

CHAPTER 1

DEFENSE WORKING CAPITAL FUNDS
GENERAL POLICIES AND REQUIREMENTS0101 GENERAL010101. Overview

A. Treasury Fund Symbol. The DWCF are established under the authority of Title 10, United States Code (U.S.C.), Section 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

B. Activity Groups. The DWCF consists of 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.

C. Charters. The DoD Component activity groups to be financed through the DWCF shall be chartered under the DWCF to achieve the objectives contained in [Annex 1](#) to this chapter. A charter shall be prepared in accordance with [Chapter 2](#) of this volume and submitted to the Under Secretary of Defense (Comptroller) (USD(C)) for approval. Before charter preparation, DoD Components shall ensure that the proposed activity meets the criteria established for an activity described in [Chapter 2](#), paragraph 020102, of this volume.

D. 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 (see paragraph I.2.(a), below) 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. Additional guidance on budgetary resources can be found in [Chapter 3](#), of this volume.

E. Authorized Customers. Customers of the DWCF activity may be:

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

F. Sources of Budgetary Resources. Where an 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 which will enable it 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.

G. Annual Operating Budgets. Annual operating budgets for the DWCF provide official management cost goals to the Military Services and Defense Agencies for each 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](#), of this Regulation provides additional details on the annual operating budgets for the DWCF.

H. Customer Orders. Customer orders (funded requests for goods or services) provide the budgetary 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, or approved, by the USD(C). Customer orders create a quasicontractual 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.

I. Stabilized Rates and Prices

1. The DWCF activities operate on a break-even basis in accordance with budgetary guidance contained in [Volume 2A and 2B](#), of this Regulation. Customer rates shall be established on an end product basis whenever feasible. The term “end product” means the item or service requested by the customer (output) rather than processes or other inputs in the achievement of the requested output (for example, the product requested rather than the direct labor hours expended in the achievement of that product).

2. Rates are required to be established at levels estimated to recover, over the long term, the cost of products or services to be provided, as well as approved surcharges. The budget process is the mechanism used to ensure that adequate resources are budgeted in the customer’s appropriated fund accounts to pay the established rates. The DWCF includes a variety of activity groups that are categorized into two groups for rate setting purposes.

(a) Supply Management Activity Groups. The Supply Management activity group uses commodity costs in conjunction with an operating and a capital cost recovery factor (previously termed “surcharge”) to establish customer rates. Supply Management activity groups includes Supply Management, Distribution Depots, Defense Commissary Agency (Resale), and the Defense Reutilization and Marketing Service.

(b) Non-Supply Management Activity Groups. Non-Supply Management activity groups use unit cost rates established based on identified output measures or hourly labor rates for other reimbursable services. Non-Supply Management activity groups includes Depot Maintenance, Research & Development, Information Services, etc.

★ 3. Prior Period Gain and Loss Recovery. Gains or losses in operations may occur as a result of variations in program execution. Realized gains and losses generally are reflected in offsetting adjustments to stabilized rates established in subsequent fiscal years. Occasionally, however, realized losses may be funded by an appropriation, or by a transfer from available resources in another DoD account. Occasionally, the Congress will direct a rebate to customers through a reduction in the rates charged to those customers by a DWCF activity. The objective of the congressionally directed rebate is to encourage the DWCF activity to increase efficiencies and achieve savings. If the encouraged savings do not materialize, the OUSD(C), on a case-by-case basis, will determine: (1) whether a DoD Component failed to comply with the intent of a congressionally directed rebate by not achieving associated projected savings, (2) whether such actions resulted in a loss to the DWCF (and the amount of any such loss), and (3) whether such amounts are to be recovered in future rates.

J. 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 cite.

K. Financial Reporting. Under the provisions of Title 31 U.S.C., Section 3515, the Department is required to have audited financial statements covering all accounts and associated activities of the Department. As implemented by the Office of Management and Budget, the Department is required to prepare both Agency-wide audited financial statements and separate audited financial statements for several DWCF reporting entities. Guidelines on reporting format and disclosure requirements for audited financial statements can be found in [Volume 6B](#) of this Regulation.

010102. 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 satisfy mobilization conditions when required. The nature and extent of the costs to be paid by a separate appropriation rather than charged to other DWCF customers through the rates shall be in accordance with policy contained in this volume.

010103. Conformance with Policy Issuances. The management and operation of each activity group shall comply with financial management guidance and policies issued by the OUSD(C) and with requirements and procedures issued by the DFAS. The policies, procedures, and reporting requirements contained within this volume apply to all activity groups unless otherwise specified. Policies, procedures, and reporting requirements contained herein that are unique to individual activity groups are identified as such.

0102 RESPONSIBILITIES OF MANAGEMENT

010201. The USD(C) and Chief Financial Officer (CFO) of the DoD Shall:

- 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 deemed to no longer meet DWCF criteria or that may be operated more efficiently under other financing.
- E. Issue all necessary budget preparation, accounting, and reporting policies.

F. Review and approve operating budgets, monitor execution of the budget and analyze the results thereof.

G. Provide guidance to improve the efficiency of DWCF operations.

010202. The Director, DFAS, Shall:

A. Establish requirements, systems, procedures, and practices to comply with statutory and regulatory requirements.

B. Establish procedures ensuring that DWCF policies are implemented.

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

D. Monitor compliance with this guidance and other policy issuances through analysis of reports, visits to activities, and review of audits.

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

F. Prepare consolidated accounting reports for the DWCF.

010203. The Secretaries of the Military Departments and the Directors of Defense Agencies, or Their Designees, Who Have Activities Financed Under the DWCF Shall:

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) and CFO.

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

010204. The Management Agency or Command Assigned Responsibility for DWCF Activities Shall:

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 (Logistics).

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

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

010205. The Management of Each DWCF Activity Shall:

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

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

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

D. Identify to higher management any impediments to achievement of performance and cost goals.

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

010206. The Customers of Each DWCF Activity Shall:

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.

0103 ACCOUNTING STANDARDS010301. Federal Government Accounting Principles and Standards.

A. The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the U.S. (“the Principals”) established the Federal Accounting Standards Advisory Board (FASAB) in October 1990 by a memorandum of understanding. The role of the FASAB is to deliberate upon accounting principles and standards for the federal government and its Executive Branch agencies and to forward final standards to the Principals for a 90-day review period. Following the 90-day review period, the FASAB issues a Statement of Federal Financial Accounting Standards (SFFAS). The SFFASs shall be considered generally accepted accounting principles (GAAP) for federal agencies. Agencies shall apply the SFFASs in preparing financial statements in accordance with the requirements of the CFO Act of 1990. Auditors shall consider SFFASs as authoritative references when auditing financial statements.

B. The SFFASs shall have no effect on the manner in which federal agencies budget for, monitor and control the expenditure of budgetary resources. Those requirements are defined in OMB Circulars A-11 and A-34 and other OMB documents. However, financial statements and budgetary reports are interrelated and should be integral to DoD’s core integrated financial management systems. Balances reported in financial statements and budget execution reports should agree with each other and if not, the differences must be reconciled.

010302. Hierarchy of Accounting Standards. The SFFASs represent GAAP for the federal government. However, the Department may engage in transactions that are not addressed by those standards. In those instances, a hierarchy of accounting standards must be followed. The hierarchy of accounting standards is listed in [Volume 1, Chapter 8](#), of this Regulation.

010303. Interpretation of SFFAS. The DoD Components desiring an interpretation of a federal government GAAP shall request such interpretation from the Director for Accounting and Finance Policy and Analysis, OUSD(C). The Director for Accounting Policy shall respond to that request or, if necessary, forward the interpretation request to the Office of Federal Financial Management, OMB. In accordance with OMB Circular A-134, “Financial Accounting Principles and Standards,” the OMB may respond to the request either by providing technical assistance or through issuance of an Interpretation of Federal Financial Accounting Standards, which is a document of narrow scope that provides clarifications of original meaning, additional definitions, or other guidance pertaining to an existing SFFAS. If the OMB decides an Interpretation of Federal Financial Accounting Standards is necessary, the OMB Circular A-134 directs the OMB to: (1) provide written copies of the request to the Comptroller General and the Secretary of the Treasury; (2) examine, as appropriate, applicable literature and consult with knowledgeable persons; (3) draft an Interpretation of Federal Financial Accounting Standards; (4) obtain the consensus of Treasury and the General Accounting Office (GAO) on the interpretation; and (5) publish the Interpretation of Federal Financial Accounting Standards.

010304. DWCF Accounting System Requirements. The accounting system established for the DWCF shall employ the accrual basis of accounting, be transaction-based, and use the double-entry method of accounting.

0104 FUNDS MANAGEMENT

010401. The 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 of obligations in excess of budgetary resources.

010402. Budgetary resources are comprised of: (1) appropriated or reappropriated amounts becoming available during the year, (2) the net of any nonexpenditure transfers between federal government accounts, (3) unfilled customer orders, and (4) unobligated balances brought forward from the previous year. Additional guidance on budgetary resources can be found in [Chapter 3](#) of this Volume.

010403. 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.

★0105 GENERAL LEDGER ACCOUNTS

010501. The USSGL shall be used by DWCF activities to record budgetary and proprietary accounting transactions on a double-entry basis. [Volume 1, Chapter 7](#), of this Regulation provides guidance on the use of the USSGL. The USSGL is composed of five major sections: (1) Chart of Accounts, (2) Account Descriptions, (3) Accounting Transactions, (4) USSGL Attributes, and (5) Crosswalks to Standard External Reports.

010502. The USSGL attributes are one component of detailed data in agency financial systems related to the external reporting financial statements. Each USSGL account has associated attributes related to external financial reporting. Examples of attributes are: (a) Federal/Nonfederal, (2) Trading Partner, (3) Exchange/Nonexchange, (4) Budget Functional Classification, and (5) Custodial/Noncustodial. While the preceding are examples of attributes, it is not an exhaustive list of attributes required by the Department to adequately prepare its financial statements.

010503. At the time of this writing, all of the necessary DoD assigned attributes have not been identified. Therefore, a parenthesized title will follow the USSGL account to identify where a DoD assigned attribute(s) is required. For example, USSGL Account 1010, "Funds Balance With Treasury" may be displayed as Account 1010, "Funds Balance With Treasury (Funds Collected - Operating Program)" to indicate that a DoD attribute(s) should be assigned to Account 1010 to identify "Funds Collected - Operating Program" at the transaction level. The DFAS assigns and maintains the DoD required attributes for the Defense

Departmental Reporting System (DDRS). Currently, the DDRS assigned attribute for Funds Collected is “C” under the “Net Funds” indicator and attribute “O” for Operating Program under the “DWCF Resources” indicator.

010504. The DFAS will develop and maintain the Department’s general ledger attributes for both internal and external reporting requirements to include general funds and working capital funds, with assistance and/or concurrence, as required, from the OUSD(C). This includes attributes required at the installation through department-level. This should ensure consistency in the application of those attributes within the Department. In other words, an attribute should have a common meaning wherever it is used.

0106 AUDITING

The DWCF activities are subject to audit by the audit organizations of the Military Departments, by the Inspector General, DoD, and by the GAO. The frequency and performance of audits performed by the DoD audit organizations shall be determined by the audit organization based on guidance set forth in Chapter 5 of DoD 7600.7-M, “Internal Audit Manual.” Copies of audit reports shall be submitted to the DCFO and the Deputy Comptroller (Program/Budget), OUSD(C).