations, budgetary control, and accounting procedures for both producers and ordering agencies.

8. Establish, whenever feasible, standard prices or stabilized rates and unit prices for goods and services furnished by DWCF activities, thus enabling ordering Agencies to more confidently plan and budget.

9. Encourage ordering agencies' management to improve program planning and scheduling in response to producers' efforts to plan and negotiate for orders as far in advance as feasible.

10. Provide flexibility within budget cycles to changes in supply and demand.

*C. A charter shall be prepared in accordance with Chapter 2 and submitted to the Under Secretary of Defense (Comptroller) (USD(C)) [Revolving Funds Directorate](#) for approval. Before charter preparation, ensure that the proposed business entity meets the criteria established as described in Chapter 2, paragraph 020202. Each DWCF business entity shall review its charter annually to assure it remains current. Changes shall be prepared and submitted to the USD(C) [Revolving Funds Directorate](#) for approval.

010104. Funding

The DWCF receives its initial working capital through an appropriation or a transfer of resources from existing appropriations of funds and uses those capital resources to finance the initial cost of products or services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. The Supply Management activity groups and the Capital Investment Program receive contract authority. Contract authority permits obligations to be incurred in advance of appropriations or in anticipation of receipts from customers, but in accordance with an apportionment, allotment, or other limiting authority. Other than the Supply Management activity groups and the Capital Investment Program, all other DWCF obligations must be supported by budgetary resources that are immediately available for outlay even though the outlay may not occur until a future date. After initial capitalization, a DWCF activity's operations are funded by the reimbursements it receives from its customers for the goods or services provided. Amounts earned by the DWCF are available in the fund corpus without fiscal year limitation, although DWCF activity obligation authority is dependent on receipt of contract authority, and/or cost authority provided in the DWCF activity annual operating budget. Customers may not place orders with DWCF activities for the purpose of extending the life of their appropriations or avoiding any statutory limitation or restrictions pertaining to those funds. Additional guidance applicable to all working capital funds can be found in Volume 3, Chapter 19.

010105. Authorized Customers

Customers of the DWCF activity may be:

- A. Any DoD command, organization, office, or other element.
- B. Non-DoD federal government agencies.
- C. Private parties and concerns when authorized by law including foreign governments, and state and local governments.
- D. Those United States (U.S.) manufacturers, assemblers, or developers authorized by [10 U.S.C. 2208\(h\)](#) and in accordance with [10 U.S.C. 2563](#) and [Section 4543](#).

010106. Sources of Budgetary Resources

When an individual activity receives budgetary resources from more than one source (for example, reimbursable authority from customer orders accepted and direct authority from appropriations, or allocations of appropriations received), the receiving activity must maintain records to control and report separately the transactions relating to each type of source. Budgetary resources may be received at any level of an organization, from the individual activity up to the departmental-level. (See Volume 3, Chapter 19 for further details.)

010107. Annual Operating Budgets

Annual operating budgets for the DWCF provide official management cost goals to the Military Services and Defense Agencies for each individual activity group. The annual budget consists of two primary parts—the operating budget and the capital budget. The operating budget represents the annual operating costs of an activity or Component, including depreciation and amortization expenses. The capital budget represents the amount of financial resources that are authorized for use in the acquisition of capital assets. Volume 2B, Chapter 9, and Volume 3, Chapter 19, provides additional details on the annual operating budgets for the DWCF.

010108. Customer Orders

Customer orders (funded requests for goods or services) provide the budgetary and cash resources necessary to finance operations. To be valid, customer orders must be obligations of a federal government activity and cash advances from nonfederal customers. Cash advances may also be requested from federal government activities when directed and approved in advance by the USD(C). When accepted, customer orders create a quasi binding contractual relationship between a DWCF activity and its customer since acceptance of a customer order requires that the performing entity agree in writing to perform the work for the customer entity. Except as authorized in Chapter 11, a DWCF business entity shall not initiate work or services or incur obligations until customer orders are signed and advanced funding is received. Customers may request a deobligation of their funds for goods or services ordered that were not provided. Return of customer funds is permissible only if the DWCF activity has not commenced work on the good or service ordered or incurred an obligation for those goods or services.

010109. Stabilized Rates and Prices

The DWCF individual activity groups operate on a break-even basis in accordance with budgetary guidance contained in Volume 2A and Volume 2B. Rates are required to be established during the budget process at levels estimated to recover the budgeted costs of goods or services to be provided including all general and administrative overhead costs, prior period gains and losses, and applicable surcharges. The budget process ensures that adequate resources are requested in the customers' fund accounts to pay the established rates and prices. Specific budget formulation requirements are contained in Volume 2B, Chapter 9.

010110. Restrictions on Use of Customer Appropriations

Statutory limitations and restrictions imposed on the appropriated funds of a DWCF customer are not changed when the customer places an order with the DWCF. A DWCF customer cannot use its appropriated funds to do indirectly, i.e., through placement of an order with a DWCF activity, what it is not permitted to do directly. Thus, the availability of an appropriation cannot be expanded or otherwise changed by transfer to the DWCF. Appropriated funds cited on reimbursable orders are available only for the purposes permissible under the source appropriation and remain subject to the same restrictions. The ordering activity is primarily responsible for the determination of the applicability of the ordering appropriation. However, if instances arise when it is apparent that the ordering appropriation is not appropriate for the purpose provided, then the order should be returned with a request for an applicable appropriation fund cite.

010111. Financial Reporting

Under the provisions of [31 U.S.C. 3515](#), the Department is required to have audited financial statements covering all accounts and associated activities of the Department. The DWCF financial information will be included in DoD's Annual Financial Report. Specific financial statement reporting requirements are contained in [OMB Circular A-136](#), "Financial Reporting Requirements." Volume 6B also identifies recurring reporting requirements applicable to the DWCF.

010112. Mobilization Capability

Each DWCF activity group must plan for and maintain the capability to expand or alter operations, or to provide extraordinary supply or other functional area support necessary, to meet an operational contingency as documented in Defense Planning Guidance or operational plans. All costs at individual activities within the DWCF related to maintaining a capacity to meet mobilization requirements will be reimbursed by funds that are from direct appropriations and will not be financed through customer rates. Volume 2B, Chapter 9 provides specific guidance for the types of mobilization costs that can be funded by a direct appropriation.

0102 RESPONSIBILITIES OF MANAGEMENT

010201. USD(C) of the DoD

- A. Establish DoD policy on DWCF operations.
- B. Provide oversight on all financial management activities relative to the operations of the DWCF.
- C. Authorize or approve DWCF Charters of specific activities to be included in the DWCF and the terms under which such activities shall be operated.

D. Rescind the DWCF Charters of specific activities that no longer meet DWCF criteria or that may be operated more efficiently under other financing.

E. Establish all necessary budget preparation, accounting, and reporting policies.

F. Review and approve operating and capital budgets, and monitor and analyze budget execution.

G. Provide DWCF operations oversight through budget execution reviews.

H. Advise DWCF managers on accounting and reporting policies.

I. Monitor compliance with this guidance and other policy issuances through analysis of reports, audits, and reviews of business entity operations.

010202. Director, Defense Finance and Accounting Service (DFAS)

A. Advise and assist the USD(C) in the development of requirements, systems, and procedures to comply with statutory and regulatory requirements.

B. Advise DWCF activities on the accounting and reporting procedures.

C. Issue supplementary instructions to guidance contained within this Regulation for unique requirements within the DoD Components and to provide detailed operating instructions.

D. Review DWCF accounting systems for compliance with established financial systems requirements.

E. Prepare external and internal accounting reports for the DWCF.

010203. Military Department Secretaries and Defense Agency Directors

A. Manage DWCF activities within approved funding limitations.

B. Designate a management agency or command to be responsible for effective management of each DWCF activity.

C. Comply with, and recommend changes to, this and other governing regulations.

D. Provide periodic financial and management information as required by the USD(C).

E. Submit to the USD(C) proposed Charters authorizing new DWCF activities or rescinding Charters of existing DWCF activities.

010204. DWCF Activity Management Agency or Command

*A. Budget and provide appropriated funds for the costs of maintaining unutilized plant and facilities being held for mobilization purposes at DWCF activities. Mobilization maintenance costs for unutilized plant and facilities include costs of labor, materials, contractual services, and overhead that were incurred for that purpose. Retention of facilities in excess of those necessary for current or planned workload shall be in accordance with [DoD Directive 4275.5](#), "Acquisition and Management of Industrial Resources." The acquisition, retention, or disposal of unutilized plants and facilities at transportation activities must be approved by the Deputy Under Secretary of Defense ([Acquisition, Technology and Logistics](#)).

B. Assign responsibility and authority to designated officials for management and operation of DWCF activities.

C. Assure that all DWCF activities operate within approved funding limitations.

D. Evaluate the operation of DWCF activities to determine compliance with established requirements.

E. Initiate change, as needed, to the charter of the DWCF activities.

010205. Individual DWCF Activity Management

A. Incur obligations and costs as necessary and allowable to perform the activity mission.

B. Control performance costs in line with the annual budget approved by the USD(C).

C. Evaluate the operation of DWCF activities to determine compliance with established requirements.

D. Identify to higher management any impediments in achieving performance and cost goals.

E. Identify and justify to higher management investments that will produce future improvements in effectiveness and efficiency.

F. Establish, monitor and assess internal controls and resolve internal control weaknesses.

010206. DWCF Activity Customers

A. Be responsible for budgeting for the cost of material, work, and services ordered from a DWCF activity.

B. Manage budgetary resources provided in annual operating budget for the cost of material, work, and services ordered from DWCF activities.

C. Be responsible for notifying the DWCF business entity manager as early as possible if it wishes to terminate a previously ordered service. The customer is liable for funding all costs associated with service delivery until termination.

0103 ACCOUNTING STANDARDS

The DWCF will adhere to the accounting standards hierarchy in Volume 1, Chapter 2.

0104 DWCF SYSTEMS AND CONTROL

010401. DWCF Financial Management Systems

A. Transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are reported in accordance with Statement of Federal Financial Accounting Standards.

B. Assets are properly safeguarded to deter fraud, waste and abuse.

C. Performance measurement information is adequately supported.

010402. DWCF Accounting Systems

DWCF accounting systems shall have the capability to account for the status of budgetary resources on a continuous basis. Budgetary controls shall be designed to prevent incurring obligations in excess of budgetary resources.

*010403. Legacy Systems

DoD Components will continue to bear the cost of their legacy system until they have fully transitioned to the emerging/migratory system. However, if the Component has not fully transitioned from the legacy system to the emerging/ migratory system due to a DFAS related implementation problem, then the customer bears no direct cost for the legacy system. The costs for the legacy system that DFAS cannot abolish will go into the DFAS customer rates as part of overhead costs. See Figure 1-1.

A. If the customer has fully transitioned from the legacy system to the emerging/migratory system, then that customer bears no direct cost for the legacy system. However, the costs for a legacy system that DFAS cannot abolish will go into the DFAS customer rates as part of overhead costs.

B. If the customer has not fully transitioned from the legacy system to the emerging/migratory system but the customer is running the systems parallel for testing purposes, to include running the legacy system for prior year data not transitioned, then that customer bears a cost for both systems until the customer fully transitions to the emerging/migratory system.

C. If the customer has not transitioned from the legacy system to the emerging/migratory system because of DoD Component related implementation problems, then that customer will bear the cost for the legacy system even if they are the last DoD Component on the legacy system.

D. If the customer has not transitioned from the legacy system to the emerging/migratory system due to a DFAS related implementation problem, then that customer bears no direct cost for the legacy system. The costs for a legacy system that DFAS cannot abolish will go into the DFAS customer rates as a part of overhead costs.

E. The customer must be fully transitioned from the legacy system to the emerging/migratory system before the beginning of a new fiscal year. It is not appropriate to change allocation of legacy costs between customers in the year of execution.

F. When all customers have transitioned to the emerging/migratory system and DFAS is able to abolish the legacy system, the system's residual undepreciated value will be charged to the DFAS Accumulated Operating Result (AOR).

0105 FUNDS MANAGEMENT

Financial resources establishing a DWCF must be appropriated. Continuing operations are generated by reimbursements received. Anticipated reimbursements and anticipated customers' orders are not considered a budgetary resource. Obligations incurred (undelivered orders and accrued expenditures-paid and unpaid) are claims against budgetary resources. A sufficient fund balance with the Treasury must support all DWCF cash outlays. Refer to Volume 3, Chapter 19 for further guidance on funds management.

0106 GENERAL LEDGER ACCOUNTS

All DWCF activities shall adhere to the [United States Standard General Ledger \(USSGL\)](#) published by the Department of Treasury Financial Management Service. The [USSGL Standard Financial Information Structure \(SFIS\) Transaction Library](#) provides a decomposition of USSGL accounting transactions for DoD. See Volume 1, Chapter 7 for further details.

0107 AUDITING

Under [31 U.S.C. 3515](#), the DWCF activities are required to prepare audited financial statements. The DWCF is subject to audit by the DoD Inspector General, the Government Accountability Office, and other parties when contracted or otherwise authorized.

*Figure 1-1 Legacy System Funding Decision Diagram

