

CHAPTER 61

PROGRESS BILLINGS, REIMBURSEMENTS, AND REVENUE RECOGNITION

A. REIMBURSEMENTS

1. General Information. General information relating to topics discussed in this chapter may be found in Chapter 17, Revenue, Expenses, Gains, and Losses,“ and Chapter 19. “Revenues,“ of Volume 4 of this regulation.

2. Reimbursement Principles. As a general principle, each activity operating under the Defense Working Capital Fund (DWCF) shall be reimbursed for the costs of all goods and services ordered and produced as a result of those orders. DWCF billings and reimbursements from ordering activities for services or goods provided shall be accomplished in the most efficient and expeditious manner available to reduce or eliminate the need for additional DWCF working capital. The nature of the DWCF requires ordering agencies to budget, control, and account for the cost of all goods and services ordered. As a result, a DWCF activity:

- a. Shall bill ordering activities for all costs incurred as a result of an accepted order.
- b. Shall bill order cancellation or reduction costs. When a job order is canceled or reduced in scope after a DWCF activity has commenced work or incurred costs on the order, the costs incurred, plus the applied overhead (that is, indirect and other normally allocated overhead (G&A) costs) plus costs associated with the cancellation or reduction shall be charged to the customer. Examples of directly associated cancellation or reduction costs to be charged to customers are advance planning costs, non creditable direct material, special test equipment, necessary preservation and/or shipment effort, and any additional effort necessitated by the cancellation and/or reduction; for example, salvaging of material. In addition, costs charged to customers should include the costs of salaries payable to employees hired specifically to work on the canceled order until the employees are, or could have been, separated through a reduction in force or other appropriate action (taking into account appropriate administrative lead time), or reassigned to other direct jobs. Costs which are indirectly associated with cancellation or reduction actions shall not be charged to the customer. Although normally allocated G&A costs shall be charged to cancelled or reduced customer orders, underapplied overhead costs that may result in the DWCF activity as a whole from a reduced workload base shall not be charged to the customer cancelling or reducing their order but shall be recorded against the net operating results of the performing DWCF activity.
- c. Shall not enter into any arrangement to ”offset” services received and services furnished.

3. Reimbursement for Contingency Operations and Humanitarian Efforts.

All DWCF business areas, including transportation services provided by the United States Transportation Command (USTRANSCOM), operate on a reimbursement basis with users paying for goods and services provided. Payment for contingency operations, including deployment or other emergency response for military or humanitarian assistance, is no exception: The users ordering the DWCF service must pay the bill, and no orders are to be accepted without funding. The Military Department Headquarters is responsible for determining which level within the Military Department will pay (that is, the unit, major command, or Military Department level). This process also applies when a Unified Combatant Command tasks a Service-funded unit to perform a mission (such as transportation of military personnel or equipment by the USTRANSCOM). The Military Department that controls the equipment or

personnel is responsible for payment of costs incurred to accomplish the mission. The sole exception to this policy occurs when the USTRANSCOM receives an order from the Joint Chiefs of Staff requiring transportation of non U.S. owned equipment and/or non U.S. personnel such as unreimbursed efforts in support of the United Nations. In those instances, the Army will pay Military Traffic Management Command (MTMC) costs, the Navy will pay Military Sealift Command (MSC) costs, and the Air Force will pay Air Mobility Command (AMC) costs. Bills may be centralized for more convenient processing if appropriate; however, billings shall be forwarded to the appropriate Military Department within 30 days from commencement of the contingency operation or humanitarian effort. Payment of these bills, including transportation bills, by the Military Departments must be made in a timely manner. This guidance does not address any contingency operations designated by the Secretary of Defense as a "National Contingency Operation" under the provision of United States Code title 10, Section 127. Special rules apply for such an operation and those rules should be promulgated separately in conjunction with any designation by the Secretary of Defense under the provisions of that section.

4. Reimbursement Bases. Billings to the Department of Defense and other Federal Government customers shall be developed on the basis of either stabilized unit prices (also termed standard prices), or stabilized rates. All other ordering activities; that is, private parties and concerns including those not officially representing the Federal Government; state and local governments; and foreign military sales shall reimburse the DWCF activity for the full costs incurred by the Federal Government. Full costs are determined by application of the stabilized rates or unit prices as those stabilized rates and prices are set to achieve an accumulated operating result of \$-0- in the budget year. DWCF rates and unit prices, once established in the budget process, shall be held stable for the applicable fiscal year, unless changes are specifically approved by the Under Secretary of Defense (Comptroller). Stabilized rates and unit prices shall be established to recover operating expenses estimated to be incurred for the applicable fiscal year and to provide sufficient working capital for the acquisition of fixed assets as approved by the Under Secretary of Defense (Comptroller). (That is, stabilized rates and unit prices shall be established at levels intended to provide for estimated revenues to equal estimated costs plus approved surcharges for the applicable fiscal year for which the rates and unit prices are established.) Stabilized rates and unit prices must be billed to the customer for the work performed. Gains or losses resulting from under or over applied stabilized rates and/or prices shall be carried forward for inclusion in subsequent year stabilized rates and/or prices.

5. Advance Payment Billings. Orders from the public, including State and local governments, must be accompanied by an advance. In addition, on an exception basis, advances may be requested, if directed by the Under Secretary of Defense (Comptroller) or other authorizing official, on orders from DoD and other Federal Government accounts. Revenue billings to customers shall reflect due credit for the advances received.

6. Progress Payment Billings. As a rule, reimbursement for the costs incurred in producing goods and services ordered by customers shall be made on a progress payment basis. Exceptions to the rule include orders that are expected to cost \$25,000 or less or are expected to be completed within 60 days of acceptance. It is important to note the differences among advance payment, progress payment, and revenue billings. Advance payment billings are those made prior to the start of work and incurrence of costs associated with the ordered good or service. Progress billings are those made prior to, or during the start of work but always after the incurrence of costs associated with the ordered good or service. Revenue billings are those made after the start of work but only to the extent that evidence establishes that revenue has been earned. In no case shall an advance payment, progress payment, or revenue billing be processed that would result in the total billed amount exceeding the amount of the order. Billings and collections for progress payments shall be accomplished at least monthly including applicable labor, material, overhead, and surcharges as well as the value of material in inventory that is identified and held in reserve for specific orders, and amounts of work in progress in contractors'

plants and other Government plants that are identified to specific orders. The billings should be made as late as possible in the month so that they shall include the above items to the maximum extent possible and still permit the orderly processing of the collection in the same month. Every effort should be made to reduce the billing and collection lag so that a greater portion of the costs shall be recovered in the same month they are incurred.

7. Revenue Recognition Policy

a. General. Revenue and associated costs must be recognized in the same accounting period. Revenue must be recognized in the same manner (that is, a standard policy for recognizing and reporting revenue must apply) for all activities within a DWCF business area. The amount of revenue recognized cannot exceed the amount specified in the order.

b. Depot Maintenance Business Area Activities. Activities in the Depot Maintenance business areas (includes: Army Ordnance and Other Maintenance Facilities; Navy Shipyards, Aviation Depots, and Ordnance Facilities; Marine Corps Other Maintenance Facilities; and Air Force Aviation Depots) shall recognize revenue using the following policies:

(1) Completed Order Method. The completed order method shall be used for all orders that have an estimated value of less than \$1,000,000, or a planned production cycle of less than 12 months. Under this method, both the revenue earned and the associated costs incurred in completing an order will be recognized when the order is completed. A work-in-process account shall be used to capture and hold costs prior to their recognition as a cost of goods sold.

(2) Percentage of Completion Method. The percentage of completion method shall be used for all orders that have an estimated value of \$1,000,000 or more, and a planned production cycle of 12 months or more. Under this method, the revenue earned on an order will be recognized monthly based on the ratio that the costs incurred to date on that order bear to the total costs estimated to be incurred on the order when it is completed.

c. Transportation Business Area Activities. Activities in the Transportation business area shall recognize revenue based upon receipt of a cargo manifest or the commencement of travel.

d. Supply Management Business Area Activities. Activities in the Supply Management business area shall recognize revenue, and related costs, when an item is dropped from inventory for sale or other revenue generating disposition.

e. Commissary Resale Business Area Activities. Activities in the Commissary Resale business area shall recognize revenue, and related costs, at the point/time of sale, or when an item is otherwise disposed.

f. Distribution Depots Business Area Activities. Activities in the Distribution Depots business area shall recognize revenue, and related costs, based on one of the following events:

<u>Event</u>	<u>Revenue Recognized Upon</u>
Receipt of Items	Receipt of an Item
Issuance of Items	Issuance of an Item
Other Services	Rendering of Service

In the event that a service is rendered, revenue shall be considered earned, and recognized, and associated costs shall be reported, at the time that the service is rendered/performed, but not less frequently than monthly.

g. Navy Research and Development Business Area Activities. Activities in the Navy Research and Development business area shall use the following revenue recognition policy:

(1) For end-item production orders:

(a) Completed Order Method for all orders that have an estimated value of less than \$1,000,000, or a planned production cycle of less than 12 months. Under this method, both the revenue earned and the associated costs incurred in completing an order will be recognized when the order is completed. A work-in-process account shall be used to capture and hold such costs prior to their recognition as a cost of goods sold.

(b) Percentage of Completion Method for all orders that have an estimated value of \$1,000,000 or more, and a planned production cycle of 12 months or more. Under this method, the revenue earned on an order will be recognized monthly based on the ratio that the costs incurred to date on that order bear to the total costs estimated to be incurred on the order.

(2) For Service orders (all orders other than those for end-item production orders):

(a) Service-type revenue recognition method shall be used for all service orders (orders other than those involving the production of end-items). Under this method, revenue shall be considered earned, and recognized, and the associated costs reported, at the time that the service is rendered/performed, but no less frequently than monthly. Thus, service type orders shall be considered as rendered/completed, and revenue and costs recognized, at least monthly.

h. Other Business Area Activities. Activities in all other business areas (includes Financial Operations, Base Support, Information Services, Industrial Plant Equipment, Reutilization & Marketing, Technical Information, Logistics Support Activities and Printing & Publications) not discussed in paragraphs A.6.b. through A.6.g. above shall use the service-type revenue recognition policy. Under this method, revenue shall be considered earned, and recognized, and the associated costs reported, at the time that the service is rendered/performed, but not less frequently than monthly. Thus, service type orders shall be considered as rendered/completed, and revenue and costs recognized, at least monthly.

8. Revenue Billings. The customer funding an order shall be billed for the revenue recognized, or when advance payments or progress payments have been previously billed, those advance or progress payments shall be relieved to the appropriate revenue account. Revenue to be recognized under the percentage of completion method should not be measured by progress billings as progress billings are intended to reimburse costs incurred and, as such, are not intended to measure the order's percentage of completion. In no case shall the total amount of revenue recognized and billed exceed the amount of the order.

9. Types of Orders. There are two general classifications of orders -- Service type and End-Item type.

a. Service Type Orders. The following are description of applicable projects and work that should be classified as service type orders:

(1) Research and Development. Includes the conduct and support of research and development, including basic research, theoretical studies, scientific experiments, applied research, feasibility studies, systems engineering, design studies, weapon systems analysis and

operations research, developmental engineering (including developmental engineering in connection with procurement, production and modification) and fabrication of experimental models and prototypes. Does not include production of items for service testing or engineer-user testing. These latter examples are end-product type orders.

(2) Transportation Services. Includes traffic management and transportation (air, land, and sea) services. Also include operation of ports, port facilities and related sub-installations, including holding and reconsignment points engaged in cargo and passenger transshipment activities. Also includes the operation of docks, piers, terminals or similar facilities, and wharfage, ferrying, lighterage and stevedoring.

(3) Communication and Information Services. Includes communication services and data processing services (other than financial services and technical information) rendered.

(4) Financial Operations. Includes provision of finance and accounting procedures, systems and operations by the Defense Finance and Accounting Service.

(5) Technical Information. Includes central collection and dissemination for DoD technology base information. Includes provision of access to, and transfer of, scientific and technical information. Also includes provision of computer modeling, data services, and response to requests for solutions to technological problems of the Military Departments.

(6) Printing Services. Includes revenues of activities whose primary mission is printing and reproduction services as well as printing performed by other activities for tenants, satellites or other off-post activities.

(7) Distribution Depots. Includes management and procurement of designated national stock numbers for all DoD customers.

(8) Supply Operations. Includes receipt, reclamation, storage, and issue of consumables and repairable items.

(9) Contract Management. Includes expediting the products and services delivered by industry, assuring that the specifications of the contract are met and paying contractor invoices for these items. Also includes surveillance of contractor operations to assure compliance with contractual requirements and determining the effectiveness of contractor quality control systems and inspection procedures, and officially accepting materiel on behalf of the Government after certifying its conformance to contract provisions. Also includes provision of on-site assistance to program managers, such as representation and participation in meetings and informal program/contract reviews.

(10) Base Support. Includes facilities maintenance, family housing services, other housekeeping services, and administrative functions, provided to tenants and others. Also includes provision of utility services (steam, electricity, water, sewage disposal, and gas).

(11) Engineering Services. Includes provision of technical and engineering assistance in matters relating to various weapon systems and industrial plant equipment and associate system when they do not relate to research and development projects. Also includes repair service and quality evaluation; that is, inspecting, calibrating, testing, evaluating, trimming and re-engineering of items.

(12) Support of Reserve (Under and Unutilized) Capacity. Includes maintenance of unutilized capacity and support of underutilized capacity.

(13) Commissary Services. Includes operation of Defense commissaries. Also includes provision of troop issue subsistence and programming of the replacement of War Reserve Material rotation rations.

(14) Reutilization and Marketing Service. Includes the reuse of excess and surplus property within the government and other authorized agencies, donation to local governments, and the sale of the remaining property to the public on a competitive basis.

(15) Other Services. Includes services not otherwise classified.

b. End-Product Type Orders. The following are description of applicable projects and work that should be classified as end-product type orders:

(1) Overhaul and Repair. Overhaul or a complete rebuilding of parts, assemblies, subassemblies, and end items.

(2) Manufacture and Assembly. Includes furnishing customers with new end-items and components, manufacture of prototypes or items furnished to the customer for test.

(3) Ordnance. Includes the receipt, segregation, demilitarization, storage, assembly/disassembly, test, maintenance, and issue or shipment of ammunition, ordnance, and weapons.

(4) Construction and Conversion. Includes construction and conversion of property and equipment.

(5) Alteration and Modification. Includes alteration and modification of property and equipment.

(6) Other Products. Includes products not otherwise classified such as the production of research and development items for service testing or engineer-user testing.

B. ACCOUNTING ENTRIES

1. General. Accounting entries which may help to illustrate and further explain the preceding concepts follow. The accounting entries illustrate the general entries required when the reimbursable program is automatically apportioned. Essentially the same entries are required when the reimbursable program is specifically apportioned., but using accounts designated for that purpose.

2. Acceptance of Customer Order

a. Without Advance Payment

Dr 4581 Automatic Reimbursement Program
Dr 4231 Unfilled Customer Orders - Without Advance -
Automatic Apportionment
Cr 4221 Customer Orders Accepted - Automatic Apportionment
Cr 4614 Uncommitted/Unobligated Allotments -Reimbursable
Program - Current Period

Entry to record acceptance of a customer order not accompanied by an advance payment.

b. With Advance Payment

Dr 4581 Automatic Reimbursement Program
Dr 4233 Unfilled Customer Orders - With Advance -Automatic
Apportionment
Cr 4221 Customer Orders Accepted - Automatic Apportionment
Cr 4614 Uncommitted/Unobligated Allotments - Reimbursable
Program - Current Period

Dr 1011.1 Funds Collected - Operating - DWCF
Cr 2312 Unearned Revenue - Advances from the Public

Entry to record acceptance of a customer order accompanied by an
advance payment.

3. Progress Billing to Customers

Dr 4251 Reimbursements Earned - Uncollected - Automatic
Apportionment
Cr 4231 Unfilled Customer Orders - Automatic Apportionment
Dr 1311 Accounts Receivable - Government - Current
Cr 2994 Progress Billings to Others

Progress billing to a customer prior to completion of the customer order.

Dr 4253 Reimbursements Earned - Collected - Automatic Apportionment
Cr 4251 Reimbursements Earned - Uncollected - Automatic
Apportionment

Dr 1011 Funds Collected
Cr 1311 Accounts Receivable - Government - Current

Progress billing collected from a customer.

4. Revenue Recognition - Percentage of Completion

Dr 4251 Reimbursements Earned - Uncollected - Automatic
Apportionment
Cr 4231 Unfilled Customer Orders - Automatic Apportionment

Dr 6500 Cost of Goods Sold
Dr 1311 Accounts Receivable - Government - Current
Dr 2994 Progress Billings to Others (See NOTE 1/)
Dr 2312 Unearned Revenue - Advances from the Public (See NOTE 2/)

Cr 1581 Work In Process - In-House
Cr 1582 Work in Process - Contractor
Cr 5100 and/or 5200 Revenue

Entry to recognize revenue prior to completion of work on customer order.

NOTE 1/: Revenue to be recognized under the percentage of completion method should not be measured by progress billings. However, the amount, if any, of previous progress billings shall be reduced by the amount of revenue recognized. There may be a balance remaining in account 2994, "Progress Billings to Others," as the progress billing may include all or a portion of items such as material and subcontract costs. The remaining amount, to the extent that it does not exceed the amount of the reimbursable order, shall be recognized as applicable in subsequent revenue billings.

NOTE 2/: Advances received from Federal Government customers prior to cost incurrence or work completion are recorded in account 2311, "Unearned Revenue - Advances from Government Agencies and Funds." Advances received from non Federal Government customers, including State and local governments, prior to cost incurrence or work completion are recorded in account 2312, "Unearned Revenue - Advances from the Public." As revenue is recognized, the applicable "Unearned Revenue" account is adjusted in a corresponding amount.

5. Reimbursement Received for Work on Customer Orders

Dr 4253 Reimbursements Earned - Collected - Automatic Apportionment
Cr 4251 Reimbursements Earned - Uncollected - Automatic Apportionment

Dr 1011 Funds Collected
Cr 1311 Accounts Receivable - Government - Current

Entry to record reimbursement for work on customer order. This entry is appropriate for both periodic recognitions of revenue under the percentage of completion method and for completed work.

C. REQUIREMENTS OF ORDERS FOR WORK TO BE PERFORMED

1. DoD Components (or any activity thereof) ordering work or services from a DWCF financed activity shall use a project

order whenever such an order may be issued under the requirements of DoD Instruction 7220.1, "Regulations Governing the Use of Project Orders." When orders for work or services cannot qualify as project orders, they may not be so designated. Examples of orders that do not qualify as project orders are printing requests, orders for transportation of personnel and material, utility services, and other service orders -- including orders covering the cost of maintaining unutilized and underutilized plant and equipment. An order, when accepted by the performing activity, shall be obligated by the issuer of that order at that time. Any order for recurring services or for any object that may not be obligated by the ordering agency beyond the end of the current fiscal year shall be limited to the cost of performance within that fiscal year.

2. Each project order or other order accepted by a DWCF activity shall state specifically the basis of reimbursement to the DWCF for the cost of work or services ordered, as between fixed price or cost reimbursement. The terms and conditions for pricing orders set forth in DoD Instruction 7220.1 shall apply to all project orders accepted by a DWCF activity. Policy applicable to reimbursements from other than Federal Government accounts is contained in Part A, chapter 21, "Reimbursements," of this volume. All orders accepted by a DWCF activity shall be in writing; for a purpose authorized by law; executed before cancellation of the issuing appropriation; and must call for specific goods, real property, work, or services. Orders placed

with a DWCF activity shall not be subject to accounting and reporting requirements similar to those applicable to allotments.

3. As a general rule, no work or service should be performed by a DWCF activity except on the basis of reimbursable orders received and accepted that constitute obligations of Federal Government ordering activities or advances from non Federal Government entities. Work for customers may begin in advance of receipt and acceptance of a formal order under two circumstances. They are as follows:

a. Letter of Intent Orders. When it is desirable, in the interest of economical operations, to incur limited costs in advance of the receipt of a regular order for an authorized program for which customer funds are available, such work or services may be undertaken on the basis of a letter of intent. This letter constitutes an obligation of the ordering activity in a stated amount sufficient to cover the advance costs that may be incurred.

b. Commanding Officer's Orders. When it is necessary to begin work of an emergency nature prior to the receipt of an order, a commanding officer's order or similar order may be issued by the commander of the DWCF activity subject to the following conditions:

(1) The DWCF activity must have written assurance that an order shall be issued promptly or shall have equivalent documented communication. The use of such orders should be limited to situations in which there are bona fide emergencies arising from unforeseen

urgent requirements. A commanding officer's order must not be used as a normal procedure to circumvent administrative leadtimes that should be considered in advance planning.

(2) A commanding officer's order shall expire within 30 days from the date of issuance.

(3) A commanding officer's order shall be issued on a local form and shall be approved and signed by the commanding officer or an authorized representative.

4. Each DWCF activity shall record promptly all orders accepted and shall account continuously for the status of all orders in terms of deliveries, billings, and unfilled balances, so as to provide a basis for scheduling production or operations, determining backlogs of work and the need for additional orders or reduced activity, preparing operating budgets and forecasts, and informing customers promptly concerning changes in delivery schedules.

D. PRICING FOR SOFTWARE SERVICES

1. General. Central design activities (CDAs) and their customers should, through negotiation, define specific near-term tasks, identify deliverables, and fix the price for each negotiated task. Full requirements may not be known early in the system design and development phases. The nature of requirements refinement could discourage use of firm fixed price agreements for software development until detailed system design specifications are approved by the functional customer. To help balance financial risk between CDAs and their customers, a range of pricing strategies are available to provide CDAs and their customers the flexibility needed to deal with variations in project size and complexity.

2. Pricing Strategies. The following pricing strategies are available for use:

a. Time and Materials. These are support agreements based on fixed rates for fully loaded billable direct labor hours, and material at cost (supported by time and cost reporting project control and accounting systems). Under this approach, CDAs base their estimates on

available data. Then, they track variations to the estimates and review them to track variations to the estimates and review them to determine causes. Analysis enables estimate revisions, risk assessment, and initiation of corrective action. This type of agreement is appropriate for a development service such as application proto-typing, where accurate resource predictions are not possible. Once the CDA understands the target environment and associated risk areas, the pricing strategy will be either Firm Fixed Price for Increments of a Development effort or Firm Fixed Price for a Single Increment.

b. Firm Fixed Price Level of Effort. These agreements obligate a CDA to devote a specified number of support hours (fully loaded billable direct labor hours) over a stated time period for a fixed dollar amount. This type of agreement is appropriate for software maintenance support during the operations and support phase of an automated information system's (AIS) life cycle, where affordability is a major concern. This pricing strategy should not be used during the development or production and deployment phases of an AIS's life cycle. During these phases, the preferred pricing strategy is fixed price for increments of a development effort.

c. Firm Fixed Price for Increments of a Development Effort. With incrementally-priced development agreements, a CDA works with the customer to define specific near-term tasks, identify deliverables, and fix the price for each agreed upon task or increment. For example, a CDA could limit the fixed price proposal for a new project or major modification to perform systems studies and develop a statement of requirements. Once the project progresses beyond this stage, the CDA continues to limit proposals to near-term (e.g., 6-month period) project deliverables. Under this approach, a CDA provides customers with estimates of total project costs for budget purposes. Depending on the level of detail used to develop the estimate, the CDA distinguishes for the customer between rough order of magnitude estimates, estimates suitable for budgeting, and detailed estimates. A CDA has the latitude to renegotiate agreements if customer requirements change. To balance financial risk for development programs, a CDA should develop means to assist customers in managing to fixed prices on increments of a project, resisting the temptation to estimate a substantial portion of the production requirement before the start of, or very early in, full-scale development.

d. Firm Fixed Price for a Single Increment. These agreements provide the customer a firm fixed price for completion of a total project, as a single increment. This type of agreement is appropriate for projects where customer requirements are well understood, easily defined, supported by precedent, and the detailed design specifications are approved by the customer. In these instances, risk to the CDA is lowest, and the customer should be able to obtain a firm fixed price for completion of even large projects at the beginning of the development effort.

E. BILLING, COLLECTION AND ACCOUNTING FOR SALES OF MATERIEL FROM SUPPLY SYSTEM STOCK

1. Scope. The automated billing system described in this chapter (commonly referred to as the "Interfund Billing System," normally encompasses all supply system sales and purchases of materiel, including perishable subsistence, bulk petroleum, oil, lubricants and into-plane aviation fuels issues.

2. Exceptions

a. The Interfund Billing System is not mandatory for Military Assistance Grant Aid sales and where only limited materiel sales occur between DoD Activities. In these cases, it may be more expedient to process billings through use of Standard Form 1080, "Voucher for Transfer Between Appropriations and/or Funds," or other approved billing documents than to utilize the Interfund Billing System.

b. The Interfund Billing System does not apply to sales made to other Federal Government Agencies, State and local governments, nonappropriated fund activities, individuals and commercial firms. Such issues will be billed and collected by “check issue“ procedures.

c. The provisions of this section do not cover sales of major end items such as complete aircraft, ships, tanks, space vehicles and missiles, certain General Services Administration (GSA) stock fund sales and orders handled by Military Interdepartmental Purchase Requests (MIPRs) except for certain MIPRs issued to GSA as outlined in paragraph D.14. below.

3. Policy. Operating procedures, including the standard mechanized instructions and formats, to bill, collect and account for sale of materiel from supply system stock are contained in DoD Manual 4000.25-7M, “Military Standard Billing System (MILSBILLS).“

4. Billing, Collection and Accounting Policies for DoD Sales

a. Reimbursable sales will be billed based upon the drop from inventory date pursuant to requisition edit (to determine supply availability) by a supply activity, except that billings for sales of:

(1) Perishable subsistence, foreign military sales, and Military Assistance Grant Aid shipments will be based on constructive delivery.

(2) Bulk petroleum, oil, and lubricants (POL) will be based on receipt documentation provided that the documentation is received by the billing office within 15 days of the date of delivery. Otherwise, billing will be based on the quantity discharged from tankers or the quantity issued from inventory for delivery by other modes of shipment.

b. The accounting and finance officer servicing the supplying activity will effect automatic collection for sales of Supply Management Business Area materiel, including loss allowances and returns, and appropriation financed materiel from funds of the ordering activity. In all instances, Supply Management Business Area sales shall be billed separately from sales of appropriation financed materiel.

5. Principles of the Interfund Billing System

a. The billing office will credit the appropriation or fund of the selling activity that owns the materiel and/or finances the accessorial charges and charge the appropriations/funds of the purchasing activity.

b. The billed offices will record the disbursements for charges billed in the month in which the bills are received. Billed offices must match line items billed to line items ordered by requisition number. When the charge is determined to be invalid by the billed office, it will be entered in a suspense account as stated in paragraph D.10. below. Billed offices will exert every effort to charge the correct account initially so that transactions entered in the suspense accounts will be held to a minimum.

c. Billing offices will report the amounts collected (credits) and amounts of charges made to the ordering activities’ appropriations/funds as evidenced in the summary billing cards to their central accounts offices, as listed in Chapter 2 of DoD Manual 4000.25-7M, “Military Standard Billing System (MILSBILLS).“ The central accounts offices serving the selling activities will report the charges by appropriation/fund to the central accounts offices serving the purchasing activities. The central accounts offices serving the purchasing activities shall use

those reports of charges by appropriations/funds to monitor field activities to ensure that all charges have been recorded as disbursements or otherwise properly accounted for.

d. Interfund Billing System transactions will be reported separately from the regular accounts of the accounting and finance offices (see paragraph D.12.b.).

6. Preparation of Bills. Bills will be prepared at least monthly and may be prepared more frequently when the amounts involved are significant or more frequent billing is necessary to maintain an adequate cash balance. The last monthly bill will be forwarded by the fifth workday of the following month. Collections for all interfund billings processed under these procedures will be credited to the accounts of the billing activity in the month the bills are prepared.

7. Cancellation of Confirmed Requisitions. In those instances that a customer orders a special program requirement item (items required to support special programs or projects of a non repetitive nature) and subsequently cancels the order, the customer shall be billed for, as applicable (If billing is not accomplished within 90 days after cancellation of the requisition, the customer will be advised of potential or estimated charges):

a. The ordered special program requirement, at inventory standard prices, when a procurement order was processed which will result in receipt of materiel "in-excess" of the authorized acquisition objective through the end of the budget year.

b. Contract termination costs when a procurement order was processed which can be economically cancelled.

8. Billing for Direct Deliveries of Materiel from Contractors in Lieu of Shipments from Stock. When an inventory manager is out of stock; does not carry an item; or otherwise requests direct delivery of materiel from a vendor; the sale will be recorded and billed based on (a) notification of receipt of materiel by the customer, (b) notification of shipment by the vendor, or (c) payment to the vendor, whichever occurs first. However, for bulk POL sales (b) and (c) will not apply if the notification of receipt of materiel by the customer is received by the billing office within 15 days of the date of delivery.

9. Billing Adjustments/Allowances

a. In the interest of economy, an ordering activity or consignee will only request the billing office to grant adjustments/allowances under the criteria described below. Losses or gains will be absorbed by the ordering activity:

(1) Between DoD Activities. When the value is less than \$100 per line item.

(2) Between DoD and Other Than DoD Activities. When the value is \$25 or less per line item.

b. In accordance with the above criteria, billing offices will determine whether the request should be granted or denied and advise the ordering activity (customer). Billing offices will reply to customer requests as promptly as possible, but not later than 60 days after receipt of the request for adjustment. This reply is advisory and will not be recorded in the accounting records of the billed office.

c. Customers may forward a followup request if a reply has not been received within 60 days after initial request for adjustment/allowance.

d. Billing offices will grant credit for each approved adjustment and include these in the next billing along with other charges and credits.

e. Instructions to process billing adjustment requests and responses are in Chapter 7 of DoD Manual 4000.25-7M, "Military Standard Billing System (MILSBILLS)."

10. Accounting and Reporting for Transactions in the Suspense Account F3885, "Undistributed Intragovernmental Payments"

a. Suspense account F3885 has been established by the Treasury Department to provide billed offices with an account symbol for recording charges subject to adjustment (other than shipping adjustments) or considered to be improper pending correct classification of the transaction. Amounts recorded in that account will be included in disbursements reported to the Treasury Department on "Statement of Interfund Transactions," DD Form 1400, or, in lieu thereof, on an approved automated listing.

b. Transactions which clear the suspense account by recording the charges to the correct appropriation or fund will be processed outside disbursing channels. These transactions will also be reported to the Treasury Department on "Statement of Interfund Transactions" (see paragraph D.12. below).

c. Each DoD Component will ensure that only transactions which cannot be charged against correct appropriations/funds or correctly classified are recorded in suspense account F3885 and only after unmatched transactions are reviewed and every effort is taken to properly reconcile the charge. When prices, items, or quantities billed are different from the prices, items, or quantities requisitioned, the billed office will check with the ordering activity or consignee to see if substitute items or quantities have been supplied. (The supplying activity is responsible for advising of item substitutions or changes. See paragraph D.13.c. below.)

d. Each DoD Component will establish procedures governing the submission of full and timely reports to their central accounts office of transactions entered in the suspense account. These procedures will provide for maintenance of appropriate summary controls over these transactions. Balances in these accounts will be cleared as of September 30, each year. The offsetting charges will be applied to the purchasing appropriations/funds on an estimated basis. This action will be treated as a fiscal year-end adjustment which will be reversed on October 1 of the subsequent fiscal year.

11. Maintenance of Billing Files. DoD Component billing offices will maintain history files for 3 years after the billing month for sales within the Department of Defense, General Services Administration, and to other Government Agencies, and for billings supporting Foreign Military Sales.

12. Treasury Reporting

a. The billed office will summarize the reimbursements and disbursements processed under the Interfund Billing System, including transactions processed through the suspense accounts, and furnish them to the office which prepares the Statements of Transactions and Accountability reports.

b. Central accounts offices will submit to the Office of Secretary of Defense and the Treasury Department a monthly DD Form 1400, "Statement of Interfund Transactions", or approved automated listing, for appropriation financed materiel and Supply Management Business Area materiel to reflect credits to the selling appropriation or fund and/or debits to the buying appropriation or fund.

13. Recording of Obligations by DoD Ordering Activities

- a. The requisitioning activity will enter the fund code (see DoD Manual 4000.25-1-M, "Military Standard Requisitioning and Issue Procedures (MILSTRIP)" to be charged on the requisition.
- b. The supplying activities will advise of item substitutions or changes in prices and quantities immediately after the requisition edit to determine supply availability provided proper "M&S" codes are stated in the requisition (DoD Manual 4000.25-1-M, "Military Standard Requisitioning and Issue Procedures (MILSTRIP)", and forward a priced copy of the shipping document with the shipment.
- c. The requisitioning activity is responsible for administrative control of funds for obligations incurred. To preclude overobligation of funds, the ordering activity will review price and quantity changes and substitution notices received and notify its billing office. Where change of prices, quantities or substitutions would result in an apparent/potential overobligation status, the ordering activity should advise the supply activity billing office of requisitioned items to be canceled or adjusted to avoid an overobligation.
- d. In cases where the ordering activity has not received quantity change or substitution notices in sufficient time to cancel or adjust the quantity to be shipped, the ordering activity will record in its records those items or quantities for which funds are available. The balance will be recorded in the suspense account until resolved. Resolution may include disposition of materiel arranged by mutual agreement between the ordering activity and the supplying activity. Billing adjustments will be recorded as appropriate.
- e. Errors in billings which result in incorrect charges to appropriations or funds causing apparent overobligations or over expenditures shall not be considered violations of the Anti-Deficiency Act. These errors will be corrected as soon as possible.

14. Billing, Collection and Accounting for GSA Sales Simplified Intra-Governmental Billings and Collection System (SIBAC)

- a. Billing and collection for sales of General Services Administration (GSA) materiel from stock or direct delivery, including accessorial or administrative costs for overseas supply support to DoD Components will generally conform with policies contained in this section and supplemented by procedures in DoD Manual 4000.25-7-M, "Military Standard Billing System (MILSBILLS)." Procedures for preparation and distribution of the monthly Statement of Intra-Governmental Transaction by GSA are contained in Chapter 2, DoD Manual 4000.25-7-M. Sales of fuel (Washington, D.C. area), self-service stores, Federal specifications and consolidated purchases of automobiles, refrigerators, etc., will be billed and paid in accordance with Chapter 3, DoD Manual 4000.25-7-M.
- b. GSA billings are rendered only after there is evidence of actual delivery of materiel or receipt of evidence of shipment.
- c. A DoD Component ordering materiel by a Military Interdepartmental Purchase Request (MIPR), may request direct citation of its funds on contracts awarded by GSA for direct delivery by the contractor. In this instance, the contractor will bill the ordering DoD activity directly. As an alternative, when the ordering activity uses MIPRs, it may establish a separate MILSTRIP billing address in accordance with DoD Manual 4000.25-1-M. If one of these alternatives is not used, MIPRs will be consolidated with interfund billings.