

CHAPTER 50

DEFENSE BUSINESS OPERATIONS FUND GENERAL POLICIES AND REQUIREMENTS

A. GENERAL

1. Overview

a. Treasury Fund Symbol. The Defense Business Operations Fund (DBOF) has been established under the authority of title 10, United States Code, Section 2208. The Treasury Account Symbol for the Defense Business Operations Fund is 97X4930.

b. General. The Defense Business Operations Fund consists of Business Areas that are managed by DoD Components for providing goods and services, on a reimbursable basis, to other activities within the Department of Defense and to non-DoD activities when authorized.

c. Charters. DoD Component business areas to be financed through the Defense Business Operations Fund shall be chartered under the DBOF to achieve the objectives contained in Addendum 1 to this chapter. A charter shall be prepared in accordance with chapter 51 of this Volume and submitted to the Under Secretary of Defense (Comptroller) for approval. Before charter preparation, DoD Components shall ensure that the proposed DBOF activity meets the criteria established for a Defense Business Operations Fund activity described in chapter 51, paragraph A of this Volume.

d. Funding. Business areas receive their initial working capital through an appropriation or a transfer of resources from existing appropriations of funds and use 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 is generated by the acceptance of customer orders. The Supply Management business area 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 business area and the Capital Investment Program, all other Defense Business Operations Fund obligations must be supported by budgetary resources that are immediately available for outlay even though the outlay may not occur until a future date.

e. Segregation 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.

f. Annual Operating Budgets. Commencing with the establishment, in FY 1992, of the Defense Business Operations Fund, annual operating budgets that provide official management cost goals are issued to the Services and Agencies for each business area. 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, "Defense Business Operations Fund Business Area Analysis," provides additional details of Annual Operating Budgets for the Defense Business Operations Fund.

g. 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 non-Federal Government customers. Cash advances may also be requested from Federal Government activities when directed, or approved, by the Under Secretary of Defense (Comptroller). Customer orders create a quasi-contractual relationship between a Defense Business Operations Fund activity and its customer.

h. Stabilized Rates and Prices. Defense Business Operations Fund activities operate on a break-even basis over the long term. 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). Rates are required to be established at levels estimated to recover 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. Once established, rates are stabilized (held constant) for the applicable fiscal year. This "stabilized rate" policy serves to protect appropriated fund customers from unforeseen cost changes and thereby enables customers to more accurately plan and budget for DBOF support requirements. In turn, this policy also reduces disruptive fluctuations in planned DBOF work load levels and thereby permits more effective utilization of DBOF resources. Gains or losses in operations may occur as a result of variations in program execution. Realized gains and losses are generally 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. The Defense Business Operations Fund includes a variety of business areas that are categorized into two groups for rate setting purposes.

(1) Supply Management Business Areas. The Supply Management business area uses commodity costs in conjunction with a cost recovery factor (previously termed "surcharge") to establish customer rates.

(2) Non-Supply Management Business Areas. Non-Supply Management business areas use unit cost rates established based on identified output measures.

i. Restrictions on Use of Customer Appropriations. Statutory limitations and restrictions imposed on the appropriated funds of a Defense Business Operations Fund customer are not changed when the customer places an order with the Fund. A Defense Business Operations Fund customer cannot use its appropriated funds to do indirectly, i.e., through placement of an order

with a Defense Business Operations Fund 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 Defense Business Operations Fund. 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.

2. Mobilization Capability. Each DBOF business area 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 business customers through the rates shall be in accordance with policy and procedures contained in the following chapters.

3. Conformance with Policy Issuances. The management and operation of each DBOF Business Area shall comply with financial management guidance and policies issued by the Office of the Under Secretary of Defense (Comptroller) and with requirements and procedures issued by the Defense Finance and Accounting Service. The policies, procedures, and reporting requirements contained within this Volume (Volume 11B) apply to all DBOF business areas unless otherwise specified. Policies, procedures, and reporting requirements contained herein that are unique to individual business areas are identified as such.

B. DEFENSE BUSINESS OPERATIONS FUND CORPORATE BOARD

1. Mission. The mission of the Defense Business Operations Fund Corporate Board is to work collaboratively to develop, review, and recommend Defense Business Operations Fund policies and procedures. As examples, the Board may:

a. Review business areas for inclusion or exclusion in the Defense Business Operations Fund.

b. Evaluate performance of individual business activities or business areas and the impact of that performance on cash, and on operating and capital investment goals.

c. Review and recommend actions to support DBOF management information systems.

2. Composition. The DBOF Corporate Board shall be composed of senior financial and/or functional managers, or their designated representatives. The Chief Financial Officer of the Department of Defense will serve as Chair. The Board members shall consist of one representative or their designated alternate from the following organizations: Joint Chiefs of Staff, Under Secretary of Defense (Acquisition and Technology), Under Secretary of Defense (Personnel and Readiness), Assistant Secretary of Defense (Command, Control, Communications and Intelligence), and Assistant Secretaries for Financial

Management of the Army, Navy and the Air Force. A representative of the Defense Finance and Accounting Service will serve as a special advisor to the Board on matters concerning accounting procedures and supporting financial systems. The Chair may elect to designate permanent observers to the Board from participating Components. Board members may recommend permanent observers for consideration by the Chair. Board members may also invite financial and functional managers, in limited numbers, to provide expertise in addressing specific agenda items. Representatives from other Defense Agencies and federal agencies may be invited to provide representatives to observe Board deliberations and to offer their views as they consider beneficial.

C. AUTHORIZED CUSTOMERS

Customers of a Defense Business Operations Fund 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, State and local governments, and others not officially representing the Federal Government.
4. Those U.S. manufacturers, assemblers, or developers authorized by Section 2208(h) of title 10, United States Code and in accordance with Section 4543 of title 10, United States Code and DoD Directive 4175.1, "Sale of Government-Furnished Equipment or Materiel and Services to U.S. Companies."

D. RESPONSIBILITIES

1. The Under Secretary of Defense (Comptroller) and Chief Financial Officer of the Department of Defense shall:
 - a. Establish DoD policy on DBOF operations.
 - b. Provide oversight on all financial management activities relative to the operations of the DBOF.
 - c. Authorize or approve specific activities to be included in the DBOF and the terms under which such activities shall be operated.
 - d. Rescind the authorization of specific DBOF, activities deemed to no longer meet DBOF 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, and provide guidance to improve the efficiency of Defense Business Operations Fund operations.

2. The Director, Defense Finance and Accounting Service (Directors DFAS) shall:

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

b. Establish procedures ensuring that DBOF 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. Evaluate the operation of DBOF activities to determine compliance with established requirements.

f. Evaluate Defense Business Operations Fund accounting systems for compliance with established requirements.

g. Prepare consolidated accounting reports for the DBOF.

3. The Secretaries of the Military Departments and the Directors of Defense Agencies, or their designees, who have activities financed under the Defense Business Operations Fund shall:

a. Manage DBOF activities within approved funding limitations.

b. Designate a management agency or command to be responsible for effective management of each DBOF activity.

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

d. Provide periodic financial and management information as required by the Under Secretary of Defense (Comptroller) and Chief Financial Officer.

e. Submit applications to authorize new DBOF activities or to rescind the authorization of existing DBOF activities to the Under Secretary of Defense (Comptroller).

4. The Management Agency or Command assigned responsibility for Defense Business Operations Fund activities shall:

a. Budget and provide appropriated funds for the costs of maintaining unutilized plant and facilities being held for mobilization purposes at DBOF activities. 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) (DUSD(L)).

b. Assign responsibility and authority to designated officials for management and operation of DBOF activities.

5. The Management of Each DBOF 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 Under Secretary of Defense (Comptroller).

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

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

6. The Customers of each DBOF Activity shall be responsible for budgeting and budgetary control for the cost of end-products and services ordered from a DBOF activity. The appropriation, apportionment, and funding process provides higher-level control and visibility to the Congress of the cost of material, work, and services ordered by customers of DBOF activities.

E. ACCOUNTING STANDARDS

1. Federal Government Accounting Principles and Standards. The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States ("the Principals") established the Federal Accounting Standards Advisory Board (FASAB) in October 1990 by a memorandum of understanding. The role of FASAB is to deliberate upon and make recommendations to the Principals on accounting principles and standards for the Federal Government and its Executive Branch agencies. The Director of OMB will review each statement of accounting principles, standards, or concepts recommended by the FASAB and decide upon the appropriateness of the statement and its desirability for the Federal Government. If a recommended statement of accounting principles or standards is agreed to by the Director of OMB, the Secretary of the Treasury, and the Comptroller General, the Director of OMB will issue a Statement of Federal Financial Accounting Standards (SFFAS). 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 Chief Financial Officers Act of 1990. Auditors shall consider SFFASs as authoritative references when auditing financial statements. 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.

2. Hierarchy of Accounting Standards. The Federal Accounting Standards Advisory Board, with approval of the General Accounting Office, Office of Management and Budget, and the Treasury, has approved the following hierarchy of accounting standards for use in preparing federal agency financial statements:

a. Individual standards agreed to and published by the Joint Financial Management Improvement Program (JFMIP) principals. (The JFMIP principals are the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General of the United States.)

b. Form and content requirements included in OMB Bulletin 93-02, dated October 22, 1992 and subsequent issuances.

c. Accounting standards contained in agency (i.e., DoD) accounting policy, procedures manuals, and/or related guidance as of March 29, 1991, so long as they are prevalent practices.

d. Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improves the meaningfulness of the financial statements.

3. Interpretation of Statements of Federal Financial Accounting Standards. DoD Components desiring an interpretation of a Federal Government GAAP shall request such interpretation from the Director for Accounting Policy, Office of the Under Secretary of Defense (Comptroller). The Director for Accounting Policy shall respond to that request or, if necessary, forward the interpretation request to the OMB Office of Federal Financial Management. In accordance with OMB Circular A-134, "Financial Accounting Principles and Standards," the OMB may respond to the request in one of two ways--by providing technical assistance or through issuance of an Interpretation of Federal Financial Accounting Standards. An "Interpretation of Federal Financial Accounting Standards" is a document of narrow scope that provides clarifications of original meaning, additional definitions, or other guidance pertaining to an existing Statement of Federal Financial Accounting Standards (SFFAS). In the event OMB decides an Interpretation of Federal Financial Accounting Standards is necessary, OMB Circular A-134 directs OMB to provide written copies of the request to the Comptroller General and the Secretary of the Treasury; examine, as appropriate, applicable literature and consult with knowledgeable persons; draft an Interpretation of Federal Financial Accounting Standards; obtain the consensus of Treasury and the General Accounting Office on the interpretation; and publish the Interpretation of Federal Financial Accounting Standards.

4. Defense Business Operations Fund Accounting System Requirements. The accounting system established for the Defense Business Operations Fund shall employ the accrual basis of accounting, be transaction-based, and use the double-entry method of accounting.

F. BUDGETARY CONTROL STANDARDS

1. Defense Business Operations Fund 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 costs in excess of the amounts necessary to provide goods and services to ordering activities, the accumulation of excess inventories and operating materials and supplies, and the incurring of liabilities in excess of payment capability.

2. Budgetary resources are comprised of:

- a. appropriated or reappropriated amounts becoming available during the year,
- b. the net of any nonexpenditure transfers between Federal Government accounts,
- c. unfilled customer orders, and
- d. unobligated balances brought forward from the previous year.

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.

G. GENERAL LEDGER ACCOUNTS. The DoD Uniform Chart of Accounts are prescribed for use by DBOF activities to record budgetary and proprietary accounting transactions on a double-entry basis. Additional primary accounts may only be added with the written consent of the Office of the Under Secretary of Defense (Comptroller). Subaccounts to the prescribed primary general ledger accounts may be established by the Defense Finance and Accounting Service as needed to satisfy reporting and management information requirements. An illustration of the relationship of budgetary and proprietary transactions is at Addendum 2 to this chapter.

H. AUDITING. Defense Business Operations Fund activities are subject to audit by the audit organizations of the Military Services, by the Inspector General, Department of Defense, and by the General Accounting Office. The frequency and performance of audit performed by 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 Deputy Under Secretary of Defense (Comptroller / Financial Management) and the Deputy Comptroller (Program/Budget), Office of the Under Secretary of Defense (Comptroller).

OBJECTIVES OF THE DEFENSE BUSINESS OPERATIONS FUND

A. The Defense Business Operations Fund is designed to:

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

OBJECTIVES OF THE DEFENSE BUSINESS OPERATIONS FUND, continued

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 Defense Business Operations Fund activities, thus enabling ordering Agencies to plan and budget more confidently.

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.

RELATIONSHIP OF BUDGETARY AND PROPRIETARY TRANSACTIONS

| <u>Transaction</u> | <u>When order is placed</u> | <u>When materials are delivered</u> | <u>When materials are used</u> | <u>When bill is paid</u> |
|--------------------|---------------------------------|---|--|------------------------------|
| | (Obligation) | (Accrued expenditure) | (Cost or (expense) | (Outlay) |

Order for materials is placed. Obligation is recorded as an undelivered order and a decrease to the uncommitted/unobligated budgetary resources

Materials are received or constructively received.

This is recorded in the proprietary accounts as an account payable, and as an increase in the asset accounts. It is recorded in the budgetary accounts as a decrease to undelivered orders and an increase to accrued expenditures unpaid.

TRANSACTION STAGES (continued)

When order
is placed

Transaction

Materials are used or consumed.

When
materials
are delivered

When
materials
are used

Cost is recorded in the proprietary accounts as a decrease in assets and a charge to the applicable expense account or work in process account

When bill
is paid

Payment is made for the materials.

Outlay is recorded in the proprietary accounts as a reduction of accounts payable and a reduction to cash. In the budgetary accounts it is recorded as a decrease to accrued expenditures unpaid and an increase to accrued expenditures paid.