

VOLUME 11B, CHAPTER 1: “DEFENSE WORKING CAPITAL FUNDS GENERAL POLICIES”

SUMMARY OF MAJOR CHANGES

All changes are denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue, and underlined font](#).

The previous version dated [April 2013](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
010101 – 010102	Added a “Purpose” paragraph, and an “Authoritative Guidance” paragraph to better align the chapter with the formatting guidelines established in the standard operating procedures.	Addition
010201	Updated the U.S. Department of the Treasury Account Fund Symbols in accordance with the most recently updated Federal Account Symbols and Titles Book.	Revision
010206	Updated the sources of budgetary resources to better align the paragraph with guidance found in the Office of Management and Budget (OMB) Circular A-11.	Revision
010301.J	Added an additional responsibility under the Under Secretary of Defense (Comptroller) responsibilities related to exercising funds control as prescribed by OMB, Congress, and DoD policy.	Addition
010304	Changed Deputy Under Secretary of Defense (Acquisition, Technology and Logistics) to Deputy Under Secretary of Defense (Acquisition and Sustainment) in accordance with Public Law 114 – 328, effective February 1, 2018.	Revision

Table of Contents

VOLUME 11B, CHAPTER 1: “DEFENSE WORKING CAPITAL FUNDS GENERAL POLICIES” 1

0101 GENERAL 4

 *010101. Purpose 4

 *010102. Authoritative Guidance 4

0102 DWCF REQUIREMENTS 4

 *010201. Treasury Fund Symbol 4

 Table 1.1. DoD Component Account Identifiers 5

 010202. Activity Groups 5

 010203. Charters 5

 010204. Financing 7

 010205. Authorized Customers 7

 *010206. Sources of Budgetary Resources 8

 010207. Annual Operating Budgets 8

 010208. Customer Orders 8

 010209. Stabilized Rates and Prices 8

 010210. Restrictions on Use of Customer Appropriations 9

 010211. Financial Reporting 9

 010212. Mobilization Capability 9

0103 RESPONSIBILITIES OF MANAGEMENT 9

 010301. Under Secretary of Defense (Comptroller) 9

 010302. Director, Defense Finance and Accounting Service (DFAS) 10

 010303. Military Department Secretaries and Defense Agency Directors 10

 *010304. DWCF Activity Management Agency or Command 11

 010305. Individual DWCF Activity Management 11

 010306. DWCF Activity Customers 12

0104 ACCOUNTING STANDARDS 12

0105 DWCF SYSTEMS AND CONTROL 12

 010501. DWCF Financial Management Systems 12

 010502. DWCF Accounting Systems 12

 010503. Legacy Systems 13

0106 FUNDS MANAGEMENT 13

0107 GENERAL LEDGER ACCOUNTS 14

Table of Contents (Continued)

0108 AUDITING 14

Figure 1-1. Legacy System Funding Decision Diagram 15

CHAPTER 1

DEFENSE WORKING CAPITAL FUNDS GENERAL POLICIES

0101 GENERAL

*010101. Purpose

The purpose of this chapter is to provide financial management policy for Defense Working Capital Funds (DWCF). Guidance includes the responsibilities of management and their roles surrounding the maintenance of a unit's funds.

*010102. Authoritative Guidance

The accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

A. Title 10, United States Code, section 2208 ([10 U.S.C. § 2208](#)), "Working Capital Funds";

B. [10 U.S.C. § 2563](#), "Articles and Services of Industrial Facilities: Sale to Persons outside the Department of Defense";

C. [10 U.S.C. § 7543](#), "Army Industrial Facilities: Sales of Manufactured articles or services outside Department of Defense";

D. [31 U.S.C. § 3515](#), "Financial Statements of Agencies";

E. Federal Account Symbols and Titles ([FAST Book](#)), Agency Identifier Codes, Treasury Financial Manual Supplement;

F. Department of Defense Directive ([DoDD 4275.5](#)), "Acquisition and Management of Industrial Resources";

G. Office of Management and Budget ([OMB Circular A-11](#)), "Preparation, Submission and Execution of the Budget."

0102 DWCF REQUIREMENTS

*010201. Treasury Fund Symbol

The DWCF are established under the authority of 10 U.S.C. § 2208. The U.S. Department of the Treasury (Treasury) Account Symbol for the DWCF is 097X4930. The Military Departments and Defense Agencies subnumbered account identifiers assigned are shown in Table 1.1. The Defense Counterintelligence and Security Agency WCF, Treasury account 097X4932, is also established under 10 U.S.C. 2208 authority.

Table 1.1. DoD Component Account Identifiers

DoD Component	Treasury Assigned Account Number
Army	097X4930.001
Navy	097X4930.002
Air Force	097X4930.003
Defense Commissary Agency	097X4930.004
Defense Agencies	097X4930.005
Defense Counterintelligence and Security Agency	097X4932

010202. Activity Groups

The DWCF consists of individual activity groups that are managed by DoD Components for providing goods and services, on a reimbursable basis, to other activities within the DoD and to non-DoD activities when authorized.

010203. Charters

The DoD Component individual activity groups financed through the DWCF **must** be chartered under the DWCF to achieve the following objectives:

A. The DWCF is designed to:

1. Create a cost conscious environment for both customers and providers. Customers benefit by becoming aware of the cost of their service requirements and behaviors, deriving cost savings by limiting demands to actual requirements and adjusting behaviors to reduce the cost of providing services. Providers scrupulously reduce or eliminate costs to provide services, and assist customers in identifying and modifying behaviors that increase cost.

2. Provide a more effective means for controlling the costs of goods and services required, produced, or furnished by DWCF activities, and a more effective and flexible means for financing, budgeting, and accounting for the costs thereof.

3. Create and recognize contractual relationships between DWCF activities and those activities that budget for and order the end-products or services.

4. Provide managers of DWCF activities the financial authority and flexibility required to procure and effectively use manpower, materials, and other resources.

5. Encourage more cross-servicing among the DoD Components and among their operating agencies, with the aim of obtaining more economical use of facilities.

6. 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. Instill in the officials of ordering Agencies a greater sense of responsibility and self-restraint in balancing the costs 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.

2. 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.

3. 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.

4. 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.

5. Establish, whenever feasible, standard prices or stabilized rates and unit prices for goods and services furnished by DWCF activities, thus enabling ordering Agencies to more confidently plan and budget.

6. Furnish managers of DWCF activities with modern management tools comparable to those utilized by efficient private enterprises engaged in similar types of activities.

7. Improve cost estimating and cost control through comparison of estimates and actual costs.

8. Obtain alert, forward-looking financial planning at DWCF activities by making them financially dependent on reimbursements received for goods and services furnished in fulfilling orders from customers.

9. Encourage producers of goods and services to coordinate labor forces and inventories with workload, budgeting, and cost control.

10. Provide flexibility within budget cycles to changes in supply and demand.

C. A charter **must** be prepared in accordance with Chapter 2 and submitted to the [Office of the Under Secretary of Defense \(Comptroller\) \(OUSD\(C\)\)](#), [Program/Budget, Director of Operations](#) for approval. Before charter preparation, ensure that the proposed business entity meets the criteria established as described in Chapter 2, paragraph 020202. Each DWCF business

entity **must** review its charter annually to assure it remains current. Changes **must** be prepared and submitted to the OUSD(C) **Director of Operations** for approval.

010204. **Financing**

A. The DWCF receives its initial working capital through an appropriation or a transfer of resources from existing appropriations of funds and uses those capital resources to finance the initial cost of products or services.

B. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. After initial capitalization, a DWCF activity's operations are funded by the reimbursements it receives from its customers for the goods or services provided.

C. Customers may not place orders with DWCF activities for the purpose of extending the life of their appropriations or avoiding any statutory limitation or restrictions pertaining to those funds. Additional guidance applicable to all working capital funds can be found in Volume 3, Chapter 19.

D. Amounts earned by the DWCF are available for financing obligations without fiscal year limitation, although DWCF activity obligation authority is dependent on receipt of contract authority, and/or cost authority provided by the receipt of customer orders as documented in the DWCF activity annual operating budget.

1. The Supply Management activity groups 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.

2. Other than the Supply Management activity groups and the Capital Investment Program, all other DWCF obligations must be supported by budgetary resources that are immediately available for outlay even though the outlay may not occur until a future date.

010205. **Authorized Customers**

Customers of the DWCF activity may be:

A. Any DoD command, organization, office, or other element.

B. Non-DoD federal government agencies.

C. Private parties and concerns when authorized by law including foreign governments, and state and local governments.

D. Those U.S. manufacturers, assemblers, or developers authorized by 10 U.S.C. § 2208(h) and in accordance with 10 U.S.C. §§ 2563 and 7543.

*010206. Sources of Budgetary Resources

When an activity receives budgetary resources from more than one source ([spending authority from offsetting collections, direct appropriation, contract authority](#)), the receiving activity must maintain records [that will enable it](#) to control and separately report the transactions relating to each type of source ([in accordance with OMB Circular A-11](#)). Budgetary resources may be received at any level of an organization from the individual activity up to the Departmental level.

010207. Annual Operating Budgets

Annual operating budgets for the DWCF provide official management cost goals to the Military Services and Defense Agencies for each individual activity group. 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 and Volume 3, Chapter 19 provides additional details on the annual operating budgets for the DWCF.

010208. Customer Orders

Customer orders (funded requests for goods or services) provide budgetary resources necessary to finance operations [for non-supply management activities, and to liquidate contract authority for supply management activities](#). Budgetary resources are recognized from [anticipated customer orders that obligate budgetary resources of another federal government activity, and from cash advances from non-federal customers, to include orders from non-appropriated fund instrumentalities](#). To be valid, customer orders must be obligations of a federal government activity and cash advances from nonfederal customers. Cash advances may also be requested from federal government activities when directed and approved in advance by the OUSD(C). When accepted, customer orders create a quasi binding contractual relationship between a DWCF activity and its customer since acceptance of a customer order requires that the performing entity agree in writing to perform the work for the customer entity. Except as authorized in Chapter 11, a DWCF business entity [must not initiate work or services or incur obligations in excess of anticipated orders received unless specific authorization is provided by a signed annual operating budget approved by the Director of Operations, to ensure other budgetary resources are available at the DWCF sub-account level](#). Customers may request a deobligation of their funds for goods or services ordered that were not provided. Return of customer funds is permissible only if the DWCF activity has not commenced work on the good or service ordered or incurred an obligation for those goods or services.

010209. Stabilized Rates and Prices

The DWCF individual activity groups operate on a break-even basis in accordance with budgetary guidance contained in Volume 2A and Volume 2B. Rates are required to be established during the budget process at levels estimated to recover the budgeted costs of goods or services to be provided including all general and administrative overhead costs, prior period gains and losses,

and applicable surcharges. The budget process ensures that adequate resources are requested in the customers' fund accounts to pay the established rates and prices. Specific budget formulation requirements are contained in Volume 2B, Chapter 9.

010210. Restrictions on Use of Customer Appropriations

A. Customers must comply with statutory limitations and restrictions imposed on the appropriated funds charged when placing an order with the DWCF. A DWCF customer cannot use appropriated funds to do indirectly (i.e., through placement of an order with a DWCF activity) that which it is not permitted to do directly. Thus, the availability of an appropriation funding an order cannot be expanded or changed by placement with an activity financed by the DWCF.

B. 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 retains primary responsibility for determining the applicability of the appropriated funds cited on the order. However, if instances arise when it is apparent that the ordering appropriation is not appropriate for the purpose provided, then the DWCF activity should return the order with a request for an applicable appropriation to cite.

010211. Financial Reporting

Under the provisions of 31 U.S.C § 3515 and 10 U.S.C 2208(n), the Department is required to have audited financial statements covering all accounts and associated activities of the Department. The DWCF financial information will be included in DoD's Annual Financial Report. Specific financial statement reporting requirements are contained in OMB Circular A-136, "Financial Reporting Requirements." Volume 6B also identifies recurring reporting requirements applicable to the DWCF.

010212. Mobilization Capability

Each DWCF activity group must plan for and maintain the capability to expand or alter operations, or to provide extraordinary supply or other functional area support necessary, to meet an operational contingency as documented in Defense Planning Guidance or operational plans. All costs at individual activities within the DWCF related to maintaining a capacity to meet mobilization requirements will be reimbursed by funds that are from direct appropriations and will not be financed through customer rates. Volume 2B, Chapter 9 provides specific guidance for the types of mobilization costs that can be funded by a direct appropriation.

0103 RESPONSIBILITIES OF MANAGEMENT

010301. Under Secretary of Defense (Comptroller)

A. Establish DoD policy on DWCF operations.

B. Provide oversight on all financial management activities relative to the operations of the DWCF.

C. Authorize or approve DWCF Charters of specific activities to be included in the DWCF and the terms under which such activities **must** be operated.

D. Rescind the DWCF Charters of specific activities that no longer meet DWCF criteria or that may be operated more efficiently under other financing.

E. Establish all necessary budget preparation, accounting, and reporting policies.

F. Review and approve operating and capital budgets, and monitor and analyze budget execution.

G. Provide DWCF operations oversight through budget execution reviews.

H. Advise DWCF managers on accounting and reporting policies.

I. Monitor compliance with this guidance and other policy issuances through analysis of reports, audits, and reviews of business entity operations.

* J. Exercise funds control responsibilities in accordance with congressional direction, OMB guidance, and DoD policy.

010302. Director, Defense Finance and Accounting Service (DFAS)

A. Advise and assist the USD(C) in the development of requirements, systems, and procedures to comply with statutory and regulatory requirements.

B. Advise DWCF activities on the accounting and reporting procedures.

C. Issue supplementary instructions to guidance contained within this Regulation for unique requirements within the DoD Components and to provide detailed operating instructions.

D. Review DWCF accounting systems for compliance with established financial systems requirements.

E. Prepare external and internal accounting reports for the DWCF.

010303. Military Department Secretaries and Defense Agency Directors

A. Manage DWCF activities within approved funding limitations.

- B. Designate a management agency or command to be responsible for effective management of each DWCF activity.
- C. Comply with, and recommend changes to, this and other governing regulations.
- D. Provide periodic financial and management information as required by the USD(C).
- E. Submit to the USD(C) proposed Charters authorizing new DWCF activities or rescinding Charters of existing DWCF activities.

***010304.** DWCF Activity Management Agency or Command

A. Budget and provide appropriated funds for the costs of maintaining unutilized plant and facilities being held for mobilization purposes at DWCF activities. Mobilization maintenance costs for unutilized plant and facilities include costs of labor, materials, contractual services, and overhead that were incurred for that purpose. Retention of facilities in excess of those necessary for current or planned workload **must** be in accordance with DoDD 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 ([Acquisition and Sustainment](#)).

- B. Assign responsibility and authority to designated officials for management and operation of DWCF activities.
- C. Assure that all DWCF activities operate within approved funding limitations.
- D. Evaluate the operation of DWCF activities to determine compliance with established requirements.
- E. Initiate change, as needed, to the charter of the DWCF activities.

010305. Individual DWCF Activity Management

- A. Incur obligations and costs as necessary and allowable to perform the activity mission.
- B. Control performance costs in line with the annual budget approved by the USD(C).
- C. Evaluate the operation of DWCF activities to determine compliance with established requirements.

D. Identify to higher management any impediments in achieving performance and cost goals.

E. Identify and justify to higher management investments that will produce future improvements in effectiveness and efficiency.

F. Establish, monitor and assess internal controls and resolve internal control weaknesses.

010306. DWCF Activity Customers

A. **Budget** for the cost of material, work, and services ordered from a DWCF activity.

B. Manage budgetary resources provided in annual operating budget for the cost of material, work, and services ordered from DWCF activities.

C. **Notify** the DWCF **Activity Management** as early as possible if it wishes to terminate a previously ordered service. The customer is liable for funding all costs **incurred** with service delivery until termination.

0104 ACCOUNTING STANDARDS

The DWCF will adhere to the accounting standards hierarchy in Volume 1, Chapter 2.

0105 DWCF SYSTEMS AND CONTROL

010501. DWCF Financial Management Systems

A. Transactions are executed in accordance with budgetary and financial **standards and requirements issued by OMB and Treasury**, consistent with the purposes authorized, and are reported in accordance with **the Federal Accounting Standards Advisory Board**, Statements of Federal Financial Accounting Standards.

B. Assets are properly safeguarded to deter fraud, waste and abuse.

C. Performance measurement information is adequately supported.

010502. DWCF Accounting Systems

DWCF accounting systems **must** have the capability to account for the status of budgetary resources on a continuous basis. Budgetary controls **must** be designed to prevent incurring obligations in excess of budgetary resources. **System owners must ensure compliance with each new Standard Financial Information Structure matrix that is updated based on guidance released from Treasury.**

010503. Legacy Systems

DoD Components will continue to bear the cost of their legacy system until they have fully transitioned to the emerging/migratory system. However, if the Component has not fully transitioned from the legacy system to the emerging/migratory system due to a DFAS related implementation problem, then the customer bears no direct cost for the legacy system. The costs for the legacy system that DFAS cannot abolish will go into the DFAS customer rates as part of overhead costs. See Figure 1-1.

A. If the customer has fully transitioned from the legacy system to the emerging/migratory system, then that customer bears no direct cost for the legacy system. However, the costs for a legacy system that DFAS cannot abolish will go into the DFAS customer rates as part of overhead costs.

B. If the customer has not fully transitioned from the legacy system to the emerging/migratory system but the customer is running the systems parallel for testing purposes, to include running the legacy system for prior year data not transitioned, then that customer bears a cost for both systems until the customer fully transitions to the emerging/migratory system.

C. If the customer has not transitioned from the legacy system to the emerging/migratory system because of DoD Component related implementation problems, then that customer will bear the cost for the legacy system even if they are the last DoD Component on the legacy system.

D. If the customer has not transitioned from the legacy system to the emerging/migratory system due to a DFAS related implementation problem, then that customer bears no direct cost for the legacy system. The costs for a legacy system that DFAS cannot abolish will go into the DFAS customer rates as a part of overhead costs.

E. The customer must be fully transitioned from the legacy system to the emerging/migratory system before the beginning of a new fiscal year. It is not appropriate to change allocation of legacy costs between customers in the year of execution.

F. When all customers have transitioned to the emerging/migratory system and DFAS is able to abolish the legacy system, the system's residual undepreciated value will be charged to the DFAS Accumulated Operating Result.

0106 FUNDS MANAGEMENT

Financial resources establishing a DWCF must be appropriated. Continuing operations are generated by reimbursements received. Anticipated reimbursements and anticipated customers' orders are not considered a budgetary resource. Obligations incurred ([Undelivered Orders – Obligations, unpaid or Prepaid/Advanced and Delivered Orders – Obligations, paid or unpaid](#)) are claims against budgetary resources. A sufficient fund balance with the Treasury must support all DWCF cash outlays. Refer to Volume 3, Chapter 19 for further guidance on funds management.

0107 GENERAL LEDGER ACCOUNTS

All DWCF activities **must** adhere to the United States Standard General Ledger (USSGL) published by the Treasury **Bureau of the Fiscal Service**. The USSGL Standard Financial Information Structure Transaction Library provides a decomposition of USSGL accounting transactions for DoD. See Volume 1, Chapter 7 for further details.

0108 AUDITING

Under 31 U.S.C. § 3515, the **DoD** activities, **of which a DWCF is considered a component**, are required to prepare audited financial statements. **While preparing for and undergoing audit, DWCF activities must be able to provide documentation that must be of sufficient quality to allow an independent third party, such as an external auditor, to understand and verify the basis, value, and rationale for recorded amounts.** The DWCF is subject to audit by the DoD Inspector General, the Government Accountability Office, and other parties when contracted or otherwise authorized.

Figure 1-1. Legacy System Funding Decision Diagram

