COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
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July 2, 2020

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

SUBJECT: Reporting Department of Defense Deposit Fund Liabilities (FPM 20-10)

References: (a) U.S. Department of the Treasury, Treasury Financial Manual Supplement, "Federal Account Symbols and Titles (FAST) Book," September 2019
(b) Office of Management and Budget Circular A-11, "Preparation, Submission, and Execution of the Budget," December 18, 2019
(c) Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards (SFFAS) 1, "Accounting for Selected Assets and Liabilities," as amended by SFFAS 31, "Accounting for Fiduciary Activities," October 24, 2006

This memorandum establishes DoD policy for reporting deposit fund liabilities. Deposit fund activity is external to the budget process, but will be reviewed by auditors as part of their review of our reconciliation of Funds Balance with Treasury. Collections into deposit funds are monies from the public and are not connected to any previous rights and obligations of the U.S. Government. The DoD Treasury Index, as defined in reference (a), into which the funds are collected also represents the entity responsible for reporting the deposit fund liability regardless of the source of the funds.

The Department's position is supported by references (b) and (c). This policy will be incorporated into the next update of the DoD Financial Management Regulation, Volume 4, Chapter 2, and Volume 12, Chapter 1. Additional detail and examples are provided in the attachment.

Ms. Charlotte Beacham (charlotte.d.beacham.civ@mail.mil) is my point of contact (POC). Mr. Paul McDonald (paul.m.mcdonald31.civ@mail.mil) is the Defense Finance and Accounting Service POC.

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Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

DOD POLICY

The U.S. Department of the Treasury (Treasury) component, *i.e*., Treasury Index (TI) as identified in the Federal Account Symbols and Titles Book, that holds the funds on behalf of the public is responsible for reporting the deposit fund liability, regardless of the source of the funds.

Deposit fund activity is external to the budget process and therefore, it is not appropriate to project rights and obligations to the funds to one entity over another. The funds are held in a Treasury account of the U.S. Government; however, the ownership of the funds is the public.

To further illustrate the Department's position based on the State and local income tax (SALT) example from the Office of Management and Budget (OMB) Circular No. A-11, the outlay transaction for Federal employee payroll may be divided into two parts; the outlay from the budget to pay payroll and the collection into the deposit fund from the public (*i.e*., the employee) for funds due to the State. The outlay for the gross payroll amount is the end of the U.S. Government's rights and obligations to the funds lifecycle. The collection into the deposit fund is from the public and is not connected to any previous U.S. Government rights and obligations.

An expansion of the OMB example: Joe Sailor is a Navy accountant. Joe's gross pay is $1,000 which contains $100 due to the state of Ohio. The $1,000 gross pay disbursement fully liquidates the Navy liability for Salaries and Wages Expense related to Joe and is recorded in the Navy payroll appropriated line of accounting (budget) for $1,000. This is the end of the U.S. Government's rights and obligations to the funds as they have been paid to Joe as documented on his Leave and Earnings Statement. The $100 that goes into the SALT deposit fund on Joe's behalf to eventually pay the state of Ohio is actually sourced from Joe and his pay, not the Navy appropriated dollars.

This concept is the same as any other payment to a non-federal entity, except in the case of SALT payroll withholdings where the U.S. Government retains possession (not rights and obligations) of the cash until the U.S. Government remits it to the State. With other non-federal payments that do not involve deposit funds, the U.S. Government retains neither possession nor rights and obligations.

Because the source of the funds is the public and the U.S. Government has no rights and obligations, whichever Treasury component is in possession of the funds should report the liability. It is a managerial decision for DoD to determine which deposit fund (TI) to hold the cash. If Joe's State withholdings were collected into TI-97, the liability should be reported on the TI-97 consolidated financial statements. If Joe's State withholdings were collected into TI-17, the liability should be reported on the TI-17 Department of the Navy financial statements. So long as the Treasury component that possesses the public funds reports the liability, the DoD financial statements are accurate and no rights or obligations have been commingled.

AUTHORITATIVE GUIDANCE

- Office of Management and Budget Circular No. A-11, “Preparation, Submission, and Execution of the Budget,” December 18, 2019 (Section 20.11 (f))
  https://www.whitehouse.gov/wp-content/uploads/2018/06/a11.pdf

- Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards (SFFAS) 1, “Accounting for Selected Assets and Liabilities” (paragraph 31), as amended by SFFAS 31, “Accounting for Fiduciary Activities” (paragraph 32), October 24, 2006
  http://files.fasab.gov/pdffiles/handbook_sffas_31.pdf

- U. S. Department of the Treasury, “Federal Account Symbols and Titles (FAST) Book,” September 2019
  https://www.fiscal.treasury.gov/reference-guidance/fast-book/