

**VOLUME 11B, CHAPTER 15: “SUPPLY MANAGEMENT ACTIVITIES”****SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

Substantive revisions are denoted by an \* 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 December 1994 is archived.

<b>PARA</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
<b>ALL</b>	Restoration of deleted sections of Volume 11B Chapter 55	Clarification
150302	Expanded the definition of Standard Price	Clarification
150302	Defined Materiel Cost	Clarification
150302	Expanded the definitions of cost recovery elements	Clarification
150302	Revenue from operations other than the sale of inventory should be classified as “Other Income”.	Clarification
150402	Unfunded Contract Authority requires a source of reimbursement	Clarification
150403	Liquidation of Contract Authority	Clarification

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**CHAPTER 15****SUPPLY MANAGEMENT ACTIVITIES**

## 1501 GENERAL

This chapter provides the policies and procedures to guide budget formulation and execution for supply management activities of the Defense Working Capital Fund (DWCF).

## 1502 BACKGROUND

This guidance is applicable to all DoD working capital funds.

## 1503 PRICING OF INVENTORY ITEMS

## 150301. Introduction.

Policies and procedures to be used in the budget development of prices for supply management activity items are contained in Volume 2B, Chapter 9, "Defense Working Capital Funds Activity Group Analysis", DoD Financial Management Regulation, DoD 7000.14-R.

## \*150302. Standard Price

Standard price is the current value of inventory plus all cost recovery elements required to ensure that sufficient budgetary resources are available to fund the entire cost of operations. As a general rule, each cataloged item with an assigned national stock number, and under DoD Inventory Control Point management, shall have a standard price for sales to all authorized customers. Non-DoD customers providing direct support to DoD related mission requirements shall be charged the standard price. All other non-DoD customers will be charged as prescribed in Volume 2B, Chapter 9 section 090103. Exceptions to this policy may be authorized elsewhere in this chapter. Components shall establish product prices at the lowest practical item level in order to promote cost visibility/management and to motivate cost effective customer/supplier behavior. At a minimum, prices should be established by Federal Supply Class (FSC) or other comparable level at which specific cost allocations can be made. Product pricing levels above the FSC must be approved by the Director of Revolving Funds, Office of the Under Secretary of Defense (Comptroller). The standard sales price of each item shall be determined in advance of the execution year to allow for publication before the price is effective. The standard sales price becomes effective for billing purposes on the first day of the fiscal year. A standard price will not be changed during the fiscal year without the prior approval of the Director of Revolving Funds except as stated in paragraph 150305 of this chapter. The dollar amount of unfilled customer orders accepted at the previous fiscal year's standard price shall be adjusted (upon notification to the customer) to reflect the latest standard price when notice of the price change is received. Normally, all recurring local procurements shall be cataloged and assigned a local standard price including any retail level cost recovery element except when the volume of local procurements of an item does not justify the assignment of a local standard price. In those cases,

a local purchase of such a nonstandard item shall be priced based upon procurement cost plus any retail level cost recovery element.

A. Latest Acquisition Cost (LAC) should be used to establish an inventory item's unit standard price for materiel cost. LAC is the most current cost of a representative procurement. LAC may be calculated by dividing the most current cost amounts by the sum of their quantities. For items without a procurement history, an acquisition cost may be estimated based upon current manufacturer's price listings or market price quotations. The acquisition cost of an item procured by means of a multiyear contract may include upfront costs such as setup costs that will not be incurred in future years. In those situations, the setup cost should be prorated over the total planned volume of items to be purchased under the contract. Undefined Contract Actions (UCAs) may be used as the basis for updating LAC. However, in these cases the "not to exceed price" will be used, not the "award price."

B. Total cost recovery is the sum of the dollar amount of all non-materiel costs. The cost recovery rate is calculated by dividing total non-materiel costs by total materiel costs. This represents the percentage markup on materiel costs required to operate the supply activity. The sum of non-materiel and materiel costs represents the amount of revenue required (standard price) to liquidate the total amount of contract authority requested in order to break-even. These cost elements should be displayed on the SM-5a budget exhibit (See Volume 2B, Chapter 9). These factors are also used to calculate the stabilized rate for supply activities.

1. The basis for the Cost Recovery Rate (CRR) is a markup on total materiel costs to cover operating costs. Total materiel costs represents total replenishment costs for all materiel sold to customers. The basis for replenishment costs is the authorized representation of inventory valuation (LAC). To this value, cost elements for inflation, product cost growth, loss/obsolescence/damage/washout, and provisioning may be added. Normal inventory costs to be included in this cost recovery element are the net of losses and gains from incoming and outgoing shipments, physical inventory adjustments, inventory losses as a result of shrinkage, theft, deterioration, damage contamination, defective items if not reimbursed by supplier, obsolescence, and adjustments to reconcile internal records. Obsolescence consists of the current replacement cost of new or modified items required to replace items no longer needed due to changes in technology, laws, customs, or operations (for example, modification or replacement of a weapon system or commodity). Extraordinary losses such as those due to armed hostilities, riot, or significant damage due to fire, flood, earthquake, storms, or other abnormal events are not normal inventory losses and should not be included in the cost recovery element for inventory expenses. Appropriations should be sought from Congress to fund extraordinary losses.

(a) Inflation is the dollar amount of the standard rate of inflation as published by the Office of Management and Budget (OMB).

(b) The Product Cost Growth Factor (PCGF) is a cost element to account for any anticipated price growth beyond standard inflation.

(c) Loss/obsolescence/damage/washout is a cost element that is associated with any costs that are expected to be incurred for these types of situations where a replacement unit is required. Activities that manage maintenance and repair missions on an exchange carcass basis incur replacement cost for carcass washouts and losses. Carcass washouts (sometimes termed “condemnations”) are carcasses that, during the initial inspection, are determined to be repairable but during the repair process are determined to be unrepairable and are also determined to require replacement. If the carcass is determined to be unrepairable because of customer cannibalization or other malicious damage caused by the customer, the customer shall be charged the difference between the exchange price and the current standard price and this cost shall not be included in the surcharge element. Lost carcasses (for example, in transit to the customer or to the supply system) shall be investigated and necessary internal controls strengthened as required by DoDFMR Volume 12, Chapter 7.

(d) The provisioning cost element is provided in situations which a weapon system was originally fielded under a contractor logistics support agreement. If the contractor either fails to perform, or a decision is made at the component level to transfer program management to a DWCF supply activity, the component may decide to fund the provisioning action in the standard price of the item. The component may also decide to fund this action using contract authority without an immediate reimbursement so long as a funding source can be identified and used for reimbursement by the time of first delivery and the action has been pre-approved by the Director of Revolving Funds. Pre-approved reimbursable transactions of this type shall be recorded as “other income” and will not be included in the standard price.

(e) Inventory augmentation costs finance the acquisition of inventories which are required over and above demand replacement (excluding mobilization requirements which are financed by appropriations) to maintain the level of materiel support at the currently approved position. Inventory Augmentation is normally funded by direct appropriation, but may be included as a cost recovery element if approved by the Director of Revolving Funds.

2. Cost recovery elements for operating costs shall be included in the standard sales price of an item including payroll, personnel travel, transportation, defense agency billings, other WCF purchases, operating materiel and supplies, rent/communications/utilities, depreciation, transportation and other service contracts (See paragraph 150302 C of this chapter).

3. Infrastructure costs shall be identified separately and may include depreciation, capital programs (depreciation, capital surcharges) and systems sustainment recovery elements. Each fund manager may determine if reimbursement for infrastructure costs will be collected in the year the capital program is executed or over an approved depreciation schedule that allocates collections to the capital program.

4. Other cost recovery elements may be added to the price and must be approved by the Director of Revolving Funds during the budget submission. Typical revolving fund adjustments include Accumulated Operating Results adjustment, cash corpus retention and fund management adjustments.

C. The purpose of the cost recovery elements are to balance total revenues with total net operating costs, plus or minus changes in levels of assets, such as inventory or cash. Total net operating costs shall not include requirements funded by appropriations, such as war reserve appropriated amounts (see Volume 4, Chapter 4, paragraph 0405 for treatment of War Reserve Materiel). The costs to be accounted for within the recovery elements shall encompass:

1. The costs of operating wholesale inventory control points and wholesale supply depots shall be financed by the supply management activity. Such costs include civilian labor and benefits, military labor, supplies, purchased services, reimbursements to other Defense agencies that provide support to supply management operations. The cost of performing equivalent functions at the retail level (installation/area supply support) may be included in the cost recovery rate assessed by the wholesale activities if the retail activity is managing the distribution of DLA, GSA or any other government agency where an additional rate would not be applicable.

2. The costs incurred by separate activities and functions that exist primarily to benefit the mission of a wholesale inventory control point and/or a wholesale supply depot. Mission support cost pools shall be established that identify costs incurred by activities and functions that directly provide benefits to wholesale inventory control points and wholesale supply depots. These cost pools will include all costs (civilian labor and benefits, supplies, purchased services, and other costs) incurred in functions such as line management (command and control), staff management (policy functions), and centralized service functions (e.g., procurement, accounting, personnel, ADP, etc.). The portion of such overhead cost pools that directly benefit the supply management activity mission shall be allocated to, and reimbursed by, the supply management activity. The allocation shall be based upon the relationship of the cost of the benefits provided to the supply management activity to the cost for all activities or functions.

3. The term “shipping and transportation” includes costs for packing, crating, handling, transportation, and, where appropriate, port loading, and unloading. Items may be shipped from a stocking point (issues) or to a stocking point (returns).

(a) Costs to be included are transportation costs for items issued by the supply management activity. To the extent that first destination transportation is not included in the acquisition cost, an estimate of the cost shall be included in this element. Second destination transportation costs should be based on the assumption of average cost as adjusted by projected changes in the budget year. Second destination transportation costs financed by a supply management activity generally include only transportation within the continental United States (CONUS) and between overseas locations. An additional transportation charge shall be assessed for expedited delivery and delivery outside CONUS based on destination, e.g., Europe, Far East, Near East and for contingency operations.

(b) The costs of providing and managing commissary items, including related operating costs incurred to support the mission of commissaries, shall be identified as commissary operating costs. These costs include but are not limited to, costs incurred to support commissaries at a headquarters or regional level. Commissary operating

costs shall be charged to, and reimbursed by, appropriations made available to the Defense Working Capital Fund for commissaries and the commissary trust revolving fund as prescribed in DoD Instruction 1330.17, "Armed Services Commissary Operations."

(c) Costs to be included are shipping and transportation costs only for items approved by an item manager for return from DoD customers to the supply management activity. The supply management activity shall reimburse transportation and other shipping costs only for items approved by an item manager for return from customers. Shipping and transportation cost for items that have not been approved by an item manager for return from customers shall not be paid by the supply management activity.

(d) Costs to be included are shipping and transportation costs for the return of reparable exchange carcasses from customers. Customers will not be charged separately for carcass returns because supply activities factor shipping and transportation costs for customer returns of carcasses into cost recovery projections.

(e) Costs to be included are shipping and transportation costs for lateral distributions of stock when directed by an item manager. When a shipment is made at the direction of an Integrated Material Manager (IMM), the supplying (issuing) activity shall be reimbursed by the IMM for the costs of packing, crating, handling, and transportation to move that materiel.

4. If a supply management activity experiences a sudden decrease in volume of customer orders, it may require additional revenue in order to liquidate contract authority associated with undelivered inventory ordered from vendors. It may be obtained either through transfer or direct appropriation to the revolving fund, or by supply management activity establishment of a cost recovery element (or combination of both). Once undelivered order stock levels have stabilized to a level appropriate for the new volume of demand, any cash surcharge will be eliminated.

D. A cost recovery element used by a retail level supply activity:

1. Will include inventory (materiel) expenses. Inventory expenses applicable to the retail-managed items are the net impact of gains and losses at the retail level, obsolescence, and shelf-life deterioration.

2. May include other cost recovery elements, when approved by the Director of Revolving Funds.

E. Direct reimbursable costs are costs not associated with the primary operations of a business activity (such as selling inventory) and will be excluded from the cost recovery rates. Cost reimbursement is to be reported as "Other Income" on the AR 1307 and the Fund-14. All costs that are reimbursed in "Revenue from Sales" are considered operating costs and will be factored into the rates and the unit cost goal for that activity.

150303. Foreign Military and Private Party Sales

As prescribed in Volume 15, "Security Assistance Policy and Procedures," of this Regulation, the selling price of Defense Working Capital Fund items to Foreign Military Sales customers shall be the current Defense Working Capital Fund price for that item.

150304. Lateral Redistribution of Stock

An item manager may direct a lower stock level to issue stock when the total cost of such action is lower or when the item manager does not have stock available to meet a requisition's response time and the lower level does -- such action is termed "lateral redistribution." As provided in DoD 4140.1-R, DoD Supply Chain Materiel Management Regulation, billing procedures associated with lateral redistributions directed by an item manager will ensure an issuing activity is reimbursed for both the standard price of the materiel and the standard packing, crating, handling, and transportation costs associated with a redistribution. The item manager will bill the requesting activity for the standard price of the materiel and reimburse the issuing activity for the standard price of the materiel and the standard packing, crating, handling, and transportation costs.

150305. Authorized Changes of Standard Prices

DoD Components shall set product prices on an annual basis. Those prices cannot be changed during a fiscal year without justification to, and prior written approval of the Director of Revolving Funds. The only exceptions to the requirement for prior approval are:

- A. Subsistence items sold to a commissary may be changed on a procurement lot basis.
- B. Subsistence items sold for troop issue purposes may be changed on a monthly basis.
- C. Clothing items required for a mandatory clothing bag may be changed when a related change occurs in the clothing allowance for military personnel.
- D. Unit of issue changes.
- E. First time buys.
- F. Changes in logistical relationships between repairable items.
- G. Changes in prices for items managed as the secondary inventory control activity (SICA) for another agency.
- H. Gross pricing errors.
- I. Changes from non-supply activity to a supply activity.

- J. Changes in prices of components prices for sets kits and outfits (SKO).
- K. Items become obsolete, obsolescent or in long supply.
- L. Price challenges or breakouts.
- M. Discounted product prices (see 150306.).
- N. Customer requested product changes.
- O. Seasonal price variations for materiel normally bought for direct vendor delivery.

150306. Discount Pricing

As a general rule, all product prices must reflect the full cost of the product and the related management activity. However, discount pricing is permitted under the following conditions:

A. With the prior approval from the Director of Revolving Funds, a supply activity may charge a customer a discounted price for a supply item. The request to discount an item price should be accompanied with an analysis of the cost (profit/loss) impact anticipated as a result of charging a lower price.

B. Reductions from standard prices may be made subsequent to approval by the Director for Revolving Funds upon determination that there is an actual difference in utility or desirability of an item because of age, condition, or model for items being phased out of the system, items no longer being procured, items with limited remaining shelf life, items in a less than “fully serviceable“ condition, and items in long supply, i.e., assets stratified as “potential reutilization stock. “

C. Policies and procedures to be used in the development of exchange prices for supply management activity items are contained in Volume 4, Chapter 4, “Inventory and Related Property,” of the DoD Financial Management Regulation, DoD 7000.14-R.

150307. Pricing for Additional/Premium Service

Components may establish and offer variable levels of service related to a product, at variable prices, to allow customers the opportunity to economize according to their needs. Appropriate fees may be established annually and may vary according to the item/class of items. Refunds (credits) will be made available for those instances where a customer has paid for a level of service that was not provided. This permissible policy is not intended to authorize a reduced charge for some customers. It is intended to authorize an additional charge for customers who ask, and are willing to pay, for enhanced service. Individual orders may be assessed additional cost recovery rates based on the following elements:

- A. Expedited delivery.
- B. Delivery outside the continental United States based on destination, e.g., Europe, Far East and Near East.
- C. Depot handling fees related to order issues only. The fee(s) will include a minimum charge for low priced orders, a standard charge for bin item issues, a standard charge for normal bulk item issues, and special charges for unusual bulk item issues, e.g., special handling and extraordinary quantities.

#### 1504 CONTRACT AUTHORITY FOR SUPPLY MANAGEMENT OPERATIONS

##### 150401. Background

Based on the authority in 10 U.S.C. 2210, the OMB apportions anticipated contract authority at the beginning of a fiscal year for the amount of the approved supply management activity program. This anticipated contract authority becomes realized contract authority when obligations are incurred by the supply management activity. Unfunded contract authority is the amount by which obligations incurred exceed customer orders accepted (obligations less customer orders accepted). Contract authority provided to a supply management activity is subject to apportionment as required by the Anti-Deficiency Act in accordance with the procedures prescribed in OMB Circular A-11, "Instructions on Budget Execution" (See Volume 3 Chapter 19).

##### 150402. Budgetary Resources

Budgetary resources for supply management activities available for use during a fiscal year consist of any congressionally appropriated and reappropriated amounts made available; the net of any nonexpenditure transfers into and out of the supply management activity and other Federal Government accounts (cash transfers); balances made available from the previous fiscal year contract authority; and apportioned anticipated contract authority. Normally, supply management activities may obligate based on two primary sources: contract authority and appropriated funds for war reserve/mobilization purposes. Liabilities (accounts payable) are typically payable from the fund balance with Treasury within the next 30 days. Unfunded (unliquidated) contract authority should be considered a long-term liability for supply management activities because budgetary resources required for payment of these contracts have not yet materialized through customer orders or appropriations from Congress. For supply management activities, the primary sources of budgetary authority are the fund balance with Treasury, collections from customers, appropriations and unfilled customer orders. Claims on budgetary authority are primarily accounts payable, and unliquidated contract authority (undelivered orders) (See Volume 3 Chapter 19).

- A. At the end of each fiscal year, unused balances of funds appropriated to the supply management activity shall be used to offset the need for anticipated contract authority. Such amounts are not available for use until they are reapportioned and reflected on the

supporting financing schedule as an increase to the limit imposed for obligation authority on an approved apportionment in the new fiscal year.

B. The OMB may approve and apportion anticipated contract authority in the amount of the approved supply management activity operating program.

C. The OMB apportionment of anticipated reimbursements as anticipated contract authority currently includes a footnote, consistent with the following:

Pursuant to 10 U.S.C. 2210(b), obligations/commitments may be incurred in excess of the amount of the apportioned resources actually realized in the amount of contract authority approved, but not in excess of the total apportioned. The estimated unfunded balance of this contract authority pursuant to 10 U.S.C. 2210(b) of \$ on September 30, 20xx is increased by \$ provided that this amount is automatically reduced to the extent that orders are realized.

D. Anticipated contract authority becomes realized contract authority when obligations are incurred. These obligations require budgetary resources at the time of disbursement.

E. The receipt of customer orders provides budgetary resources for realized contract authority. Customer orders received are requisitions and other orders accepted for items to be furnished on a reimbursable basis. Budgetary resources provided from a customer order are available to fund obligations provided that, in the case of orders from the public, an advance has been collected. Throughout the fiscal year, the cumulative amount of resources available from customer orders is adjusted to the extent that orders are canceled, or revised upward or downward because of standard price changes, quantity adjustments, etc. The amount of budgetary resources available for obligation from customer orders is the sum of orders received from Federal Government accounts that represent valid obligations of the ordering account, plus advances received on orders accepted from the public. Orders from the public include orders received from state and local governments. These budgetary resources shall replace the budgetary resources apportioned as anticipated reimbursements.

1. The receipt of a customer order at the activity level shall be recorded as an increase to customer orders accepted and an increase to unfilled customer orders. This is necessary because supply management activities receive obligation authority based on anticipated reimbursements without regard to the timing of the receipt of the customer order. In other words, supply management activities receive contract authority in lieu of obligation authority which is commonly used for non-supply activities. If the normal accounting for the receipt of a customer order were used, duplicate obligation authority from the receipt of the order would occur at the allotment level. Instead, receipt of customer orders is an offset to unliquidated contract authority and provides budgetary resources. The difference is that supply management activities incur the obligation before budgetary resources are provided. For non-supply activities, the budgetary resources are provided first, and then obligations are incurred (See Volume 3 Chapter 19).

2. For apportioned activities, these budgetary resources shall replace the budgetary resources apportioned as anticipated reimbursements at the departmental level based upon the net change in customer orders received during the month.

F. At the end of each fiscal year, any unobligated balances of appropriated funds applicable to apportioned working capital fund activities shall be used to offset the need for unfunded contract authority. Such funds are not available for use until they are reapportioned and reflected on the supporting financing schedule as an increase to the limit imposed for obligation authority on an approved apportionment in the new fiscal year. Any unobligated contract authority balance at the end of the fiscal year is adjusted to zero.

#### 150403. Contract Authority and Cash Management

Although the responsibility for cash management is at the component level, the liquidation of contract authority is only authorized by collections from customer orders, or by an appropriation to liquidate contract authority. Cash collections from supply management activities are the primary funding source approved for the liquidation of contract authority unless otherwise approved in writing by the Director of Revolving Funds. Supply management activities may also submit requests as part of the component's budget request, for appropriations for the sole use of liquidating realized contract authority if a change in customer demands warrants this action. Similarly, any proposed negative surcharges identified in the budget justification materiel, other than AOR recovery, must be pre-approved in writing by the Director of Revolving Funds.

### 1505 MULTIPLE YEAR CONTRACTS

#### 150501. Background

Multiyear contracts permit the purchase on one contract of more than one annual program increment of items to obtain a maximum economic advantage. For example, an economic order quantity in a multiyear contract may exceed a normal annual buy and yet be advantageous to the Government. Supply management activities are authorized to use multiple year contracts to procure items from a single contractor. Sole source items with a stable demand projection that are procured from a single contractor shall be evaluated to determine if the items should be acquired by means of a multiple year contract. As with multiyear contracts funded by procurement appropriations, the supply management activity may purchase items in an amount corresponding to the economic order quantities deemed appropriate for procurement in each year. Components, parts, and raw materiel for use in manufacture of items being acquired under a multiyear contract may be procured in quantities exceeding the current annual requirement when it is more economical and cost effective to do so. This is referred to as advance economic order quantity (EOQ) procurement. Advance EOQ procurements integral to multiyear contracts shall be funded in the most economical manner. They may be funded fully in single year increments on a termination liability basis, or included in a multiyear contract along with the nonrecurring contract costs. Under 10 U.S.C. 2306, the Department of Defense is authorized to enter into multiyear contracts containing cancellation clauses that may include both nonrecurring and recurring costs. This law specifies congressional reporting requirements based on

cancellation ceilings. Further, annual DoD appropriations Acts may contain specific language requiring limitations on the use of multiyear contracts. In addition, a single proposed multiple year contract in excess of \$100 million or \$10 million in estimated termination liability shall be submitted to the Director of Revolving Funds for approval prior to awarding the contract. Each separate option to extend a multiple year contract shall be considered as a single multiple-year contract for the purposes of this approval requirement. The DoD Components shall refer to annual guidance contained in Under Secretary of Defense (Comptroller) Multiyear Procurement Appropriation Language Guidance Memoranda for specific requirements and restrictions imposed by the Congress.

#### 150502. Obligations

The supply management activity shall obligate the minimum amount required for the period of the contract.

A. If the contract provides for annual terms with options to extend the terms in subsequent years, the obligation shall be for the amount required to be procured by the Government in the first year. The obligation for each option year shall be recorded when the option is exercised.

B. If the contract provides for minimum quantities over a period of more than one year, the obligation shall be recorded for the sum of all of the minimum quantities times the agreed price. If the contract provides for minimum dollar amounts for a period of more than one year, the obligation shall be recorded for the sum of the minimum dollar amounts.

C. The bona fide needs rule derived from Title 31 United States Code, section 1502(a), applies to appropriations limited to a definite period of time. Although the bona fide needs principle does not statutorily restrict a supply management activity from incurring obligations against contract authority for requirements of the subsequent fiscal year, contract authority conferred to the activity for a year may impose limitations on execution of obligations. Also, because supply management activities use contract authority to incur obligations to acquire stock or order items for delivery to customers, and do not execute budgetary resources dependent on receipt of funded customer orders, the timing of a supply management activity's obligations against contract authority do not govern, establish or reflect whether the customer's order to the supply management activity is a bonafide need of the customer appropriation charged.

#### 150503. Cost of Items

The cost of items procured by multiple year contracts shall be the amount paid for each item. If termination costs are incurred or if minimum guaranteed amounts are not met for items procured, the additional costs paid under the terms of the contract shall be recorded as supply management activity materiel obligations.

## 1506 BUDGETARY ACCOUNTS

## 150601. Background

Budgetary accounts are used to control and account for obligation authority received from appropriations and contract authority apportioned by OMB. Supply management activities are subject to apportionment as required by the Anti-Deficiency Act in accordance with the procedures prescribed in OMB Circular A-11, "Instructions on Budget Execution" (See Volume 3 Chapter 19).

## 150602. Allocations

The general provisions of the annual Appropriations Act provide that "Except in amounts equal to the amounts appropriated to working capital funds in this Act, no obligations may be made against a working capital fund to procure war reserve materiel inventory unless the Secretary of Defense has notified the Congress prior to any such obligation." Obligation authority for mobilization purposes shall be allocated and allotted separately as a direct program. Operating obligations consist of all obligations that do not meet the criteria defined for mobilization and shall be allocated and allotted separately as a reimbursable program. Obligations shall be accounted for and reported separately as mobilization and operating. Subaccounts to the budgetary accounts prescribed by this Regulation shall be established by the Defense Finance and Accounting Service to satisfy these requirements.

## 150603. Budget Execution

For supply management activities, balances for budgetary accounts are displayed on the SF 133 and the DFAS AR 1307 part VII (See Volume 3 Chapter 19).