



OFFICE OF THE UNDER SECRETARY OF DEFENSE
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MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Cash Management Policy for the Defense Working Capital Fund Activities
(FPM21- 03)

This memorandum along with its attachment revises policy in the DoD Financial Management Regulation (FMR) Volume 2B, Chapter 9, "Defense Working Capital Fund (DWCF) Budget Justification Analysis," paragraph 090103, Cash Management Policy. In conducting operations and preparing program and budget review submissions, DWCF Activities have been applying principles reflected in the attachment for several years. This codifies the guidance into formal policy for incorporation into the next update of Chapter 9.

DoD Components must budget and manage cash requirements at the activity group level based on business events, trends, activities, and risks relevant to its operations rather than by days of operating cash. The cash requirement will be developed based on four primary elements: rate of disbursements; range of operations; risk mitigation; and sufficiency of reserves.

The policy update also establishes as permissible the following cash management techniques and actions:

- Negotiating the timing of customer order receipt, completion, and collections;
- Controlling the timing of delivered goods/services, and the related disbursements; and
- Requesting policy waivers when necessary

Cash management is an essential component of strong financial management and fiscal stewardship for DWCF Activities. DoD Components must establish processes and internal controls to ensure budgeting and execution of operations consistent with this policy. Michael Versace is my point of contact for this subject. He can be reached at (703) 695-8542 or michael.c.versace.civ@mail.mil.

Anne J. McAndrew
Deputy Comptroller (Program/Budget)

Attachment:
As stated

090103. **Cash Management Policy.** These policy statements are to be used for preparing the program and budget review submission.

A. Cash Management

1. The Components will maintain a positive, daily cash balance at levels exceeding the minimum necessary to meet operating, capital investment, and other justified requirements throughout the year and to support continuing requirements into the subsequent year. Cash generated from operations is the primary means of maintaining adequate cash levels. The ability to maintain sufficient, appropriate cash levels is dependent on setting rates to recover full costs to include prior year losses; projecting workload accurately; and meeting established operational goals.

2. Each DoD Component is responsible for managing its cash in compliance with applicable laws and guidelines. Cash management and accountability are integral parts of operational and cost management, are required at each subordinate DWCF sub-account, organization, and activity, since most cash transactions occur and cash is most effectively controlled at these levels. Decentralizing cash management to subordinate DWCF activities provides the DoD Components with additional control, because each level of management becomes an accountable participant in the execution of the cash plan or policy.

3. In addition to proper rate setting, cash managers at all levels should employ the management tools available to control cash flows and cash balances to the full extent possible. These cash management tools include, but are not limited to:

- a. Negotiating the timing of customer order receipt, completion, and the related collections;
- b. Controlling the timing of delivered goods/services from the supplier/service provider and the related disbursements;
- c. Requesting policy waivers from the Revolving Funds Directorate when necessary, for example: an approval for an out-of-cycle rate adjustment, or non-recoverable costs to maintain/reduce cash.

4. The DoD Components and cash managers at all levels should consider the following when determining appropriate levels of cash to budget and maintain.

- a. Effective cash management is dependent on the availability of accurate and timely data on cash activity, demand planning, rate setting, and operational results.
- b. Activities must budget to achieve an operating cash level that will maintain a positive cash balance throughout the year, and an adequate ending balance to support continuing operations into the subsequent year. In determining required cash levels, activities should document average disbursements and the expected range of cash balances, adjusted to

accommodate seasonality, known changes in the business environment, and the inherent risk associated with estimation error and unplanned events outside management's control.

c. Each DoD Component and subordinate activity, command, or business line shall establish a cash requirement based on business events, trends, activities, and risks relevant to its operations. The cash requirement will be developed based on four primary elements: 1) the rate of disbursements, 2) the range of operations, 3) risk mitigation, and 4) reserves. The amount of cash needed for each of the four cash requirement elements will be determined by the DoD Component and presented in the exhibit, Fund-13b, Cash Requirements, which will be reviewed and approved by the OUSD(C) during the Program/Budget Review (PBR). The four cash requirement elements are explained further in the instructions to the Fund-13b and also in the following four paragraphs.

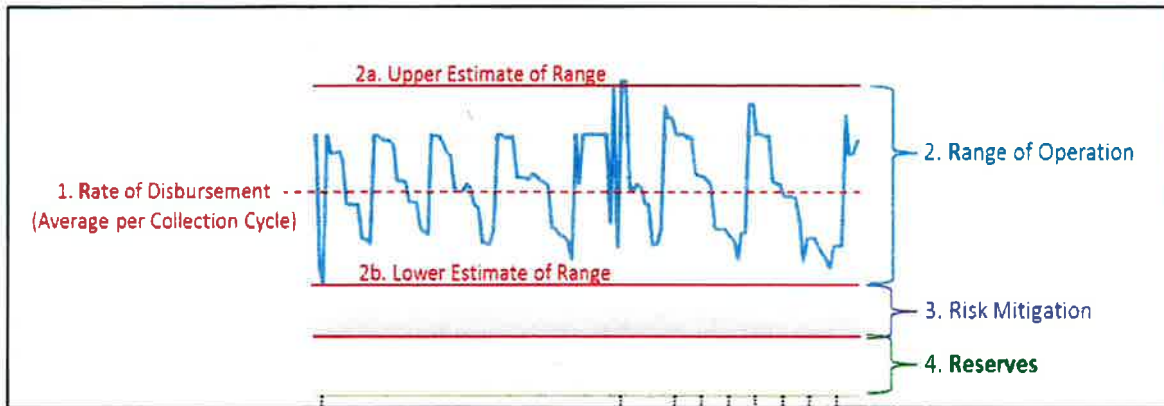
d. **Rate of Disbursement.** The rate of disbursement is the average amount disbursed between collection cycles. It is calculated by dividing the total amount of disbursements planned for the year by the number of collection cycles planned for the year. The rate describes the average amount of cash needed to cover disbursements from one collection cycle to the next. Changing the number of collection cycles can influence the amount of cash needed to cover the volatility created by cyclical collections.

e. **Range of Operations.** The range of operations is the difference between the highest and lowest expected cash level based on budget assumptions and past experience. Cash balances are not static and volatility can be expected due to annual, quarterly, and more frequent seasonal trends and significant one-time events. Historical trends should be normalized for such factors as AOR return/recovery, capital investments, the amount of work, and changes in operations, and used to estimate future fluctuations in cash flows and balances. Studying the causes of cash volatility enables the development of strategies for reducing the range of operation and the amount of cash required for normal operations.

f. **Risk Mitigation.** Some amount of cash is required, beyond the range of operation, to mitigate the inherent risk of unplanned and uncontrollable events. Examples of these risks are budget estimation error, commodity price fluctuation, and other contingency or response missions. The amount of cash held for risk mitigation will depend on the activity's sensitivity to anticipated types of risk, the effectiveness of other cash management and risk mitigation tools, and management's level of risk tolerance.

g. **Reserves.** Cash reserves are funds held for known future requirements. This element identifies cash on hand that must be kept for specific requirements that are not expected to disburse until subsequent fiscal years. Examples of reserve requirements include return of AOR, advances, liquidation of direct appropriations, liquidation of unpaid obligations, and planned capital investments. Since reserves are only for specific known requirements, they may not be needed every year.

h. The following figure depicts how the four elements (rate, range, risk mitigation, and reserves) come together to build the complete cash requirement.



i. Components will develop monthly phased cash plans, incorporating collections, disbursements, appropriations, and other cash transactions based on Component estimates, to facilitate the cash management process. The plans will be initially developed during the budget process and will be an integral part of the budget document (Fund-13).

j. Components will monitor and control to the extent possible execution of collections and disbursements to ensure a positive cash balance is maintained throughout the year. Components will also monitor execution against monthly phased plans to increase management attention on reducing costs, emphasizing timely billing, collecting revenue, and disbursing. Components should consider leveraging the aforementioned available cash management tools when cash execution is trending below/above plan for more than three consecutive months of execution.

k. Components must be able to reconcile and explain variances between cash balances and AOR. In addition to explaining variances based on operations, components must also explain non-operational events (e.g., transfers or capital outlays in excess of Capital Investment Recovery (CIR)) that affect cash but not revenues and expenses. Components will present a reconciliation of cash and NOR in exhibit Fund-13c, Summary of Cash Flows, which displays categories of transactions and activities that generate or consume cash

5. Transfers of cash between DWCF activities, whether directed internally by the Components or as the result of audit, Departmental guidance, or Congressional direction, will be included in all the affected activities' budgets (Fund-13). Transfers between DoD Component working capital funds (e.g., Army to Air Force) or between the DWCF and appropriation-funded activities require Congressional approval.

6. Advance Billing.

a. The term "advance billing" means a billing of a customer by the fund, or a requirement for a customer to reimburse or otherwise credit the fund, for the cost of goods or services provided (or for other expenses incurred) on behalf of the customer that is rendered or imposed before the customer receives the goods or before the services have been

performed. The term “customer” means a requisitioning component or agency.

b. Except as provided in paragraph f, the total amount of advance billings for all DWCFs for a fiscal year may not exceed the amount specified in section 2208(l) of Title 10, U.S.C., currently \$1,000,000,000.

c. Components may use advance billing of customers as a cash mitigation strategy. The OUSD(C) or Military Department, as applicable, shall submit written notification to Congress within 30 days after the end of the month in which the advance billing is made. Military Departments must provide the OUSD(C) P/B Revolving Funds Directorate copies of all advance billing notification letters provided to Congress. Defense Agencies will submit their requests to the OUSD(C) P/B Revolving Funds Directorate, who will notify Congress on their behalf.

d. Advance billing requires authorization within the activity’s Annual Operating Budget (AOB). Components will request this authority and, if approved, it will be added to their AOB.

e. Advance payments received from non-federal entities are not subject to section 2208(l) advance billing limitations, and are required by paragraph 110103.A of DoD FMR Volume 11B, Chapter 11, “Reimbursements and Revenue Recognition.” The billing of customers by Supply Management Activities upon shipment rather than delivery also is not subject to section 2208(l) advance billing limitations.

f. Section 2208(l)(4) of Title 10, U.S.C., provides that advance billing for background investigations and related services performed by the Defense Counterintelligence and Security Agency is not subject to section 2208’s congressional notification requirements and dollar limitations.