



COMPTROLLER

**OFFICE OF THE UNDER SECRETARY OF DEFENSE**

**1 100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1 100**

June 29, 2020

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

**SUBJECT: Accounting Treatment of Lateral Redistribution Activities (FPM 20-05)**

This memorandum outlines policy guidelines for the accounting treatment of lateral redistribution transactions throughout DoD to ensure compliance with the DoD U.S. Standard General Ledger Transaction Library. Inconsistencies in accounting for these transactions result in Fund Balance with Treasury (FBwT) reconciliation problems.

When an inventory control point or integrated materiel manager (ICP/IMM) receives an order for an out of stock item, he/she searches other supply distribution activities for availability. Once located and accepted, the ICP/IMM processes a lateral redistribution order (LRO) with the supplying/holding activity that will provide the item. The supplying/holding activity processes the LRO, ships the item directly to the customer, and invoices the ICP/IMM for its cost. Currently, some ICPs/IMMs establish a receivable from the customer for conducting the lateral redistributions and reimburse the supplying/holding activity by generating a “reverse sale” and “negative collection” which is inconsistent with generally accepted accounting principles.

Without conformity to the approved accounting treatment for lateral redistribution activities, these transactions and balances will continue to create discrepancies. Accordingly, the Department developed the attached guidance that requires DoD components facilitating these activities to begin recording outlays of FBwT as a disbursement; therefore, prohibiting the current practice of recording a negative collection. Because these are intra-agency transactions, the correct trading partner codes must be used at the transaction level. Relevant provisions of this policy will be incorporated in the next update of the DoD Financial Management Regulation, Volume 4, Chapter 4.

Mr. Jeremiah Eidson is my point of contact for this subject. Reach him at (571) 256-2663 or [jeremiah.m.eidson.civ@mail.mil](mailto:jeremiah.m.eidson.civ@mail.mil).

Mark E. Easton  
Deputy Chief Financial Officer

Attachments:  
As stated



## **DESCRIPTION OF THE ISSUE**

Accounting treatments for lateral redistribution transactions within the DoD are inconsistent and are not in accordance with the DoD U.S. Standard General Ledger (USSGL) Transaction Library. This inconsistency causes a Fund Balance with Treasury (FBwT) reconciliation problem, as some DoD components report these decreases in FBwT as negative collections in their Treasury Central Accounting Reporting System (CARS) and some DoD components report the corresponding increases in FBwT as collections in CARS. Despite the offsetting flow of funds, these inconsistent accounting treatments result in a mismatch at the Treasury level because collections (a debit balance) are expected to reconcile with disbursements (a credit balance), not negative collections (a negative offset to a normal debit balance).

## **BACKGROUND**

When an inventory control point or integrated materiel manager (ICP/IMM) receives a customer request for an out of stock item, he/she searches other supply distribution activities for availability. Once located and accepted, the ICP/IMM processes a lateral redistribution order (LRO) with the supplying/holding activity that will provide the item. The supplying/holding activity processes the LRO, ships the item directly to the customer, and invoices the ICP/IMM for its cost [*i.e.*, item cost plus packaging, crating, and handling costs].

Currently, some ICPs/IMMs establish a receivable from the customer for conducting the lateral redistributions and then reimburse the supplying/holding activity by generating a “reverse sale” and “negative collection,” in effect canceling out the revenue and cost of goods sold entries. Negative collections do not use the same USSGL posting logic as a disbursement and therefore, there is a discrepancy when reconciling with Treasury, as the receivables at the supplying/holding activity do not align (and do not offset) the negative collections recorded by the ICP/IMM.

## **ISSUE IMPLICATIONS**

Without conformity to the Standard Financial Information Structure (SFIS) approved accounting treatment for LROs, these transactions and balances will continue to cause a reconciling item for ICPs/IMMs and supplying/holding activities. The Defense Finance and Accounting Service has historically recorded unsupported journal vouchers (JVs) to resolve these differences, but the reconciling items do not self-resolve and result in a continuously increasing dollar balance in each reconciliation prepared.

## **AUTHORITATIVE GUIDANCE**

- Statement of Federal Financial Accounting Standards (SFFAS) 3, “Accounting for Inventory and Related Property”
- DoD Financial Management Regulation (FMR) Volume 4, Chapter 4, “Inventory and Operating Materials and Supplies”
- DoD U.S. Standard General Ledger (USSGL) Transaction Library



## **RECOMMENDATION(S) AND BASIS FOR RECOMMENDATION(S)**

This guidance directs DoD components to adhere to the existing accounting treatments and posting logic documented in the SFIS approved DoD U.S. USSGL Transaction Library, which will result in accurate accounting treatments for LROs, at the transaction level. This recommendation may require some DoD components facilitating LROs to begin recording outlays of FBwT as a disbursement; therefore, prohibiting their current practice of recording a negative collection. Additionally, this may also require some DoD components to correct business processes and business systems posting logic; in support of recording accurate accounting treatments for LROs. Finally, once the business processes and business systems are corrected, some DoD components may need to quickly resolve and eliminate all outstanding LROs transactions that are unable to be reconciled.

This policy is only applicable to movements of inventory between DoD components. It is not applicable to movements of inventory within a component and therefore does not affect existing processes or procedures for intra-component movements of items between ICPs/IMMs or intra-component movements between supply/holding activities.

The spreadsheet provided outlines specific transactions and journal entries for each of the three distinct parties in the LRO process.

- (1) Customer
- (2) ICP/IMM
- (3) Supplying/holding activity

**Since these are intra-agency transactions, it is critical that the transaction level detail includes the correct trading partner code.**

Once implemented, this recommendation reflects transparent accounting for LRO transactions for all three participants and eliminates the Treasury reconciliation issue in CARS.

**Description of Process Steps for Intragovernmental Lateral Redistribution Process -- Reimbursable Agreement Under Contract Authority - Without Advance**

				RECONCILIATION		
STEPS		(1) Customer	(2) ICP/IMM	(3) Supplying / Holding activity	EXPENSE	REVENUE
1	Customer identifies a need and requisitions fulfillment from DLA WCF for inventory	X				
2	DLA receives and accepts the reimbursable agreement from the Customer using contract authority		X			
3	Customer obligates funds once order has been accepted by DLA to fulfill order	X				
4	DLA does not have inventory in stock so sends a customer order to Provider and commits funds to reimburse Provider for inventory requisitioned by Customer		X			
5	Provider receives and accepts customer order reimbursable agreement from DLA to fulfill an inventory request directly to the Customer			X		
6	DLA records realization of contract authority and obligates funds once order has been accepted by Provider to fulfill order		X			
7	Provider fulfills customer order and sells inventory directly to Customer on behalf of DLA			X	650000	
8	DLA is notified that inventory has shipped from Provider to Customer DLA invoices Customer for fulfillment of customer order.		X			520000
9	Customer receives inventory from Provider and records payable to DLA for fulfillment of customer order between DLA and Customer. Additional fees could be charged as Expense.	X				
10	Provider invoices DLA for fulfillment of customer order between DLA and Provider			X		510000
11	DLA records payable to Provider upon receipt of Provider invoice		X		610000	
12	Customer disburses payment to DLA for fulfillment of customer order, as evidenced in the invoice from DLA and receipt of inventory from Provider on behalf of DLA	X				
13	DLA records collection from Customer		X			
14	DLA liquidates contract authority for collections against the customer order paid by Customer		X			
15	DLA disburses payment to Provider for fulfillment of customer order, as evidenced in the invoice from Provider and sale of inventory to Customer on behalf of DLA		X			
16	Provider records collection from DLA			X		

Intragovernmental Lateral Redistribution Process -- Reimbursable Agreement Under Contract Authority - Without Advance

(1) Customer						(2) Inventory Control Point / Integrated Materiel Manager (ICP/IMM)						(3) Supplying/holding activity								
#	TC	Description	GL Accounts		Amount		#	TC	Description	GL Accounts		Amount		#	TC	Description	GL Accounts		Amount	
			Dr	Cr	Dr	Cr				Dr	Cr	Dr	Cr				Dr	Cr	Dr	Cr
1	B302	Buyer Requisitions Inventory - Records a commitment																		
		Allotments - Realized Resources	461000		\$ 100,000															
		Commitments - Programs Subj to Apportionment		470000																
2	A704	Reimbursable Agreement w/Customer - Record in the performing agency a reimbursable agreement not previously anticipated (without an advance)																		
		Unfilled Customer Orders without Advance				422100						\$ 100,000								
		Substitution of Contract Authority					413200						\$ 100,000							
3	B306	Customer Records Obligation for Requisition under the Reimbursable Agreement with DLA																		
		Commitments - Programs Subj to Apportionment	470000		\$ 100,000															
		Undelivered Orders - Obligations, Unpaid		480000																
4	B302	Requisition to Provider for Purchase of Inventory																		
		Allotments - Realized Resources	461000		\$ 100,000															
		Commitments - Programs Subj to Apportionment		470000																
5	A706	Reimbursable Agreement with DLA - Record a reimbursable agreement without an advance (previously anticipated)																		
		Unfilled Customer Orders without Advance				422100						\$ 100,000								
		Anticipated Reimbursements and Other Income					421000						\$ 100,000							
	A122	Apportionments - Anticipated Resources - Programs Subject to Apportionment				459000							\$ 100,000							
		Allotments - Realized Resources					461000							\$ 100,000						
6	B306	Record Obligation to Provider																		
		Commitments - Programs Subj to Apportionment	470000		\$ 100,000															
		Undelivered Orders - Obligations, Unpaid		480100																
7	E408	Sale and Shipment of Inventory to Customer based on terms of Reimbursable Agreement - Record Cost of Goods Sold																		
		Cost of Goods sold				650000						\$ 100,000								
		Operating Materials and Supplies Held in Reserve for Future Use					151200						\$ 100,000							
8	A714	Invoice Customer (Buyer) for Order Fulfillment - Invoice Customer for Service Performed																		
		Reimbursements and Other Income Earned - Receivable	425100		\$ 100,000															
		Unfilled Customer Orders without Advance					422100						\$ 100,000							
		Accounts Receivable	131000		\$ 100,000															
		Revenue from Services Provided		520000																
9	B402	Receipt and Acceptance of Inventory - Accrue Payable to DLA under terms of Reimbursable Agreement																		
		Undelivered Orders - Obligations, Unpaid	480100		\$ 100,000															
		Delivered Orders - Obligations, Unpaid		490100																
		Inventory	15XX00		\$ 100,000															
		Accounts Payable		211000																
	w/																			
	B134	If Direct Funds, also record appropriations used																		
			310700		\$ 100,000															
				570000																
10	A714	Provider Invoices DLA for Order Fulfillment - Invoice DLA for Goods Provided to Customer under terms of Reimbursable Agreement																		
		Reimbursements and Other Income Earned - Receivable	425100		\$ 100,000															
		Unfilled Customer Orders without Advance					422100						\$ 100,000							
		Accounts Receivable	131000		\$ 100,000															
		Revenue from Goods Sold		510000																
11	B402	Document Customer Receipt/Acceptance - Accrue Payable to Provider under terms of Reimbursable Agreement																		
		Undelivered Orders - Obligations, Unpaid	480100		\$ 100,000															
		Delivered Orders - Obligations, Unpaid		490100																
		Operating Expenses/Program Costs	610000		\$ 100,000															
		Accounts Payable		211000																
12	B110	Disburse Funds to DLA for Services Provided																		
		Delivered Orders - Obligations, Unpaid	490100		\$ 100,000															
		Delivered Orders - Obligations, Paid		490200																
		Accounts Payable	211000		\$ 100,000															
		Fund Balance with Treasury - Disbursement		101000																
13	C186	Collection from Customer for Services Provided under the terms of the Reimbursable Agreement																		
		Reimbursements and Other Income Earned - Collected	425200		\$ 100,000															
		Reimbursable and Other Income Earned - Receivable				425100														
		Fund Balance with Treasury - Collection	101000		\$ 100,000															
		Accounts Receivable		131000																
14	A187	Liquidation of Contract Authority for collections against the reimbursable agreement with Customer																		
		Substitution of Contract Authority	413200		\$ 100,000															
		Contract Authority Liquidated		413500																
15	B110	Disburse Funds to Provider for Goods Provided to Customer under terms of Reimbursable Agreement																		
		Delivered Orders - Obligations, Unpaid	490100		\$ 100,000															
		Delivered Orders - Obligations, Paid		490200																
		Accounts Payable	211000		\$ 100,000															
		Fund Balance with Treasury - Disbursement		101000																
16	C186	Collection from DLA for Goods Provided to Customer under terms of Reimbursable Agreement																		
		Reimbursements and Other Income Earned - Collected	425200		\$ 100,000															
		Reimbursable and Other Income Earned - Receivable				425100														
		Fund Balance with Treasury - Collection	101000		\$ 100,000															
		Accounts Receivable		131000																

\*\* NOTE: This scenario provides the journal entries for direct or reimbursable funding on the buyer side. However, the buyer could use contract authority to purchase inventory in the lateral redistribution process. These journal entries would align with those shown here in the DLA WCF columns.

NOTE: See Descriptions of Process Steps on Preceding Page