

VOLUME 11B, CHAPTER 2: “ESTABLISHMENT OF DEFENSE WORKING CAPITAL FUND ACTIVITIES, TRANSFER OF FUND FUNCTIONS AND CLOSURE OF FUNDS ACTIVITIES”

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 2010** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Various	Updated hyperlinks.	Revision
0201	Added a General section to comply with Department of Defense Financial Management Regulation Revision Standard Operating Procedures to include a new Authoritative Guidance paragraph.	Addition
020506	Updated the process for reporting real property transfers to align with guidance in Volume 4, Chapter 24, “Real Property.”	Revision
020609	Updated reporting process for disposition of Plant, Property and Equipment to align with guidance in the Volume 4, Chapter 24.	Revision
Annex 1	Incorporated and cancelled Annex 1, “Charter Format,” that was previously maintained as a separate document.	Cancellation

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CHAPTER 2

**ESTABLISHMENT OF DEFENSE WORKING CAPITAL FUND ACTIVITIES,
TRANSFER OF FUND FUNCTIONS AND CLOSURE OF FUND ACTIVITIES**

*0201 GENERAL

020101. Purpose

This chapter prescribes requirements for the chartering of Defense Working Capital Fund (DWCF) activities. This chapter also provides requirements for transfer of fund functions and closure of fund activities.

020102. Authoritative Guidance

Title 10, United States Code, section 2208 ([10 U.S.C. § 2208](#)) authorizes the Department of Defense (DoD) to establish DWCFs to finance inventories of supplies and provide working capital for industrial and commercial-type activities. The accounting policies and related requirements prescribed by this chapter are in accordance with:

A. [10 U.S.C. § 2687](#), “Base closures and realignments,” also known as Base Realignments and Closures (BRAC);

B. Office of Management and Budget ([OMB Circular A-11](#));

C. Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards ([SFFAS](#)) 3, “Accounting for Inventory and Related Property;”

D. FASAB [SFFAS 6](#), “Accounting for Property, Plant and Equipment;” and

E. FASAB [SFFAS 7](#), “Accounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting.”

0202 ESTABLISHMENT OF DWCF ACTIVITIES

020201. Submission of Charter

Prior to the financing of an activity under the DWCF, a proposed charter must be submitted to the Office of the Under Secretary of Defense (Comptroller) (OUSDC), Program/Budget (P/B) Operations Directorate for approval.

020202. Criteria for a DWCF Activity

In order for a Service or DoD agency organization, program, or function to be considered for inclusion in the DWCF it must meet all of the following criteria:

A. **Materials produced or services** provided **are shared or required** by a group of customers or **are** common requirements of more than one major command, and/or DoD Component.

B. A cost accounting system is available that is capable of collecting costs of producing outputs. The activity must have the capability to charge prices or rates that are capable of recovering the full funded costs of the provided goods and services in accordance with Chapter 1. For additional information on general cost concepts refer to Volume 4, Chapter 19.

C. Activities that require and order products or services (i.e., customers) can be identified so that resources can be aligned in the account of the customer with the requirement. The demand for the goods or services to be provided by the program or organization must come from multiple customers within DoD and/or other federal government entities.

D. Identification of a buyer-seller relationship to the extent that the buyer can influence cost, workload, and the buyer has alternative sources that can provide the products or services. Operation of the program or organization as a DWCF business area should result in a better identification of the full cost of operations and may also result in better quality goods/services and/or result in decreased costs to the federal government.

0203 DWCF CHARTER REQUIREMENTS

020301. Charter Format

The DWCF charter format is included in [Annex 1](#). Charter provisions are applicable to each DoD Component activity group included within the DWCF. The charter **must** describe the mission of **the** Component by activity group. Before charter preparation, actions **must** be taken to ensure that the proposed business entity meets the criteria listed in paragraph 020202. Activities must document these criteria as it applies to all proposals for new DWCF business entities, as well as, the addition of new lines of business within existing DWCF business entities.

020302. Charter Contents

Each charter **must** include the following as a minimum:

A. Statutory authority that authorizes the establishment of a DWCF activity or activity group.

B. Brief description of the mission of the activity or activities and nature of its products or services.

C. Designation of the organization (Management Command) directly below the departmental-level that has authority over the management of the DWCF activity group. Additionally, the charter **must** state whether the Management Command is funded from the DWCF.

D. Name and location of the activity or activities to be operated under the charter.

E. Statement of any policy exceptions specifically authorized for the fund's activity group or any activity included within the fund's activity group.

F. Cancellation of any previously approved charter(s), if applicable.

020303. Charter Support

Documentation supporting the charter application of an activity requesting entry into the DWCF **must** include:

A. Explanation of how the proposed DWCF activity meets the minimum criteria **identified** in paragraph 020202 and any additional OUSD(C) requirements for the specific activity or activities.

B. Justification of any exception to the provisions in [Chapter 1](#).

020304. Amendment or Cancellation of Charters

Requests for cancellations or amendments of existing charters **must** be forwarded to the OUSD(C), [P/B Operations Directorate](#) for approval and supported by the following information:

A. Justification for the proposed action that may consist of copies of supporting evaluations or studies.

B. Information as to the disposition of assets and liquidation of liabilities, as necessary.

020305. Annual Charter Review

The DoD Components **must** review DWCF operations each fiscal year to ensure that the charters are current. Any required changes **must** be submitted to the OUSD(C), [P/B Operations Directorate](#) in accordance with paragraph 020304.

0204 COMMENCEMENT OF [DWCF OPERATIONS](#)

Upon charter approval and commencement of DWCF operations, financial control over initial appropriations, assets, liabilities, and capital **must** be established in accordance with the following guidance:

020401. Initial Appropriation and/or Reappropriation

A. Before a DWCF activity can begin operations, it needs fiscal resources. To begin initial operations, a DWCF business entity is provided necessary capital either by a nonexpenditure transfers from another DWCF or appropriation, following congressional notification required by 10 U.S.C § 2208(r); or Congress may appropriate initial capital in response to a request in the President's budget submission to Congress. The latter is necessary when the level of anticipated cash available is estimated to be insufficient during the initial fiscal year of operation. Appropriations made available to commence operation of a DWCF entity remain available for obligation without fiscal year limitation for their specified purpose until expended or withdrawn.

B. A reappropriation to a DWCF activity is statutory authority to restore or extend the obligational availability of all or part of the unobligated balance of budget authority that has expired or would otherwise expire in an annual or multiple-year appropriation. Typical budgetary and proprietary accounting entries applicable to receipt and distribution of appropriations and reappropriations are illustrated in Volume 3, Chapter 13. The accounts established for use by departmental-level accounting entities are outlined in the DoD United States Standard General Ledger (USSGL) Transaction Library located on the Standard Financial Information Structure ([SFIS](#)) web page. For additional information regarding DWCF distribution of budgetary authority, refer to guidance issued by the OUSD(C), Deputy Chief Financial Officer, "[Accounting for Internal Distribution of Budgetary Authority–Defense Working Capital Fund](#)," (DoD Common Access Card is required to access the link).

020402. Initial Assets and Liabilities

A. To commence operations, working capital may be provided by a nonexpenditure transfer of fund balances from another appropriation or federal (general) fund account to the DWCF account. Volume 3, Chapter 13 contains information about nonexpenditure transfers.

B. Personnel assigned from an appropriated fund activity to a DWCF activity are accompanied by a liability for accrued earnings and annual leave earned by those employees prior to their transfer. Payment in the form of cash or other equivalent assets such as inventories or equipment **must** be made to the receiving DWCF activity for the liabilities assumed.

C. Assets provided from other appropriations or funds to commence operations of a DWCF activity **must** be recorded as Financing Sources Transferred in Without Reimbursement. The DWCF **must** record a liability for an item transferred from a non-DWCF account only when the item is undelivered at the time of the transfer and the obligation for the item on the books of the organization from which the item was transferred resulted from a reimbursable order from a customer. Otherwise, bills for assets on order at the time of the transfer to the DWCF **must** be paid by the appropriation or fund originally ordering the item. This is appropriate since the original appropriation or fund ordering the item was funded through the budget process to procure the item.

D. Depreciation of capital assets that are transferred into a DWCF activity without reimbursement and with no pre-existing depreciation schedules or accumulated depreciation, **must** be calculated based on the net value (original acquisition cost less calculated accumulated depreciation) plus any associated costs for transportation, installation, and other related costs necessary to put the asset into operational use. For additional information on accounting for **general Property, Plant, and Equipment (PP&E)**, refer to Volume 4, Chapter 25, “General Equipment.”

E. At the time of initial capitalization, Financing Sources Transferred In Without Reimbursement **must** equal the value of all assets excluding the nonexpenditure transfer of **U.S. Department of the Treasury (Treasury)** fund balances from other appropriations, plus the initial appropriation transferred to the activity without reimbursement or assumption of liability by the DWCF, less the sum of the obligations transferred to the activity for which DWCF resources are liable for future disbursement.

0205 TRANSFER OF DWCF FUNCTIONS

020501. Transfer Actions

The general actions and related procedures in paragraphs 020502 through 020508 **must** be followed when transferring all or a portion of the functions from a DWCF activity to another DWCF activity or to an appropriation funded activity. Specific actions and procedures **are** usually necessary to accommodate unique circumstances of the transferring activities.

020502. Functions to be Transferred

In the case of a partial transfer of functions, specific negotiations **must** take place between the affected organizations to identify specific functions that are to be transferred, the effective date(s) of transfer, and the disposition of functions not transferred. Action must be taken to ensure that valid requirements are funded by the activity having the requirement. Follow-on negotiations should identify and remedy any initial oversight and specific directions should be provided once these follow-on actions are complete. All actions taken **must** be consistent with the negotiated agreements. Pending final negotiations, all excluded functions **must** remain with the current organization.

020503. Physical, Financial, and Personnel Resources

The organizations involved **must** identify resources to be transferred incident to the functional transfer. Follow-on actions **must** identify resources not recognized in the original negotiations, and specific directions **must** be provided commensurate with finalized agreements. All actions taken **must** be consistent with negotiated agreements.

020504. Interim Funding

If an interim funding method is to be used to fund the transfer, pending resolution of other issues, the organizations involved will determine the method and intended duration of the interim funding. Funding provided by a locally established order should not exceed 30 days.

020505. Budgetary Accounts

A. There should not be an automatic transfer of budgetary account balances from the losing activity to the gaining activity. Where items included in an existing obligation or order are for continuing services or other requirements of the transferred entity, an agreement must be negotiated between the losing and gaining activities. This agreement must specify whether accountability will remain identified to the losing activity, or if documents will be modified to reflect the gaining fund cite and paying office. In instances where accountability remains identified to the losing activity, a reimbursable support agreement **must** be negotiated, and accounting support **must** continue to be provided by the losing activity and paid for by the gaining activity. [For more information regarding support agreements, refer to DoD Instruction \(DoDI\) 4000.19, "Support Agreements."](#)

B. All actions relating to the fiduciary aspects of the transfer will be captured and monitored as part of the overall transfer plan. A senior financial official from the organizations involved and the servicing DFAS site will be identified and accountable for ensuring the integrity of the post transfer financial balances. Specific action items will be identified in the transfer plans to ensure that all account balances are maintained and properly liquidated subsequent to the transfer. Transferred balances will be closely monitored to ensure that pending and in-process transactions are properly posted in a timely fashion, and balances are not orphaned. The following actions are needed for the transfer of outstanding commitments, obligations, and unfilled customer orders.

1. Outstanding commitments for functions to be transferred from the losing activity should be canceled, but only when managed in coordination with the gaining activity to ensure that the procurement cycle is not interrupted. Concurrent with cancellation at the losing activity, the new commitment **must** be entered into the accounting system by the gaining activity, and purchases under the document **must** reflect the gaining activity as the accountable entity. In those cases where cancellations of an outstanding commitment would unduly interrupt the purchase cycle, a [modification to the outstanding order or continued funding by the original ordering activity may be made for reimbursement to the gaining activity.](#)

2. Undelivered orders and other outstanding obligations account balances **must** not be transferred from the losing activity to the gaining activity without validation. [If orders cannot be validated, they must be canceled or stay on the books of the losing activity.](#) All undelivered orders and other outstanding obligations for goods and services ordered but undelivered directly related to functions transferring from the losing activity **must** be reviewed, and decisions made on the appropriate disposition for each transaction. Undelivered orders and other outstanding obligations for items or services no longer required **must** be canceled, and any termination costs, which result from the cancellation, **must** be the responsibility of the losing

activity. If outstanding obligations support a continuing need, that need either may be filled through a modification to the undelivered order or continued funding by the original ordering activity with reimbursement from the new requiring activity.

3. Unfilled customer order account balances **must** not be transferred from the losing activity to the gaining activity without validation. Unfilled customer orders citing current funding which are directly related to functions transferring from the losing activity **must** be reviewed to determine what orders for goods or services remain outstanding, and to identify the activity responsible for providing these goods or services to the customer. If goods or services are to be provided by the gaining activity, reimbursement to the gaining activity may be provided either through an amendment to the unfilled customer order or through funding provided by the losing activity. If an unfilled customer order is amended, the losing activity, along with the gaining activity, must ensure that the customer is advised of this decision. If goods or services are to be provided by the losing activity, the losing activity **must** continue to bill the customer, and return any remaining unobligated balances to the customer after the order is completed.

*020506. Proprietary Accounts

All actions relating to the fiduciary aspects of the transfer will be captured and monitored as part of the overall transfer plan. A senior financial official from the organizations involved and the servicing DFAS site will be identified and accountable for ensuring the integrity of the post transfer financial balances. Specific action items will be identified in the transfer plans to ensure that all account balances are maintained and properly liquidated subsequent to the transfer. Transferred balances will be closely monitored to ensure that pending and in-process transactions are properly posted in a timely fashion, and balances are not orphaned.

A. Actions required for the transfer of **real property** from one DoD entity to another is detailed in Volume 4, Chapter 24, “**Real Property.**” **Real property will be reported on the financial statements of the installation host. Real property is usually reported on the Military Department General Fund financial statements, but a Military Department Working Capital Fund (WCF) can report real property on its financial statements if it has been given jurisdiction over a specific installation. WCFs or other business like activities must impute costs in accordance with SFAS 55. These imputed costs would include depreciation expense. The imputed costs will include what would otherwise have been depreciation expense for real property assets and improvements that were funded by the WCF and subsequently transferred to the General Fund, as well as any depreciation expense or other costs for assets not funded by the WCF. See Annex 2 of Volume 4, Chapter 24 for determining applicable imputed costs. Transfers of assets must include all relevant supporting documentation, as detailed in Volume 1, Chapter 9, “Financial Records Retention.”**

B. Information on Construction-in-Progress (CIP) may be found in Volume 4, Chapter 24. The funding entity reports CIP for real property (including improvements) in its CIP account until the asset or improvement is placed in service. The funding entity also relieves CIP when the asset or improvement is placed in service.

C. Detailed information on work-in-process may be found in Volume 4, Chapter 4, “[Inventory and Related Property.](#)” Work-in-process for customers (unfilled customer orders) **must** not be transferred from the losing activity to the gaining activity without validation. Transactions outstanding prior to the transfer **must** remain on the accounting records of the losing entity until completed, canceled, or reissued as a gaining activity responsibility.

D. [Additional](#) information on raw materials may be found in Volume 4, Chapter 4. Raw materials on hand that **must** be transferred should be validated prior to their transfer. If the precise value of raw materials for which accounting is to be transferred cannot reasonably be validated prior to transfer, representatives from both the losing and gaining activity **must** jointly review the most current physical and financial reconciliation records available. Concurrently, any apparent abnormal financial values or financial transactions, which appear abnormal, **must** be jointly reviewed and a consensus reached as to the reliability of records being transferred. Statistical sampling or other methods of verification should be used, as appropriate. Records of accountability being transferred must be as reasonably accurate as possible. Raw materials accounting transfers **must** be based on the mutually validated on hand values of the accountable records of the losing activity. Accountability for raw materials **should** be maintained using existing supply and financial records.

E. Detailed information on inventory may be found in Volume 4, Chapter 4. Inventory in transit is the value of items moving between a DoD supply activity and a contractor or other government supplier, or moving between storage locations within a DoD Component. Amounts posted to this account are based upon ownership acceptance, or payments made for materiel not yet physically received. Amounts recorded in this account are supported by individual documents evidencing the ownership acceptance or payment prior to receipt. Inventory transfers **must be performed in accordance with the procedures described in Volume 4, Chapter 4.**

F. Detailed information on accounts receivable may be found in Volume 4, Chapter 3, “[Receivables.](#)” Accounts receivable that are to be transferred should be validated prior to their transfer **by** representatives from both the losing and gaining activity. Records of accountability being transferred must be as reasonably accurate as possible. Any adjustment amounts **must** be included on the accountable records of the losing activity. Action may be taken to terminate collection action and write off the debt when the criteria in Volume 4, Chapter 3 apply. All remaining and transferred balances will be closely monitored by the involved organizations and the servicing DFAS to ensure timely and proper liquidation occurs.

G. Detailed information on liabilities may be found in Volume 4, Chapters 9 and 10.

1. If the precise value of accounts payable for which accountability is to be transferred cannot reasonably be validated prior to transfer, representatives from both the losing and gaining activity **must** jointly review the most current physical and financial reconciliation records available. Statistical sampling or other methods of verification should be used, as appropriate.

2. The liability for accrued payroll and annual leave for employees transferring from a revolving fund activity to another revolving fund activity or to an appropriated activity becomes a liability to the gaining activity as of the date of the transfer. This liability **must** be recorded on the respective records in the appropriate net position and liability accounts. The losing revolving fund activity **must** provide a listing to identify individuals transferring and confirm the value of the leave liability of those employees. Regardless of the contributing event, a revolving fund activity that loses employees through reorganization or transfer to an appropriation-financed activity **must** transfer cash equal to the accrued payroll to the gaining appropriated fund activity and cash equal to the amount of any funded accrued annual leave value to the Treasury as miscellaneous receipts.

H. Detailed information on net position may be found in Volume 4, Chapter 15. An increase to net position is recognized when an activity operating within the DWCF receives an asset that **does** not require the use of available resources to finance the item. Conversely, a decrease to net position is recognized each time an activity receives a liability (e.g., accounts payable and unfunded annual leave) from another activity for which payment in the form of cash or other assets is not provided. Entries vary depending on what is being transferred. Various situations have been covered in the preceding paragraphs detailing transactions that impact net position. Additional information relating to Changes in Net Position may be found in Volume 6B, Chapter 6.

020507. Determine New Fund Citation and New or Revised Data Structure

A. A fund citation must be used on all accounting documents. To permit continued operation of transferred functions by the gaining activity, the gaining activity **must** ensure that the proper fund code is provided to those installations transferring to its command and that instructions for preparation of requisitions are provided **with** sufficient **time** to ensure billing to the proper accountable activity. The fund citations provided must include the applicable accounting classification code, and must identify any applicable fund code(s), either system unique, or DoD-wide, or both. All obligating documents such as contracts, small purchase actions, travel orders, training requests, and requisitions prepared for purchase of materiel from the military supply system or the General Services Administration **must** cite the gaining activity accounting classification code.

B. A **DoD Activity Address Codes** (DoDAAC) is used to identify a DoD installation (or, in some instances, components thereof) for purposes of mail and communications, shipment of materiel, or billing for assets issued from the DoD military supply system. Each of the DoD Components controls the DoDAAC assignments; however, they are centrally maintained and distributed to the DoD Components by the Defense Automatic Addressing Systems Office to ensure total system visibility. The DoDAAC (in Navy terms, the Unit Identification Codes) is required on Military Standard System requisition documents to ensure compatibility with the logistics management systems. These requisition documents become obligating documents and are the basis for creation of other logistics and financial documents. The circumstance of each transfer action may require identification of the transferred or consolidated segment of the losing activity as a new entity. In such cases, new DoDAACs **must** be established and distributed to applicable activity personnel to ensure the proper preparation and subsequent processing of

transactions for accounting and reporting. Concurrently, each transfer **must** be evaluated to ensure that all Service Code assignments, fund code assignments, routing identifier codes, and all other Military Standard supply and financial systems coding have been established consistent with the transfer status of the new entity. [Additional information relating to DoDAACs can be found in the Defense Logistics Manual \(DLM\) 4000.25, Volume 6, Chapter 2.](#)

020508. Other Actions Required to Accomplish the Accounting Transfer

A. Reimbursable agreements may exist between the losing installation and other entities for the provision or receipt of services and other support. It is essential that such reimbursable agreements be identified and that the gaining activity and the providing or receiving entity negotiate Intra-Service Support Agreements or Service Support Agreements to define reimbursable services and support to be provided and received. [The agreement should be in accordance with DoDI 4000.19.](#)

B. The transfer of payroll processing **must** normally be accomplished either at the beginning of a pay period or at the beginning of a fiscal year. Whenever payroll transfers occur, an agreement **must** be negotiated between the activities as to the date to be used for transfer. The losing activity is responsible for the salary and benefits of all transferring employees through the agreed upon transfer date. The losing activity also **must** be responsible for payment in the form of cash or other assets for any unused compensatory time, and merit pay bonuses earned by transferring employees for the fiscal year.

C. Travel advances and outstanding travel obligations for travel, which has occurred, or is in-process, **must** remain with the losing activity pending settlement. Only travel for transferring activity personnel [beginning](#) after the effective date of the transfer **must** be an obligation of the gaining activity. The losing and gaining activity **must** jointly review outstanding travel documents and deobligate those no longer valid. Where temporary duty begins before and ends after the effective transfer date, travel documents **must** contain fund citations (and appropriate estimates) to ensure payment of travel costs commensurate with the duty station of the individual during each of the travel periods. Separate travel documents for each period are recommended. Copies of all related travel documents **must** be provided to both the losing and gaining activities to ensure proper processing. The losing activity **must** prepare the travel order, and make appropriate disbursements. Amounts charged to the gaining activity **must** be processed as a Transaction for Others or other agreed upon procedures by the losing activity. Losing activities **must** always obtain authority to cite gaining activity funding on travel orders.

D. If an outstanding contract(s) is essential to the needs of another DoD activity, that need may be filled through a contract modification citing the appropriation or fund of the other DoD activity. It is especially important that contracts for PP&E be terminated when feasible. Termination costs that result from the cancellation **must** be identified as base closure costs.

E. A contract modification **must** be sent to contractors, under normal change procedures, for each contract for which the responsibility for contract payment is transferred. This is necessary to advise the contractor of a change in paying office. If responsibility for both contract

payment and accounting for the losing and gaining activity remains unchanged, a contract modification is not necessary. Instead, the accounting office **must** transfer transactions (i.e., payments, refunds, collections) identified to the losing activity that properly belong to the gaining activity and record those transactions as a transaction of the gaining activity. Concurrently, for reports to the Treasury, disbursement and collection values are reported as if they occurred within the gaining activity.

F. The gaining activity **must** develop procedures to control and manage the required accounting and system changes. Account control totals and other internal control mechanisms **must** be developed and used to **ensure** that accounting integrity is maintained.

G. The gaining activity **must** provide specific instructions to new organizational elements transferred to it including points of contact, office symbols and phone numbers, in order to continue the reporting function in an efficient and effective manner.

0206 CLOSURE OF DWCF ACTIVITY

020601. Funding

The DWCF does not have any funds available to them for payment of costs or absorption of losses that are not related to their output. Reimbursable rates developed for DWCF activities generally recover only costs incurred in providing requested goods or services. Costs over and beyond those costs generally are not considered in reimbursement rate computations. As a result, the DWCF does not have, through their normal operations, funds available for payment of costs resulting from closure actions that are directed by higher authority such as the BRAC Commission. The OUSD(C), P/B, Directorate for Military Construction provides instructions applicable to budget formulation and congressional justification for BRAC appropriations.

020602. Closure Actions

The following general actions and related procedures **must** be followed upon notification that a DWCF activity is to be closed. In the case of a partial transfer of a particular function, specific actions and procedures are identified in [section 0205](#). Specific actions and procedures **are** usually necessary to accommodate unique circumstances of the closing activities.

A. The organizations involved **must** identify the specific functions to be terminated and the disposition of these functions. Specific guidelines on the disposition of these functions **must** be provided once the review is complete.

B. The organizations involved **must** identify and validate the physical, financial, and personnel resources to be disposed of or terminated at the closing activity. Specific directions **must** be provided once the review is complete.

C. The organizations involved **must** identify any interim funding method and intended duration. If an interim funding method is to be used to fund the closure, the affected organizations **must** determine the method and intended duration of the interim funding. Funding provided by a locally established order should not exceed 30 days.

D. The organizations involved **must** identify outstanding commitments for the functions of the closing activity to be terminated. Outstanding commitments that are not necessary should be canceled.

E. The organizations involved **must** review all existing contracts not directly associated with a funded customer order and terminate those for which the contracted service or good is, or **must** be, no longer essential. It is especially important that contracts for PP&E be terminated when feasible. Termination costs that result from the cancellation **must** be identified as base closure costs.

F. The organizations involved **must** review and validate the undelivered orders and other outstanding obligations of the closing activity. In addition, the accounts payable, the accounts receivable to include unbilled accounts, and the unfilled customer orders, should also be reviewed and decisions made on the appropriate disposition of each transaction. [Refer to paragraphs 020505 and 020506 for additional information regarding these actions.](#)

J. The organizations involved **must** reconcile financial and logistic stock records with physical inventories; determine whether quantities on hand are in excess of requirements to complete the remaining productive workload and other closeout needs; purge the inventories of all obsolete, damaged and surplus items; and dispose of excess material and supplies in accordance with logistics inventory policies and procedures. [For detail information on inventory refer to Volume 4, Chapter 4.](#)

K. The organizations involved **must** review and validate outstanding travel advances and travel obligations. Travel that is no longer required **must** be deobligated. Outstanding travel advances and travel obligations for which travel has occurred, or is in-process, **must** be liquidated prior to closing the activity.

L. The organizations involved **must** review and validate advance payments received in advance of performance. If the closing activity has received payment for ordered work in advance of its performance, then the amount of the advance less the amount of obligations, if any, incurred in partial completion of the order **must** be returned to the financing appropriation. If the amount of the advance is less than the obligations incurred, the closing activity **must** bill the customer for the unreimbursed obligations incurred and ensure that collection is received prior to closing. Move cost to overhead expense when the BRAC funds expire.

M. The organizations involved **must** prepare fiscal year-end financial statements for the closed activity.

N. The organizations involved **must** forward a request for cancellation of existing charters to the OUSD(C), [P/B Operations Directorate](#).

020603. Financing BRAC Related Costs

Costs at a DWCF activity must be financed by a BRAC account when those costs are a direct result of a BRAC determination that a base is to be closed. Stated in a different manner, charges for goods and services provided through DWCF may not include amounts necessary to cover costs incurred in connection with the closure or realignment of a military installation. The BRAC costs are those required to carry out actions that are in direct support of closing or realigning bases. Prior year, current year, or budget year operating losses in the DWCF **must** not be budgeted in the BRAC base closure accounts. Although overhead associated with the costs listed **in this section must** be charged to the BRAC account, increases in overhead on existing and new customer work **must** not be considered a direct result of a determination that a base be closed and, therefore, **must** not be charged to a BRAC account. Costs identifiable directly to base closure actions **must** be accumulated separately for reimbursement from a BRAC account. Costs attributable to base closure actions include:

A. Environmental Restoration and Mitigation includes reducing, removing and recycling hazardous waste, and removing unsafe buildings and debris.

B. Planning includes advance planning and design that may be required to transfer functions from an activity being closed to another military installation.

C. Outplacement Assistance in relocation, training, or other necessary assistance to civilian employees employed by the Department at installations being closed.

D. Community Programs include economic adjustment assistance to a community in which the closed base is located, or community planning assistance to the community to which functions **must** be transferred as a result of closure of a military installation.

020604. Financing Non-BRAC Related Base Closure Costs

Paragraph 020603, specifies costs to be financed from a BRAC account. Other costs at an activity undergoing closure, or to be closed, **must** not be financed by a BRAC account even though the closure was directed as a result of a determination of a BRAC. Those other costs **must** be financed either by the DWCF (initially) or by an operations and maintenance appropriation.

A. The following **must** be financed by the DWCF (initially) to the extent permitted by amounts available from existing and new customer orders:

1. Current year costs in support of customer orders.
2. Prior year, current year, or budget year operating losses.
3. Increases in overhead even though those increases could be attributed to decisions to close bases.

B. The following **must** be financed through a transfer from the Operations and Maintenance (O&M) appropriation of the DoD Component responsible for the activity incurring the following costs and loss:

1. All costs at a closing activity in the year of closure that are not associated with a valid work order or are as a result of other than a determination of a BRAC that the activity be closed.

2. Direct and indirect (including General and Administrative) operating costs for which there are not sufficient resources in existing customer orders or other resources of the closing activity.

3. Current year and prior year losses (to the extent not financed from existing and new customer orders as stated in subparagraph 020604.A.2) **must** be financed as a pass through from the O&M appropriation of the DoD Component responsible for the activity incurring the loss.

020605. Procedures for Requesting DoD Base Closure Account Funds

To request an allocation of DoD base closure account funds, an activity that has been selected for closure by a DoD BRAC determination **must** request guidance from the OUSD(C), P/B Directorate for Military Construction.

020606. Allocation of DoD Base Closure Account Funds

Upon **OMB's** approval of a Standard Form (SF) 132, "Apportionment and Reapportionment Schedule," for the base closure account, the OUSD(C), P/B, Directorate for Military Construction **must** provide a Fund Authorization Document to the Director for Budget and Finance, Washington Headquarters Services (WHS) to fund the Financial Plan as approved. The Director for Budget and Finance, WHS, in accordance with direction received from the Directorate for Military Construction, **must** allocate DoD base closure funds to the Military Departments or Defense Agencies. Upon receipt of the allocation from the WHS, the Military Departments or Defense Agencies **must** distribute the base closure funds to the installations responsible for base closure actions. Upon receipt of the fund distribution, the installation **must** record the allotment from the DoD base closure account. Budgetary accounting entries to distribute direct funds to an installation-level **are** illustrated in the **DoD USSGL Transaction Library**.

020607. Use of DoD Base Closure Account Funds

An activity **must** implement base closure and realignment actions and administer its allocation of base closure funds in accordance with the approved financial plan. The prior approval of the **OUSD(C), P/B, Directorate of Military Construction**, is required if a project that does not appear on the approved financial plan is to be executed. The general ledger entries for recording the accounting transactions on the use of direct funds are **illustrated in the DoD USSGL Transaction Library**.

020608. Base Closure Account Reporting Requirements

An installation receiving an allotment of DoD base closure account funds **must** prepare a report on the status of its allotment. The status report **must** be transmitted to the entity from which the allotment was received in accordance with the reporting due dates required by that entity.

*020609. Disposition of PP&E Assets

A. The loss (or gain) from the sale, lease, or other disposal of PP&E assets **must** be recorded by the activity having **financial reporting responsibility of the real property asset (i.e., the real property asset Financial Reporting Organization Code)**. The sale, lease, or other disposal action **must** be recorded only in proprietary accounts of that installation. Any proceeds generated from the sale, lease, or other disposal of PP&E assets does not add to, or otherwise affect, the budgetary accounts of that activity. **All disposals must be supported as of the date the real property leaves the custody of the DoD Component to provide an adequate audit trail for the disposal of the asset. The execution of certain disposal events will generate financial or administrative accountability transactions. For a list of acceptable supporting documentation refer to Volume 4, Chapter 24.**

B. Proceeds resulting from disposal of **real property assets (to include land)** due to a base closure directed by a BRAC **must** be deposited as reimbursements into the DoD **Base Closure Account**. Proceeds resulting from disposal of **real property assets (to include land)** due to a base closure directed by other than a BRAC **must** be deposited as reimbursements into the appropriate Treasury miscellaneous receipt account. Examples of transactions involving proceeds resulting from the transfer or disposal of PP&E include funds derived from temporary leases of government property and property upon which settlement has occurred and title has been passed to the new owners. “Good faith” deposits or earnest funds should be deposited **in** the Budget Clearing Account (Suspense), F3875, until finalization of the sale (settlement) takes place. Upon finalization of the sale (settlement), deposits made to the Budget Clearing Account (Suspense) **must** be transferred to the appropriate Treasury miscellaneous receipt account. Per the Treasury Financial Manual **Bulletin 2020-05**, and consistent with OMB Circular A-11 guidance, the suspense account F3875 is to temporarily hold **transactions that belong to the government until the transaction is matched to a specific receipt or expenditure account.**

C. A copy of deposit documents, or other notification, **must** be provided to the Defense Finance and Accounting Service for all deposits made to a base closure account. The deposit document or other notification **must** identify the specific base closure account to which the deposit was made.

020610. Withdrawal of Direct Appropriations or Reappropriations

The withdrawal of a direct appropriation or reappropriation is recorded at the departmental-level. The withdrawal of the allocation, if any, of an appropriation or reappropriation issued to the intermediate or activity-level is recorded as a decrease at the intermediate and activity-level and as an increase at the departmental-level as appropriate. The DoD USSGL Transaction Library is the source for the typical budgetary and proprietary accounting entries applicable to receipt, allocation and withdrawal of appropriations.

020611. Cumulative Results of Operations

A DWCF activity that is undergoing closure should request reimbursement for its recoverable costs, as specified in paragraph 020604: (1) customer accounts for costs attributable to normal day-to-day operations, (2) the account financing the closure for costs attributable to closure activity, and (3) transfer from the O&M appropriation of the DoD Component responsible for the activity for costs in the year of closure, including prior year losses, that are not associated with a valid work order or are as a result of other than a determination of a BRAC that the activity be closed. All reimbursements and costs (including extraordinary gains and losses) flow to Account 331000, "Cumulative Results of Operations (Normal)." This account displays the net difference since the inception of the Activity between 1) expenses and losses, and 2) financing sources including expended appropriations, revenues, and gains. The account is increased by revenues and the value of assets transferred in; and reduced by expenses requiring current resources, expenses not requiring current resources, expenses recorded that are not currently funded and transfers out.

B. Upon completion of all operations and all closure activity, Account 331000 of the closed activity must have either a positive or a negative balance. If any portion of the balance in general ledger Account 331000 (Normal) is deferred for recovery from, or return to, customers in the subsequent fiscal year stabilized rate or standard price development that deferred amount must be transferred to general ledger Account 331000 (Deferred). Entries to general ledger Account 331000 (Deferred) must not be made unless the decision to recover or return such amounts from cumulative results of operation was authorized by the OUSD(C), P/B Operations Directorate. Additional information relating to cumulative result of operations may be found in Volume 4, Chapter 15.

020612. Residual Assets

Any financial assets (e.g., cash, receivables, and unobligated authority) that remain after the closing actions are performed must remain in the DWCF and are available to meet the overall requirements of the DWCF or other obligational authority requirements as may be authorized. All remaining residual asset account balances must be reviewed and validated to determine appropriate actions to be taken. The residual balances must be reduced to zero within one year from the date an activity ceases operations. These actions must be documented in writing and provided to the appropriate management command for action.

020613. Residual Liabilities

Any financial liabilities (e.g., payables and obligated authority) that remain after the closing actions are performed must remain in the DWCF. All remaining residual liability account balances must be reviewed and validated to determine appropriate actions to be taken. The residual balances must be reduced to zero within one year from the date an activity ceases operations. These actions must be documented in writing and provided to the appropriate management command for action.

***ANNEX 1: CHARTER FORMAT**

**DEPARTMENT OF DEFENSE
(MILITARY DEPARTMENT/DEFENSE-WIDE) WORKING CAPITAL FUND
(TITLE OF WORKING CAPITAL FUND ACTIVITY GROUP,
e.g., SUPPLY MANAGEMENT) CHARTER**

1. AUTHORITY

The (insert the name of the working capital fund and the fund’s activity group), is (was) established, effective _____ (DATE) _____, under the authority of Title 10, United States Code, Section 2208. Operations of the (insert the name of the fund’s activity group) must be conducted in accordance with applicable Department of Defense policies and regulations.

2. MISSION

(Provide a brief statement of the mission of the fund’s activity group.)

3. MANAGEMENT COMMAND

(Provide the name and location of the fund’s activity group management command.)

4. ACTIVITY COMPOSITION

See Attachment. (Attach a list of each activity included within the fund’s activity group and each activity’s location. The attachment should include an “as of” date.)

5. AUTHORIZED EXCEPTIONS

(Indicate any policy exceptions specifically authorized for the fund’s activity group or any activity included within the fund’s activity group. Also, explicitly state/reference the document approving that exception. Documentation supporting any authorized exceptions must be submitted with the charter request. If no exceptions are authorized, state “None.”)

DEPARTMENT OF DEFENSE
(MILITARY DEPARTMENT/DEFENSE-WIDE) WORKING CAPITAL FUND
(TITLE OF WORKING CAPITAL FUND ACTIVITY GROUP,
e.g., SUPPLY MANAGEMENT) CHARTER

6. CANCELLATION

(This section provides for the cancellation of any previously approved charter(s). Identify the previous approved charter(s) with its date(s) and specify that it hereby is canceled as a result of the approval of this charter.)

Submitted by: _____
(Title of Submitting Official)

Approved: _____
Under Secretary of Defense (Comptroller)

DEPARTMENT OF DEFENSE
(MILITARY DEPARTMENT/DEFENSE-WIDE) WORKING CAPITAL FUND
(TITLE OF WORKING CAPITAL FUND ACTIVITY GROUP,
e.g., SUPPLY MANAGEMENT) CHARTER - ATTACHMENT

ACTIVITY COMPOSITION: (As of DATE)

(List each activity included within the fund's activity group and each activity's location.
Include page number if list is longer than one page.)

<u>Activity</u>	<u>Location</u>
(Name of Activity)	(City and State)

Attachment