

DoD 7000.14 - R



DEPARTMENT OF DEFENSE
FINANCIAL MANAGEMENT REGULATION

**VOLUME 11B: “REIMBURSABLE OPERATIONS
POLICY - WORKING CAPITAL FUNDS (WCF)”**

**UNDER SECRETARY OF DEFENSE
(COMPTROLLER)**

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

SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by [blue font](#).

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

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PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
ALL	Administrative updates and reissuance in accordance with the Department of Defense Financial Management Regulation Revision Standard Operating Procedures.	Revision

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CHAPTER 1

DEFENSE WORKING CAPITAL FUNDS GENERAL POLICIES

1.0 GENERAL

1.1 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.

1.2 Authoritative Guidance

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

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

1.2.2. [10 U.S.C. § 2563](#), "Articles and Services of Industrial Facilities: Sale to Persons outside the Department of Defense";

1.2.3. [10 U.S.C. § 7543](#), "Army Industrial Facilities: Sales of Manufactured articles or services outside Department of Defense";

1.2.4. [31 U.S.C. § 3515](#), "Financial Statements of Agencies";

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

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

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

2.0 DWCF REQUIREMENTS

2.1 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 sub-numbered 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

2.2 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.

2.3 Charters

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

2.3.1. The DWCF is designed to:

2.3.1.1. 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.

2.3.1.2. 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.

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

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

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

2.3.1.6. Facilitate budgeting for and reporting of the costs of end-products. This will underline the cost consequences of choosing between alternatives.

2.3.2. Specific objectives include the following:

2.3.2.1. 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.

2.3.2.2. 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.

2.3.2.3. 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.

2.3.2.4. 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.

2.3.2.5. 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.

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

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

2.3.2.8. 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.

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

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

2.3.3. 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 2.2. 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.

2.4 Financing

2.4.1. 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.

2.4.2. 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.

2.4.3. 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.

2.4.4. 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.

2.4.4.1. 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.

2.4.4.2. 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.

2.5 Authorized Customers

Customers of the DWCF activity may be:

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

2.5.2. Non-DoD federal government agencies.

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

2.5.4. 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.

2.6 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.

2.7 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.

2.8 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.

2.9 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.

2.10 Restrictions on Use of Customer Appropriations

2.10.1. 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.

2.10.2. 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.

2.11 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.

2.12 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.

3.0 RESPONSIBILITIES OF MANAGEMENT

3.1 Under Secretary of Defense (Comptroller)

3.1.1. Establish DoD policy on DWCF operations.

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

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

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

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

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

3.1.7. Provide DWCF operations oversight through budget execution reviews.

3.1.8. Advise DWCF managers on accounting and reporting policies.

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

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

3.2 Director, Defense Finance and Accounting Service (DFAS)

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

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

3.2.3. Issue supplementary instructions [as needed](#) for unique requirements within the DoD Components and to provide detailed operating instructions.

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

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

3.3 Military Department Secretaries and Defense Agency Directors

3.3.1. Manage DWCF activities within approved funding limitations.

3.3.2. Designate a management agency or command to be responsible for effective management of each DWCF activity.

3.3.3. Comply with, and recommend changes to, this and other governing regulations.

3.3.4. Provide periodic financial and management information as required by the USD(C).

3.3.5. Submit to the USD(C) proposed Charters authorizing new DWCF activities or rescinding Charters of existing DWCF activities.

3.4 DWCF Activity Management Agency or Command

3.4.1. 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).

3.4.2. Assign responsibility and authority to designated officials for management and operation of DWCF activities.

3.4.3. Assure that all DWCF activities operate within approved funding limitations.

3.4.4. Evaluate the operation of DWCF activities to determine compliance with established requirements.

3.4.5. Initiate change, as needed, to the charter of the DWCF activities.

3.5 Individual DWCF Activity Management

3.5.1. Incur obligations and costs as necessary and allowable to perform the activity mission.

3.5.2. Control performance costs in line with the annual budget approved by the USD(C).

3.5.3. Evaluate the operation of DWCF activities to determine compliance with established requirements.

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

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

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

3.6 DWCF Activity Customers

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

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

3.6.3. 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.

4.0 ACCOUNTING STANDARDS

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

5.0 DWCF SYSTEMS AND CONTROL

5.1 DWCF Financial Management Systems

5.1.1. 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.

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

5.1.3. Performance measurement information is adequately supported.

5.2 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.

5.3 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.

5.3.1. 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.

5.3.2. 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.

5.3.3. 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.

5.3.4. 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.

5.3.5. 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.

5.3.6. 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.

6.0 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.

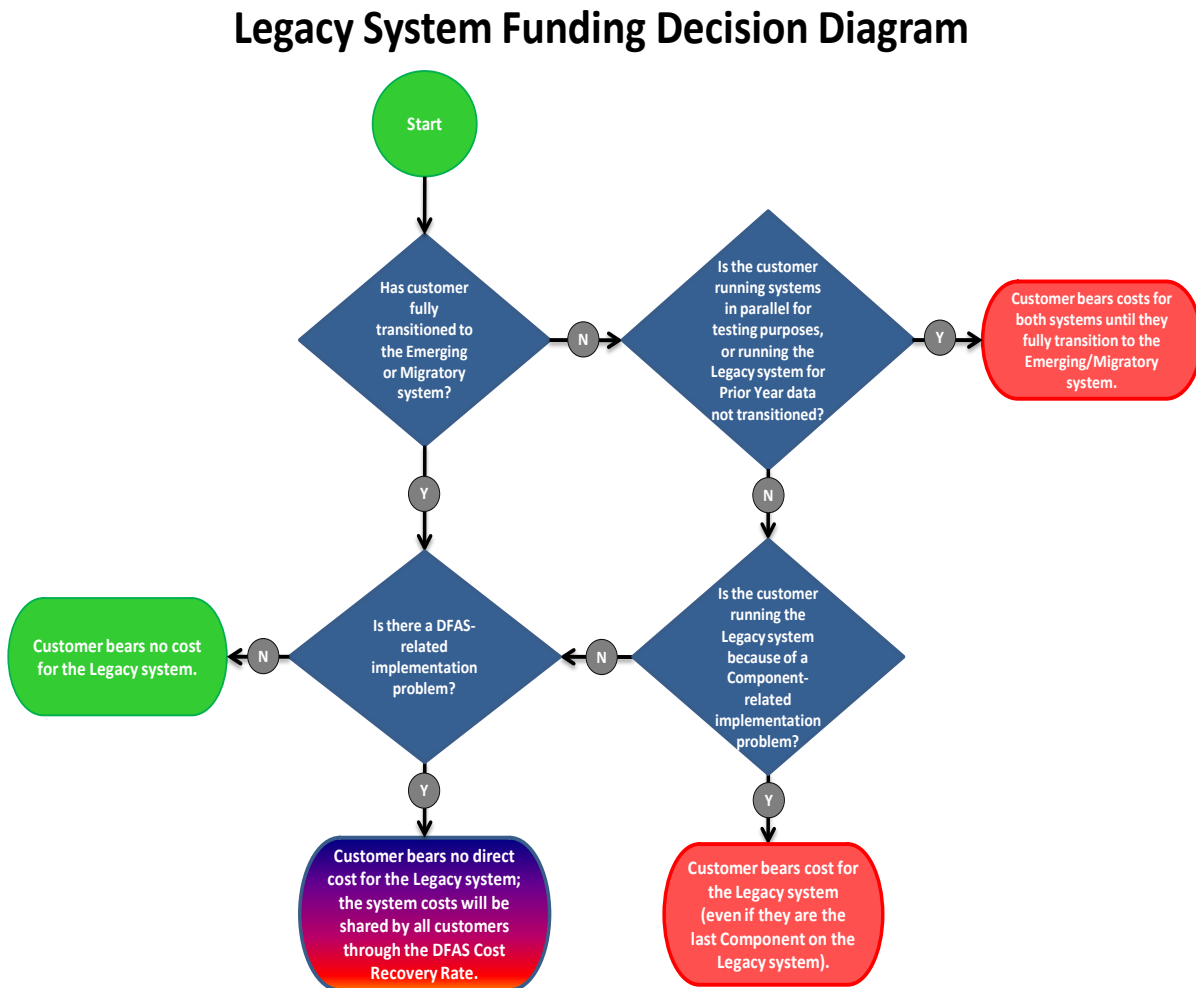
7.0 GENERAL LEDGER ACCOUNTS

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.

8.0 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



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CHAPTER 2

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

1.0 GENERAL

1.1 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.

1.2 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:

1.2.1. [10 U.S.C. § 2687](#), “Base closures and realignments,” also known as Base Realignments and Closures (BRAC);

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

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

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

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

2.0 ESTABLISHMENT OF DWCF ACTIVITIES

2.1 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.

2.2 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:

2.2.1. 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.

2.2.2. 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.

2.2.3. 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.

2.2.4. 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.

3.0 DWCF CHARTER REQUIREMENTS

3.1 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 2.2. 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.

3.2 Charter Contents

Each charter must include the following as a minimum:

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

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

3.2.3. 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.

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

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

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

3.3 Charter Support

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

3.3.1. Explanation of how the proposed DWCF activity meets the minimum criteria identified in paragraph 2.2 and any additional OUSD(C) requirements for the specific activity or activities.

3.3.2. Justification of any exception to the provisions in Chapter 1.

3.4 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:

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

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

3.5 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 3.4.

4.0 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:

4.1 Initial Appropriation and/or Reappropriation

4.1.1. 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.

4.1.2. 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).

4.2 Initial Assets and Liabilities

4.2.1. 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.

4.2.2. 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.

4.2.3. 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.

4.2.4. 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.”

4.2.5. 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.

5.0 TRANSFER OF DWCF FUNCTIONS

5.1 Transfer Actions

The general actions and related procedures in paragraphs 5.2 through 5.8 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.

5.2 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.

5.3 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.

5.4 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.

5.5 Budgetary Accounts

5.5.1. 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.”

5.5.2. 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.

5.5.2.1. 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.

5.5.2.2. 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.

5.5.2.3. 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.

5.6 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.

5.6.1. 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 [SFFAS 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.”

5.6.2. 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.

5.6.3. 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.

5.6.4. 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.

5.6.5. 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.

5.6.6. 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.

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

5.6.7.1. 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.

5.6.7.2. 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.

5.6.8. 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.

5.7 Determine New Fund Citation and New or Revised Data Structure

5.7.1. 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.

5.7.2. 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).

5.8 Other Actions Required to Accomplish the Accounting Transfer

5.8.1. 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.

5.8.2. 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.

5.8.3. 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.

5.8.4. 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.

5.8.5. 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.

5.8.6. 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.

5.8.7. 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.

6.0 CLOSURE OF DWCF ACTIVITY

6.1 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.

6.2 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 5.0. Specific actions and procedures are usually necessary to accommodate unique circumstances of the closing activities.

6.2.1. 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.

6.2.2. 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.

6.2.3. 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.

6.2.4. 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.

6.2.5. 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.

6.2.6. 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 5.5 and 5.6 for additional information regarding these actions.

6.2.7. 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.

6.2.8. 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.

6.2.9. 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.

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

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

6.3 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:

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

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

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

6.3.4. 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.

6.4 Financing Non-BRAC Related Base Closure Costs

Paragraph 6.3, 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.

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

6.4.1.1. Current year costs in support of customer orders.

6.4.1.2. Prior year, current year, or budget year operating losses.

6.4.1.3. Increases in overhead even though those increases could be attributed to decisions to close bases.

6.4.2. 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:

6.4.2.1. 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.

6.4.2.2. 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.

6.4.2.3. Current year and prior year losses (to the extent not financed from existing and new customer orders as stated in subparagraph 6.4.1.2) must be financed as a pass through from the O&M appropriation of the DoD Component responsible for the activity incurring the loss.

6.5 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.

6.6 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.

6.7 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.

6.8 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.

6.9 Disposition of PP&E Assets

6.9.1. 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.

6.9.2. 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.

6.9.3. 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.

6.10 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.

6.11 Cumulative Results of Operations

6.11.1. DWCF activity that is undergoing closure should request reimbursement for its recoverable costs, as specified in paragraph 6.4: (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.

6.11.2. 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.

6.12 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.

6.13 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

DoD 7000.14 - R



DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

CHAPTER 2 ANNEX 1: "ARCHIVED"

**UNDER SECRETARY OF DEFENSE
(COMPTROLLER)**

**VOLUME 11B, CHAPTER 3: “DEFENSE WORKING CAPITAL FUNDS -
BUDGETARY RESOURCES”**

SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also 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 [September 2020](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Administrative updates to include clarifying language in accordance with Department of Defense Financial Management Regulation (FMR) Revision Standard Operating Procedures.	Revision

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CHAPTER 3

DEFENSE WORKING CAPITAL FUNDS - BUDGETARY RESOURCES

1.0 GENERAL

Budgetary resources are amounts available to incur obligations in a given fiscal year which include new budget authority, available unobligated balances at the beginning of the year, reimbursements, and other income (also known as offsetting collections credited to an appropriation or fund account), recoveries of prior year obligations from unexpired accounts, and restorations. In the case of reimbursable work, earned reimbursements and unfilled customer orders, limited by the amount collected in advance for orders from the public, comprise budgetary resources.

1.1 Purpose

1.1.1. This chapter discusses budgetary resources available for the Defense Working Capital Fund (DWCF). The applicable general ledger accounts are listed in the United States Standard General Ledger (USSGL) contained in Volume 1, Chapter 7, and the accounting entries for these accounts are specified in the DoD USSGL Transaction Library. Unless otherwise stated, this chapter is applicable to all DWCF Components and DWCF activities listed in Volume 3, Chapter 19. Chapter 2 provides guidance on establishing DWCF activities.

1.1.2. Additional information regarding the receipt and distribution of budgetary resources are located in Volume 3, Chapters 13, 14, and 15.

1.2 Authoritative Guidance

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

1.2.1. Title 31, United States Code, section 1341 ([31 U.S.C. § 1341](#)), Limitations on Expending and Obligating Amounts;

1.2.2. [31 U.S.C. § 1511](#), Definition and Application;

1.2.3. [31 U.S.C. § 1512](#), Apportionment and Reserves;

1.2.4. [31 U.S.C. § 1513](#), Officials Controlling Apportionments;

1.2.5. [31 U.S.C. § 1514](#), Administrative Division of Apportionments;

1.2.6. [31 U.S.C. § 1515](#), Authorized Apportionments Necessitating Deficiency or Supplemental Appropriations;

1.2.7. [31 U.S.C. § 1517](#), Prohibited Obligations and Expenditures;

- 1.2.8. [31 U.S.C. § 1532](#), Withdrawal and Credit;
- 1.2.9. [31 U.S.C. § 1535](#), Agency Agreements;
- 1.2.10. [10 U.S.C. § 2208](#), Working Capital Funds;
- 1.2.11. [10 U.S.C. § 127a.](#), Operations for Which Funds Are Not Provided in Advance: Funding Mechanisms;
- 1.2.12. Office of Management and Budget ([OMB Circular A-11](#)), Preparation, Submission, and Execution of the Budget;
- 1.2.13. Treasury Financial Manual ([TFM Volume I, Part 2, Chapter 2000](#)), Warrant and Non-expenditure (Net) Transfer Transactions;
- 1.2.14. Government Accountability Office ([GAO Principles of Federal Appropriations Law, Chapter 2](#)), The Legal Framework;
- 1.2.15. [GAO Principles of Federal Appropriations Law , Chapter 3](#), Availability of Appropriations: Purpose;
- 1.2.16. TFM [USSGL](#);
- 1.2.17. Department of Defense ([DoD USSGL Transaction Library](#)); and
- 1.2.18. DoD [Standard Financial Information Structure](#).

2.0 SOURCES OF, RESTRICTIONS ON, AND CLAIMS AGAINST BUDGETARY RESOURCES

Prior to incurring an obligation, a DWCF Component must have sufficient budgetary resources available for obligation in accordance with statutory, administrative, and other restrictions, after consideration of the claims against such budgetary resources.

2.1 Sources of Budgetary Resources

2.1.1. Direct appropriations and/or reappropriations provided directly to the DWCF or a DWCF Component by an appropriation act or other law and in accordance with statutory limitations, if any, by purpose, time, and amount.

2.1.1.1. The DWCF may receive direct appropriation to provide working capital and financing for specific projects or tasks. Appropriations are typically provided to the DoD at the departmental-level then transferred to the DWCF Component levels based on the request of the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), Deputy Comptroller,

Program/Budget (P/B) and the apportionment by the OMB on the Standard Form (SF) 132, Apportionment and Reapportionment Schedule, as discussed in Volume 3, Chapter 13. OMB distributes the amounts available for obligation in an appropriation through apportionments; and

2.1.1.2. A DWCF reimbursable program may be:

2.1.1.2.1. Automatically apportioned. A DWCF Component may obligate the total amount of obligation authority upon becoming available; or

2.1.1.2.2. Specifically apportioned. A DWCF Component may incur the amount of obligations limited to the specified apportioned amount.

2.1.2. Contract authority authorized by specific statutory authority. Contract authority permits a DWCF Component to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations.

2.1.2.1. Unless otherwise specified by statute, contract authority is available for obligation only within the fiscal year for which the authority is provided;

2.1.2.2. By definition, contract authority is unfunded and, therefore, obligations incurred through use of contract authority may not be liquidated until funded by an appropriation of liquidating cash or, more commonly within the DWCF, by offsetting collections credited to the DWCF; and

2.1.2.3. DWCF activities that utilize contract authority are issued both contract authority and anticipated customer order amounts that tie to one another as discussed in Volume 3, Chapter 8.

2.1.3. Non-expenditure transfers between DWCF Component sub-numbered accounts or, when authorized by statute, between a DWCF Component sub-numbered account and a direct appropriation or non-DWCF fund. Non-expenditure transfers into the DWCF increase budgetary resources while non-expenditure transfers from the DWCF decrease budgetary resources.

2.1.4. Offsetting collections credited to the DWCF consisting of earned reimbursements, both collected and uncollected, and unfilled customer orders from:

2.1.4.1. Federal government accounts that represent valid obligations of the ordering account whether or not accompanied by an advance;

2.1.4.2. The public, including state and local governments, but only to the extent accompanied by an advance received and credited to the appropriate DWCF Treasury sub-numbered account; and

2.1.4.3. Refunds, which are the repayments of excess outlays. The amounts are directly related to previous obligations incurred and outlays made. Refunds are not available for obligations until the refund is collected. Refunds collected in the same fiscal year as the obligations incurred are credited to the appropriation or fund account charged with the original obligation. Refunds of prior year obligations are not available for obligation until collected and reapportioned by the OMB. Refunds receivable are not a budgetary resource.

2.1.5. Recoveries of prior year obligations. These are cancellations or downward adjustments of obligations incurred in prior fiscal years that were not outlaid. Within the DWCF, recoveries of prior year obligations are automatically apportioned and are available for new obligations as well as upward adjustments of previously existing valid obligations.

2.2 Restrictions on Budgetary Resources

2.2.1. The DWCF is used to more effectively control and account for program costs and the work performed in the DoD. The Secretary of the Treasury establishes DWCFs upon request of the Secretary of Defense. A DWCF Component may only use amounts appropriated:

2.2.1.1. For the purpose stated in the appropriation act or other law providing the amounts, for no more than the amount appropriated or otherwise made available; and

2.2.1.2. Within the time period for which the funds are available for obligation, and are subject to such other limitations and/or restrictions as may be stated in the applicable appropriation act or other law providing the amounts, as well as such other statutory restrictions, both express and implied, as may be relevant.

2.2.2. Budget Authority is the authority provided by law to incur financial obligations that will result in outlays.

2.2.2.1. Budget authority is available for obligation only in accordance with purpose, time, and amount restrictions imposed by statute, by apportionments imposed by the OMB, and by administrative limitations imposed by authorized officials within the OUSD(C) and the DWCF Components;

2.2.2.2. In addition to being subject to statutory restrictions, DWCF budget authority is apportioned and allocated to the sub-account level on the OMB 132. DWCF budget authority is administratively allocated to the activity group levels as appropriate. The allocated amounts may be further restricted through administrative action; and

2.2.2.3. There are three forms of apportioned budget for the DWCF:

2.2.2.3.1. Direct Appropriation. Direct appropriated amounts are to be used for the specific purpose identified in the appropriations act or other legislation. Funds not appropriated specifically for the designated purpose are not available for that purpose. Unless specified otherwise, direct appropriations for the DWCF are no-year funds that do not expire.

2.2.2.3.2. Spending Authority from Offsetting Collections (Reimbursable Obligations). Reimbursable obligations are obligations financed by offsetting collections credited to an expenditure account in payment for goods and services provided by that account. The collection must be authorized by law to credit the specific appropriation or fund account. Anticipated reimbursements may not be used as a source of obligational authority until a customer order is accepted unless such use specifically is authorized in statute. Volume 3, Chapter 15 describes reimbursable obligations in detail.

2.2.2.3.3. Contract Authority.

2.2.2.3.3.1. Contract authority itself is not an appropriation. It is apportioned budget authority which can be legally obligated and may be used only for the purpose, time, and amount specified by statute relating to that contract authority. It is not funded and is apportioned and allocated without a supporting Treasury cash balance. Contract Authority must always be replaced or liquidated by subsequent or other budgetary resources and cash balances, more commonly within the DWCF, by offsetting collections credited to the DWCF. Unless otherwise specified by statute, contract authority is apportioned to the DWCF for the current fiscal year of the apportionment only, and closes for new obligations if not used within the fiscal year it is apportioned;

2.2.2.3.3.2. The OMB apportions contract authority at the beginning of a fiscal year for the amount of the DWCF program. It provides the authority to incur obligations in anticipation of the collection of receipts or offsetting collections that will be used to liquidate the obligation. Within the DWCF, contract authority is available for capital asset program obligations, i.e., all DWCF activity groups, and supply management operations. Supply Management activity groups include Supply Management, Distribution Depots, Defense Commissary Agency (Resale), and the Defense Reutilization and Marketing Service; and

2.2.2.3.3.3. There are no statutory restrictions placed on the obligational availability or availability to liquidate contract authority obligations of offsetting collections.

2.2.3. A non-expenditure transfer is a transfer of budgetary resources from one budget account, appropriation, or fund to another that does not involve an outlay. Statutory restrictions on the purpose, availability, and use of appropriated funds require that no change be made to those restrictions through the use of a non-expenditure transfer into the DWCF unless such change is specifically authorized by law.

2.2.4. Other events reported on the SF 133, Report on Budget Execution and Budgetary Resources, further restrict the availability of Budgetary Resources. Appendix F of the OMB Circular A-11 includes an explanation of these events with an identification of the impacted reporting lines on the SF 133.

2.2.5. If an apportionment is received by a sub-account or an activity group for a specific purpose, obligations must be kept within the apportioned limits even though the amount apportioned may be less than the total budgetary resources that otherwise would be available to the sub-account or activity group, in compliance with 31 U.S.C. Section 1517(a).

2.2.6. An administrative limitation cannot be used to change or eliminate a statutory restriction. An administrative action can only further restrict the purpose, time, or amount for which budgetary resources may be used. An administrative limitation, if any, of budgetary resources provided to a DWCF Component, or subdivision, by the OUSD(C) or designated representative; and/or a subdivision, if any, of budgetary resources provided to a DWCF activity group or activity (operating unit) by a DWCF Component official must be followed. If an administrative limitation is received, the DWCF Component must keep obligations within the limitation even though the limitation may be less than the total budgetary resources that otherwise would be available. Administrative limitations may be provided in various formats but must be in writing, signed, and clearly state that it is a violation of the 31 U.S.C. Section 1517(a) to incur obligations that exceed the limitation.

2.3 Claims Against Budgetary Resources

A DWCF Component must consider claims against budgetary resources in the determination of budget authority that is available for obligation. Claims against budgetary resources should be recorded in financial records of the DWCF entity. A DWCF Component should maintain financial records in sufficient detail to permit a segregation of budgetary resources and, within that segregation, an identification of claims against the budgetary resources.

2.3.1. Where a DWCF activity receives budgetary resources from more than one source, the receiving activity must maintain records which will enable it to control separately the transactions relating to each source and if the funds transferred are subject to restrictions different from those existing in the account to which transferred.

2.3.2. Of the three general availability restrictions of purpose, time, and amount, purpose should be determinable from administrative records while time and amount should be determinable from financial records.

2.3.3. A DWCF Component should have two primary types of financial accounts, proprietary and budgetary. The balance of budgetary resources available for obligation can be determined only from budgetary accounts. Proprietary accounts, by themselves, are not sufficient to determine budgetary resources. For example, non-budgetary assets such as inventories of stock for sale are not considered a budgetary resource. Additionally, a fund balance (i.e., cash) does not necessarily denote the availability of a budgetary resource. A fund balance, although present, may have claims against it (accounts payable, for example) and the amount of those claims, therefore, are not available for obligation.

2.3.4. Not all budgetary accounts represent a budgetary resource available for obligation. For example, anticipated customer orders are not budgetary resources available for obligation. The anticipated customer order only provides the authority to accept reimbursable orders and does not provide obligation authority. In addition, claims against budgetary resources, such as undelivered orders and unpaid accrued expenditures must enter into the determination of unobligated balances and, therefore, budgetary resources available for obligation. Similar to the anticipated customer order, administrative restrictions or other withheld amounts limit the balance of budgetary resources available for obligation. A DWCF Component can determine budgetary resources available for obligation from data required to be reported on the SF 133. Section 82 of OMB Circular A-11 also provides additional information.

2.3.5. In the event that budgetary resources available to a DWCF Component, activity group, or activity are not sufficient, a DWCF manager should not assume that sufficient budgetary resources exist elsewhere within the DWCF to fund obligations in excess of resources available. Rather, the manager of the DWCF Component, activity group or activity, as applicable, must request, in writing, an increase in authority to incur obligations from its management command or responsible DWCF Component and must defer the incurring of additional obligations until budgetary resources are sufficient to fund them. The DWCF Component must document the authority to incur additional obligations in an Annual Operating Budget signed by the OUSD(C), Director/Associate Director, Operations, or designee. See Volume 3, Chapter 19 for additional information on Obligation Authority.

3.0 SUPPLEMENTAL APPROPRIATION AND REAPPROPRIATION

3.1 DWCF Supplemental Appropriations

3.1.1. Supplemental appropriations may be provided for working capital purposes such as when the cumulative results of operations and/or the cash position is either negative or approaching negative or for other purposes discussed in Volume 2A, Chapter 1.

3.1.2. Receipt of the appropriation provides an immediate infusion of cash. The amount of the appropriation used must be accounted for and reflected in accounting records and financial reports.

3.1.3. Appropriation is a financing source against which expenses must be matched and reported on the Statement of Operations. If the amount of the appropriation is in excess of negative net and cumulative results of operations, the amount of the appropriation used must only be the amount sufficient to bring the total of accumulated operating results and net operating results to a zero-dollar (\$-0-) position. The remaining amount of the appropriation must be used to offset any subsequent year net operating losses.

3.2 Receipt and Allocation of Supplemental Appropriation and Reappropriation

3.2.1. Supplemental appropriation is an appropriation enacted subsequent to a regular annual appropriation act when the need for funds is too urgent to be postponed until the next regular annual appropriations act. These supplementals may be:

3.2.1.1. Requesting additional amounts not previously anticipated; or

3.2.1.2. Requesting changes in appropriations language that do not affect amounts previously appropriated.

3.2.2. Reappropriation is an extension of the availability of unobligated balances of budget authority that have expired or would otherwise expire as a result of legislation enacted subsequent to the law that provided the budget authority. The term does not apply to extensions of the availability of unobligated balances of budget authority that result from standing provisions of law, enacted before the budget authority was provided, or from provisions of law included in the same law that appropriated the funds.

3.2.3. The receipt of a supplemental appropriation or reappropriation is recorded at the departmental-level only. The allocation, if any, of the supplemental appropriation or reappropriation is recorded at the activity group and activity level as appropriate. The receipt and allocation of appropriations provided to the DWCF are accounted for within the DoD USSGL Account Transactions:

3.2.3.1. Departmental-Level Entries. Record receipt of a supplemental appropriation or reappropriation to the DWCF at the account level and establish budget authority. The source document for the Budgetary Account posting is the OMB SF 132, Apportionment and Reapportionment Schedule. The source document for the Proprietary Account posting is the Treasury Warrant (TFS Form 6200), "Department of the Treasury Appropriation Warrant;"

3.2.3.2. Intermediate Level Entries. Record direct budgetary authority received from the departmental-level by an intermediate level component and available for allotment to execution level component(s) or sub allotment to other intermediate level component(s); and

3.2.3.3. Activity (Execution) Level Entries. Record direct budgetary authority received by an execution level component through either allotment or sub allotment of authority.

3.3 Reduction or Withdrawal of Direct Appropriations

3.3.1. The reduction or withdrawal of an unexpired direct appropriation or reappropriation is recorded at the departmental-level. The reduction or 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 entry to record the reduction or withdrawal of an unexpired direct appropriation or reappropriation from the departmental-level requires budgetary and proprietary journal entries to perform the transaction.

4.0 CUSTOMER ORDERS

4.1 Anticipation of Customer Order

4.1.1. The DWCF Component must estimate the dollar amount of reimbursable orders it expects to receive in the current fiscal year.

4.1.2. There must be a specific law that authorizes reimbursable work with non-Federal entities. A DWCF Component cannot cite the Economy Act as the statutory authority to perform work for non-Federal customer orders with or without an advance. A law must specifically allow a DWCF activity to incur obligations against customer orders received from non-Federal sources with an advance.

4.1.3. Customer orders with advances from non-Federal sources are credited to a Treasury Appropriation Fund Symbols (TAFS) that is legally available for the work performed. Customer orders with advances from non-Federal sources are credited to a TAFS that is legally available for the work performed where the period of availability of the performing Federal agency TAFS is determined by the activity's general counsel.

4.2 Receipt of Customer Orders

4.2.1. Customer orders received are requisitions and other orders accepted for items to be furnished on a reimbursable basis. 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, whether or not accompanied by an advance plus orders received from the public, including state and local governments, but only to the extent accompanied by a cash advance.

4.2.2. Throughout the year, unfilled customer order amounts should be adjusted to the extent that orders are filled, canceled, or new orders received.

4.3 Recognition of Reimbursement Earned (Revenue)

An earned reimbursement is the amount of the customer orders that have been filled, provided that in the case of orders from the public, including state and local governments, the amount is limited to the amount of the cash advance received. Earned reimbursements should not exceed the amount of individual customer orders as well as letters of intent, commanders' orders, congressionally mandated actions, and other emergency situations. The amount of budgetary resources available for obligation from earned reimbursements is calculated as the sum of:

4.3.1. Customer orders from Federal Government accounts that have been filled but not yet billed;

4.3.2. Accounts receivable representing Federal Government customer orders that have been filled but not collected;

4.3.3. Cash received as advances from the public for customer orders that have been filled;
and

4.3.4. Cash received as reimbursement for Federal Government customer orders that have been filled.

4.4 Treatment of Unearned Revenue

Unearned revenue consists of amounts received in advance for goods and services to be delivered at a future date. The appropriation language for DoD's DWCF permits the fund to receive advances for supplies and services. The DWCF business entities must be advanced funds identified in the DWCF customer orders during the fiscal year, as required, to enable the DWCF activity to pay for its costs of operation. The DoD Components receiving an advance must record the amount received as a liability until the payment is earned, i.e., goods or services have been delivered. After the payment is earned, the DoD Component must record the appropriate amount as revenue and reduce the liability accordingly. Other Liabilities are further discussed in Volume 4, Chapter 12, and DWCF Reimbursements and Revenue Recognition are further discussed in Volume 11B, Chapter 11.

5.0 NON-EXPENDITURE FUND TRANSFERS

A non-expenditure transfer moves budgetary resources from one budget account, appropriation, or fund to another that does not involve an outlay. Non-expenditure transfers of funds may be received from another appropriation or fund or may be made to another appropriation or fund when appropriate and authorized. A non-expenditure transfer of funds received from another appropriation or fund increases the amount of available budgetary resources. A non-expenditure transfer of funds made to another appropriation or fund decreases the amount of available budgetary resources.

DoD 7000.14 - R



DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

CHAPTER 4: "ARCHIVED"

**UNDER SECRETARY OF DEFENSE
(COMPTROLLER)**

DoD 7000.14 - R



DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

CHAPTER 5: "ARCHIVED"

**UNDER SECRETARY OF DEFENSE
(COMPTROLLER)**

DoD 7000.14 - R



DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

CHAPTER 6: "ARCHIVED"

**UNDER SECRETARY OF DEFENSE
(COMPTROLLER)**

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DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

CHAPTER 7: "ARCHIVED"

**UNDER SECRETARY OF DEFENSE
(COMPTROLLER)**

DoD 7000.14 - R



DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

CHAPTER 8: "ARCHIVED"

**UNDER SECRETARY OF DEFENSE
(COMPTROLLER)**

DoD 7000.14 - R



DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

CHAPTER 9: "ARCHIVED"

**UNDER SECRETARY OF DEFENSE
(COMPTROLLER)**

DoD 7000.14 - R



DEPARTMENT OF DEFENSE

FINANCIAL MANAGEMENT REGULATION

CHAPTER 10: "ARCHIVED"

**UNDER SECRETARY OF DEFENSE
(COMPTROLLER)**

**VOLUME 11B, CHAPTER 11: “REIMBURSEMENTS AND REVENUE
RECOGNITION - DEFENSE WORKING CAPITAL FUNDS”**

SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also 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 [October 2002](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Chapter Title	Modified the Chapter title from “Reimbursements And Revenue Recognition” to “Reimbursements and Revenue Recognition - Defense Working Capital Funds.” This aligns with the titles used for Chapters 1 - 3. It also distinguishes the Chapter from Volume 11A during online searches.	Revision
1.0 (1101)	Revised the “General” section and added “Overview”, “Purpose” and “Authoritative Guidance” paragraphs in order to comply with the DoD Financial Management Regulation Standard Operating Procedures.	Revision
2.4 (110204)	Updated guidance for use of Project Orders in accordance with Title 41, United States Code, section 6307 (41 U.S.C. § 6307) and for usage of Economy Act Orders in accordance with 31 U.S.C. § 1535.	Revision
2.5 (110205)	Updated guidance for work performed per 10 U.S.C. § 127a.	Revision
2.6 (110206)	Updated guidance for Work Performed in Advance of Reimbursable Orders in accordance with the Office of Management and Budget Circular A-11.	Revision
2.8 (110208)	Updated requirements for stabilized rates to align with Volume 2B, Chapter 9.	Revision
3.1 (110301)	Updated guidance for recognizing and reporting revenue in accordance with Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards 7, and relevant portions of the Deputy Chief Financial Officer Memorandum, “Policy Change to Account for In Transit Inventory Assets (FPM 19-10),” dated December 9, 2019.	Revision

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
3.2 (110302)	Updated guidance on Service Type and End-Product Type Orders.	Revision
3.4 (110304)	Removed the budgetary and proprietary accounting entries provided in the former section 3.0 and referred users to the DoD U.S. Standard General Ledger Transaction Library.	Revision
4.0 (1104)	Removed the Prior Period Adjustment content provided in the former section 4.0 because this guidance is given in Volume 4, Chapter 17.	Deletion

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CHAPTER 11

**REIMBURSEMENTS AND REVENUE RECOGNITION
- DEFENSE WORKING CAPITAL FUNDS*****1.0 GENERAL (1101)****1.1 Overview (110101)**

Reimbursements are collections earned for selling goods or providing services. Reimbursable obligations are obligations financed by offsetting collections credited to an expenditure account in payment for goods and services provided by that account. The collection must be authorized by law to credit the specific appropriation or fund account. The Under Secretary of Defense (Comptroller) must authorize reimbursable authority through budget formulation in Annual Operating Budgets and statutory authorization in the annual National Defense Authorization Act. Refer to Volume 3, Chapter 15 for additional information relating to the standards for recording the receipt and distribution of budgetary resources in execution-level activities.

1.2 Purpose (110102)

This chapter establishes guidance for reimbursements and revenue recognition for the DoD Defense Working Capital Fund (DWCF).

1.3 Authoritative Guidance (110103)

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

1.3.1. Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards 7 (*SFFAS 7*) “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.”

1.3.2. Office of Management and Budget (*OMB Circular A-11*) “Preparation, Submission, and Execution of the Budget.”

1.3.3. *Standard Financial Information Structure*. “DoD Standard Reporting Chart of Accounts and DoD U.S. Standard General Ledger (USSGL) Transaction Library.”

1.3.4. Title 10, United States Code, section 127a (*10 U.S.C. § 127a*) “Operations for which Funds Are Not Provided In Advance: Funding Mechanisms,” *10 U.S.C. § 2208* “Working-capital Funds,” *10 U.S.C. § 2210* “Proceeds of sales of supplies: credit to appropriations,” and *10 U.S.C. § 2563* “Articles and Services of Industrial Facilities: Sale to Persons Outside the Department of Defense.”

1.3.5. U.S. Department of the Treasury (Treasury), Bureau of the Fiscal Service, Federal Account Symbols and Titles (*FAST Book*).

2.0 REIMBURSEMENTS (1102)

2.1 Reimbursement Principles (110201)

2.1.1. 10 U.S.C. §§ 2208 and 2210 provide the basic transactional authority for the DWCF. These authorize the Secretary of Defense to finance inventories of supplies, industrial-type activities, and commercial-type activities that provide common services within or among activities of the DoD. Supply-type services involve the sale of material financed using contract authority established by 10 U.S.C. § 2210(b) subsequently liquidated using revenue earned and collected from sales. Industrial-type services may be financed for requirements internal to a military department or for external customers and commercial-type activities may be financed when common services are required within or among the departments and agencies that comprise the DoD. As required by 10 U.S.C. § 2208(o), charges for goods and services provided through a DWCF activity must include amounts to recover the full costs of goods and services provided and amounts for capital investment recovery.

2.1.2. The DWCF billings to and reimbursements from ordering activities for services or goods provided must be accomplished in the most efficient and expeditious manner available to reduce or eliminate the need for additional DoD working capital. In addition, the nature of the DWCF requires ordering activities to budget, control, and account for the cost of all goods and services ordered (refer to 10 U.S.C. § 2208).

2.1.3. As a result, a DWCF activity:

2.1.3.1. Must bill ordering activities for all costs incurred as a result of an accepted customer order as long as the billings does not exceed the fixed-price contract amount.

2.1.3.2. Must bill customer order cancellation or reduction costs. When a job order is canceled or reduced in scope after a DWCF activity has commenced work or incurred costs on the order, the costs incurred, plus the applied overhead (that is, indirect and other normally allocated overhead, such as General and Administrative (G&A) costs) plus costs associated with the cancellation or reduction must be charged to the customer. Examples of directly associated cancellation or reduction costs to be charged to customers are advance planning costs, non-creditable direct materiel, special test equipment, necessary preservation and/or shipment effort, and any additional effort necessitated by the cancellation and/or reduction; for example, salvaging of materiel. In addition, costs charged to customers should include the costs of salaries payable to employees hired specifically to work on the canceled order until the employees are, or could have been, separated through a reduction in force or other appropriate action (taking into account appropriate administrative lead time), or reassigned to other direct jobs. Materiel is defined as all items necessary to equip, operate, maintain, and support military activities without distinction as to their application for administrative or combat purposes, excluding real property, installations, and utilities. Materiel is either serviceable (i.e., in an issuable condition) or unserviceable (i.e., in need of repair to make it serviceable). This definition is taken from [DoD Instruction 4140.01](#) “DoD Supply Chain Materiel Management Policy.”

2.1.3.3. Must not charge the customer for costs that are indirectly associated with cancellation or reduction actions. For example, do not charge a customer canceling or reducing an order for under-applied indirect production and G&A overhead costs that result from a reduced workload base of the DWCF activity as a whole. Instead, record the under-applied costs against the net operating results of the performing DWCF activity.

2.1.3.4. Must not enter into any arrangement to offset services/materials received and services/materials furnished, except for Foreign Military Sales (FMS)/Foreign Exchange Agreements as provided in Volume 15 or via Acquisition and Cross-Servicing Agreements as provided in Volume 11A, Chapter 8.

2.2 Reimbursable Orders (110202)

2.2.1. No work or service should be performed by a DWCF activity except on the basis of reimbursable orders received and accepted that constitute obligations of Federal Government ordering activities or cash advances from non-Federal Government entities. Direct fund cite orders will include a reimbursable order portion for the applicable DWCF overhead rate. Economy Act Orders may be issued as direct fund cite orders where the ordering activity identifies the appropriate fund citation for the servicing activity to place on the reimbursable order (refer to Volume 11A, Chapter 3).

2.2.2. Each DWCF activity must record promptly all orders accepted and must account continuously for the status of all orders in terms of deliveries, billings, and unfilled balances. This will provide a basis for scheduling production or operations, assessing work backlogs, determining the need for additional orders or to reduce activity, preparing operating budgets and forecasts, and promptly informing customers about changes in delivery schedules.

2.3 Basis for Reimbursement (110203)

2.3.1. All orders accepted by a DWCF activity must be in writing (either on paper or an electronic document); for a purpose authorized by law; executed before cancellation of the issuing appropriation; and must call for specific goods, real property, work, or services. The DWCF activity will adhere to the accounting standards hierarchy in Volume 1, Chapter 2 in accepting, recording, billing and reporting reimbursable activities.

2.3.2. Each Project Order or other order accepted by a DWCF activity must state specifically the basis of reimbursement to the DWCF for the cost of work or services ordered, as between fixed-price or cost reimbursement. For DWCF industrial facility sales to persons outside the DoD under authority of 10 U.S.C. § 2563, materials or services may be sold on either a fixed-price or cost reimbursement basis.

2.3.3. Orders from the public, including State, local and foreign governments must be accompanied by an advance because DWCF activities cannot recognize budgetary resources for a non-Federal order until a receipt is collected. Volume 4, Chapter 3 provides an exception for fuel sales to the public. According to Chapter 1, paragraph 010208, cash advances may also be requested from Federal Government activities when directed and approved in advance by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)).

*2.4 Performance Under Project Orders and Economy Act Orders (110204)

A performing activity's mission, function and the nature of the transaction will determine whether 10 U.S.C. § 2208 or another statutory authority governs a class of orders. As stated in subparagraph 2.1.1, 10 U.S.C. § 2208 is the primary transactional authority for DWCF sales of materials and for the provision of services by chartered DWCF industrial and commercial activities that provide common services within or among DoD components. The Economy Act and the Project Order Statute are additional statutes that may pertain to some DWCF sale transactions.

2.4.1. The DoD Components (i.e., DoD-owned and operated activities) ordering work or services from a DWCF financed activity may place a Project Order whenever such an order meets the requirements for Project Orders established in Volume 11A, Chapter 2. A DWCF customer with a qualifying requirement would use authority conferred by 41 U.S.C. § 6307 to account for the obligation in the same manner as it would a procurement contract for a similar requirement with commercial manufacturer or private contractor. To qualify as a Project Order under policy in Volume 11A, Chapter 2 the customer request must be a bonafide need of the fiscal year (FY) in which the Project Order is placed. DWCF customers may place Project Orders only for non-severable requirements that are performed over a period of time which may cross a FY.

2.4.2. Organizations financed by the DWCF accept and perform orders within the scope of their DWCF charter mission under transactional authority conferred by 10 U.S.C. § 2208. Such organizations may also accept and perform Economy Act Orders under 31 U.S.C. § 1535, when providing intra-DoD or intragovernmental support not falling within the activity's DWCF charter mission, provided they otherwise meet the criteria of such orders as described in Volume 11A, Chapter 3. For instance, when a tenant of a DWCF-financed activity reimburses a DWCF installation host, the Economy Act governs the transaction. Such support would not involve provision of supplies or common services for which the DWCF-financed activity was chartered. Support categories for which the Economy Act may provide transaction authority include, but are not limited to, base support (host-tenant) services, civilian personnel services, community services, environmental compliance, fire protection, food service, health service, mail service, police service, security/guard services, and warehousing.

2.4.3. The customer order and funding document should identify the applicable statutory authority (i.e., Project Orders, Economy Act Orders, or 10 U.S.C. § 2208) upon acceptance by the performing activity. See Treasury's Bureau of the Fiscal Service, Interagency Agreement, United States Government Order Instructions, FS Form 7600B. The requesting and servicing activities must identify the applicable statutory and program authorities. FS Form 7600B allows for this information to be provided in blocks 17-19 and 20-21, respectively.

*2.5 Reimbursement for Contingency Operations and Humanitarian Efforts (110205)

2.5.1. All DWCF activity groups, including transportation services provided by the U.S. Transportation Command (USTRANSCOM), operate on a reimbursement basis with users paying for goods and services provided. Payment for contingency operations, including deployment or other emergency response for military or humanitarian assistance, is no exception.

2.5.2. The Military Department Headquarters is responsible for determining which level within the Military Department will pay (that is, at the unit, major command, or Military Department-level). This process also applies when a Unified Combatant Command tasks a Service-funded unit to perform a mission (such as transportation of military personnel or equipment by the USTRANSCOM). Payment for the services provided is the responsibility of the Military Department controlling the equipment or personnel receiving the service.

2.5.3. Transportation provided in response to a Request for Assistance (RFA) from another government agency must not result in third party collections. The Military Department that controls the equipment or personnel being transported is responsible for reimbursing USTRANSCOM. It is the responsibility of the Military Department that accepted the RFA to collect any required reimbursements owed to that Military Department by the requesting government agency.

2.5.4. An exception to this policy occurs when the USTRANSCOM receives an order from the Joint Chiefs of Staff requiring transportation of non-U.S. owned equipment and/or non-U.S. personnel such as unreimbursed efforts in support of the United Nations. In those instances, the Army will pay Surface Deployment and Distribution Command costs, the Navy will pay Military Sealift Command costs, and the Air Force will pay Air Mobility Command costs. Bills may be centralized for more convenient processing if appropriate; however, billings must be forwarded to the appropriate Military Department within 30 days from commencement of the contingency operation or humanitarian effort. The Military Departments must pay these bills, including transportation costs, in a timely manner.

2.5.5. Authority for another exception to this policy is available for operations described in 10 U.S.C. § 127a. 10 U.S.C. § 127a does not confer authority to conduct operations, but rather establishes mechanisms by which funds are provided for two types of operations that the armed forces are required to carry out under some other authority in the absence of advance funding. The first involves the deployment (other than for a training exercise) of elements of the armed forces. The second involves the provision of humanitarian assistance, disaster relief, or support for law enforcement (including immigration control). 10 U.S.C. § 127a(b) authorizes the Secretary of Defense to not require reimbursement for specified services rendered by DWCF activities to a unit of the armed forces performing a section 127a mission.

*2.6 Work Performed in Advance of a Reimbursable Order (110206)

In [certain](#) situations, work for customers may begin in advance of receipt and acceptance of a formal order. They are as follows:

2.6.1. In periods under which the Department is operating under a Continuing Resolution (CR). For more details, refer to [Volume 3, Chapter 2 and OMB Circular A-11, Section 123](#). Orders issued under a CR must identify the portion covered by current obligational authority. When obligational authority is not available neither work nor service is to be performed. Another option is to request that OMB provide an exception apportionment. This must include a written justification that provides the legal basis for the request.

2.6.2. When it is necessary, in an urgent situation, to incur limited costs in advance of the receipt of a regular order for an authorized program for which customer funds are available, such work or services may be undertaken on the basis of a letter of intent which constitutes an obligation of the ordering activity in a stated amount sufficient to cover the advance costs that may be incurred. Therefore, letters of intent are obligating instruments, contractual in nature, and must be funded upon issuance. A letter of intent [must](#) expire within 30 days from the date of issuance.

2.6.3. When it is necessary to begin work of an emergency nature prior to the receipt of an order, a commanding officer's order or similar order may be issued by the commander of the DWCF activity subject to the following conditions:

2.6.3.1. The DWCF activity must have written assurance that an order [must](#) be issued promptly or [must](#) have equivalent documented communication. The use of such orders [must](#) be limited to situations in which there are bona fide emergencies arising from unforeseen urgent requirements, e.g., loss or damage caused by a disaster, an act of God, or events caused by unforeseen security situations. A commanding officer's order must not be used as a normal procedure to circumvent administrative lead-times that should be considered in advance planning.

2.6.3.2. A commanding officer's order [must](#) expire within 30 days from the date of issuance.

2.6.3.3. A commanding officer's order [must](#) be issued on a local form (e.g., DoD [\(DD\) Form 577](#), Appointment/Termination Record - Authorized Signature) and [must](#) be approved and signed by the commanding officer or an authorized representative.

2.7 Follow-up on Unfunded Reimbursable Orders (110207)

While there may be some services furnished by a DWCF activity prior to receiving a funded order, this should be a rare occurrence. Whenever this occurs, these services are performed on the basis of anticipated orders or for programs included in approved budget requests. This type of work is for existing customers that have annual recurring requirements. However, when items are furnished or services performed in response to an unfunded reimbursable order (express or implied), and a funded order has not been submitted after 15 days of providing the

service, the DWCF organization **must** notify the comptroller of the customer organization and request a funded order. If funding is not received within 30 days of providing the service, the DWCF organization **must** notify the OUSD(C), Deputy Comptroller Program/Budget (P/B) - Revolving Funds Directorate, and request authorization to directly bill the customer's appropriation account. The OUSD(C) P/B - Revolving Funds Directorate **must** respond to the request within 15 days. Upon authorization by the OUSD(C) P/B - Revolving Funds Directorate, the DWCF organization **will** self-reimburse the DWCF, citing the customer's appropriation.

*2.8 Billing Standard (110208)

The DWCF Components performing work or services on a customer order **must** bill the requesting DoD Component, other Federal agency, or the public for earned reimbursements (performance of work or services, payments to contractors, or delivery from inventory) within 30 calendar days after the month in which performance occurred. The payment due date **must** not be more than 30 calendar days from the date of the invoice.

2.8.1. Stabilized rates **must** be established to **achieve an Accumulated Operating Result (AOR) of zero in the budget year. This means the stabilized rates must** recover operating expenses estimated to be incurred for the applicable FY and provide sufficient working capital for the acquisition of fixed assets as approved by the OUSD(C) P/B - Revolving Funds Directorate. **Therefore, stabilized rates and unit prices must** be established at levels intended to provide for estimated revenues to equal estimated costs plus approved surcharges for the applicable FY for which the rates and unit prices are established. **In budget execution, activities will incur either a positive or a negative operating result. Accordingly, activities will increase their budget year prices to make up actual or projected losses of budgetary resources or reduce their budget year prices to return actual excess resources or projected budgetary gains to customers. Activities may request recovery of AOR outside the budget year in instances when an AOR of zero cannot be achieved. This request must be included in the budget submission and approved by the OUSD(C) P/B - Revolving Funds Directorate. Refer to Volume 2B, Chapter 9 for specific details.**

2.8.2. **When established stabilized rates and unit prices are insufficient to cover the increase in actual costs incurred for Project Order or Economy Act Order cost reimbursable orders, renegotiations in the current FY need not be conducted for small dollar amounts (\$0.01 to \$2,500.00) when the probable cost of renegotiation is greater than the adjustment amount. The resulting negative operating result must be addressed to achieve an AOR of zero in the budget year in accordance with the guidelines in subparagraph 2.8.1.**

2.8.3. Private parties and concerns, when authorized by law including foreign governments, and state and local governments **must** reimburse the DWCF for the full costs incurred by the Federal Government. Full costs for foreign military, state and local government, and private party sales **must** include unfunded costs that are not charged to the DoD or other Federal Government customers (such as unfunded civilian retirement and postretirement health benefits costs). Amounts collected for unfunded civilian retirement and postretirement health benefits costs **must** not be retained by DWCF activities; rather, such amounts **must** be deposited into **either** the Miscellaneous Receipts Account 3210, "General Fund Proprietary Receipts,

Defense Military, [Not Otherwise Classified](#),” or for FMS into Account 3041, “Recoveries Under the Foreign Military Sales Program, Army, Navy, Air Force, Defense” (see the FAST Book). Volume 15, Chapter 7 [provides](#) additional information on the determination of full costs for FMS.

2.9 Disputed Bills between DoD Components (110209)

2.9.1. Payment for ordered goods and services [must](#) be made promptly [after the receipt of the bill/invoice by the requesting activity from the performing activity](#). Payment may be in advance or on providing the goods or services ordered and [must](#) be for any part of estimated or actual cost as determined by the activity filling the order. Proper adjustment of amounts paid in advance [must](#) be made as agreed to by the ordering and performing activities on the basis of the goods or services provided. A bill submitted or a request for payment [must](#) be paid promptly and not postponed subject to audit or other similar validation in advance of payment. This provision is not intended to preclude questions on the accuracy and correctness of the billed amounts but is intended to preclude the nonpayment of bills subject to the resolution of disputed billing details. Every effort [must](#) be expended to resolve disputed billing details within 60 days. The billing activity may request adjudication from the OUSD(C) P/B - Revolving Funds Directorate if, after 60 days, agreement as to the resolution of billing details cannot be reached. The OUSD(C) P/B - Revolving Funds Directorate [must](#) provide a decision on disputed bills within 30 days.

2.9.2. The providing activity may request approval from the OUSD(C) P/B - Revolving Funds Directorate to collect from the customer such amounts as are unpaid, in cases where there is a question as to ownership of the bill (vice dispute over the amount of the bill or other billing details), and the bill remains unpaid for more than 90 days. The OUSD(C) P/B - Revolving Funds Directorate [must](#) provide a decision on ownership questions within 30 days.

3.0 REVENUE RECOGNITION (1103)

*3.1 Reporting Requirements (110301)

3.1.1. DoD Components [must](#) use the percentage of completion method for recognizing revenue on all customer orders. Under this method, the revenue earned on an order [must](#) be recognized, based on the ratio [that costs of goods incurred and services provided to date, bear to the total costs estimated to be incurred on the order when it is completed \(see SFFAS 7, paragraph 149 for guidance and exceptions to this treatment\)](#). The completed [contract](#) method for revenue recognition is not an acceptable method for recognizing revenue within the Department.

3.1.2. Revenue and costs must be recognized in the same accounting period. [In accordance with SFFAS 7, paragraph 36\(c\), “when goods are kept in inventory so that they are available to customers when ordered, revenue should be recognized when the goods are delivered to the customer.” This is clarified in the OUSD\(C\) Financial Management Regulation Policy Memorandum \(FPM\) 19-10 “Policy Change to Account for In-Transit Inventory Assets” dated December 9, 2019. According to FPM 19-10 revenue recognition must occur at the point of receipt of the inventory by the customer effective FY 2021. Volume 4, Chapter 17, subparagraph 170506.A provides that DWCF activities routinely post operating expenses/program](#)

costs to a Cost of Goods Sold (COGS) account (either directly to Operating Expenses/Program Costs or via Work-in-Process accounts) so that costs may be matched to revenue upon completion of the task or filling an order. A standard policy for recognizing and reporting revenue must apply for all activities within a DWCF activity group. The amount of revenue recognized must not exceed the amount specified in the order.

3.1.3. Activities in the DWCF industrial activity groups must use a work-in-process account to capture and hold inventory costs prior to their recognition as a COGS. Examples of chartered DWCF industrial activities include the Army Industrial Operations Activity Group, Navy Depot Maintenance Activity Group, and Air Force Consolidated Sustainment Activity Group-Maintenance Division's depots. DWCF industrial activities are chartered activities with primary missions involving depot maintenance, transportation, and research and development (refer to Volume 2B, Chapter 9).

3.1.4. Activities in the Transportation commercial activity group must recognize revenue based upon receipt of a cargo manifest, the commencement of travel or the agreed upon shipping terms.

3.1.5. Activities in Supply Management activity groups must not recognize revenue, and costs of goods sold, and should not reduce their inventory financial balance until receipt by the customer occurs. This is because materiel does not transfer from the DWCF supply management activity's inventory until receipt of the materiel by the customer. Therefore, if billing and collection happen prior to receipt by the customer, the funds received by the DWCF must be recorded as an unearned revenue liability. Billing or collection by Supply Management activity groups at time of shipment is not an advance billing under 10 U.S.C. § 2208(l). Upon confirmation of receipt, the DWCF will recognize revenue earned, relieve the liability, reduce inventory, and recognize COGS.

3.1.6. The customers of supply, industrial and commercial activities financed using DWCFs must record complementary accounting entries. Payment prior to receipt of materiel must be recorded as an advance payment, with a corresponding credit to Fund Balance with Treasury. Upon receipt of the materiel, the customer will relieve the advance and debit either an appropriate asset account (e.g., Operating Materials and Supplies held for use) or recognize an expense, if applicable.

3.1.7. Both the DWCF and the customer must also make or adjust any budgetary accounting entries to maintain Treasury Tie-Points. Tie-Points, also referred to as Tie-Point Reconciliations, are a series of standard USSGL accounting relationships that indicate whether certain account balances within a general ledger trial balance are consistent with other account balances. Tie-Points facilitate the validation of trial balance data. Refer to Volume 1, Chapter 7 and the Standard Financial Information Structure given at 1.3.3 for details.

3.1.8. Activities in the Commissary Resale activity group must recognize revenue, and related costs, at the point/time of sale.

3.1.9. In the event that a service is rendered, revenue **must** be considered earned, and recognized, and associated costs **must** be reported, at the time that the service is rendered/performed, but not less frequently than monthly **on the last calendar day**.

3.1.10. Activities in Navy Research and Development activity group **must** use the percentage of completion method **for revenue recognition** for production type (end-product item) orders, **or report** revenue **as actual** costs **are incurred and billed** for service **type** orders.

3.1.11. Activities in all other **industrial or commercial** activity groups (for example, Financial Operations, Base Support, Information Services, Reutilization and Marketing, and Printing and Publications) not discussed in subparagraphs 3.1.1 through 3.1.10, **must** recognize revenue and the associated costs, **when it is earned**. **In other words**, at the time that the service is rendered/performed, but not less frequently than monthly **on the last calendar day**.

*3.2 Service Type Orders **versus** End-Product Type Orders (110302)

3.2.1. **For** service type orders, a work-in-process account **must** not be used to capture and hold costs. **According to SFFAS 7, paragraph 36(a), revenue should be recognized when the services are performed**. **Consequently**, service type orders **must** be considered as rendered/completed, and revenue and costs **periodically** recognized, at least **on the last day of the month**. Descriptions of projects and work that should be classified as service type orders **include**:

3.2.1.1. Research and Development includes the conduct and support of research, development, **test, and evaluation**; basic research; applied research; **advanced technology development**; **advanced component development and prototypes**; **system development and demonstration**; and developmental engineering. Does not include production of items for service testing or engineer-user testing. **The Navy's Warfare Centers and Laboratories are examples of DWCF activities that perform these types of orders**.

3.2.1.2. Transportation Services includes transportation (air, land, and sea) services **such as the movement of supplies and provisions to deployed forces**. **This** includes operation of ports, port facilities and related sub-installations, passenger trans-shipment activities, and **air refueling**. **This** also includes the operation of docks, piers, terminals or similar facilities; and wharfage, ferrying, lighterage and stevedoring. **The Navy Military Sealift Command performs these types of orders**.

3.2.1.3. Communication and Information Services includes **telecommunication** services and data processing services (other than **those services addressed in subparagraph 3.2.1.5**) rendered. **For example, the Defense Information Systems Agency operates the information services activity within the DWCF**. **This activity consists of two main components**. The first component includes two lines of service, telecommunications services and enterprise acquisition services. The second component includes computing services.

3.2.1.4. **Specialized Commercial Services.** The Defense Counterintelligence and Security Agency's personnel vetting program provides personnel background investigations on a fee-for-service basis. The Defense Finance and Accounting Service provides debt management and payment services; payroll services for military personnel, retirees, annuitants and civilians; and performs accounting and reporting for customers that place service type orders.

3.2.1.5. **Technical Information** includes central collection and dissemination for DoD technology based information. Includes provision of access to, and transfer of, scientific and technical information. Also includes provision of computer modeling, data services, and response to requests for solutions to technological problems of the Military Departments.

3.2.1.6. **Printing Services** includes printing, reproduction and document automation, workflow conversion, electronic storage and output, multi-function devices, office printers, and distribution of hard copy and digital information. The Defense Logistics Agency is an example of an activity that provides these services.

3.2.1.7. **Distribution Depots** includes management and procurement of items with a designated national stock number for all DoD customers. For example, the Army's Industrial Operations activity group conducts depot level maintenance, repair and upgrade; produce munitions and large caliber weapons; and store, maintain, and demilitarize materiel for all branches of DoD.

3.2.1.8. **Supply Management services involving** receipt, reclamation, storage, and issue of consumables and reparable items. For example, the Army DWCF Supply Management activity group administers spare parts inventory for Army managed items, Non-Army managed items and war reserve secondary items. The activity also maintains a protected inventory of spares in Army Prepositioned Stocks, which is released to support deploying combat units.

3.2.1.9. **Contract Management** includes expediting the products and services delivered by industry, assuring that the specifications of the contract are met and paying contractor invoices for these items. Also includes surveillance of contractor operations to assure compliance with contractual requirements and determining the effectiveness of contractor quality control systems and inspection procedures, and officially accepting materiel on behalf of the government after certifying its conformance to contract provisions. Also includes provision of on-site assistance to program managers, such as representation and participation in meetings and informal program/contract reviews.

3.2.1.10. **Base Support** includes facilities maintenance, family housing services, other housekeeping services, and administrative functions, provided to tenants and others. Also includes provision of utility services (central heat and power, electricity, water, wastewater disposal, and natural gas).

3.2.1.11. **Engineering Services** includes provision of technical and engineering assistance in matters relating to various weapon systems, industrial plant equipment, and associate system when they do not relate to research and development projects. Also includes repair service and quality evaluation; that is, inspecting, calibrating, testing, evaluating, trimming and

reengineering of items. For example, the Air Force enhances readiness by efficiently and economically repairing, overhauling and modifying aircraft, engines, missiles, components, and software to meet customer demands through its Consolidated Sustainment Activity Group-Maintenance Division.

3.2.1.12. Support of Reserve (Under and Unutilized) Capacity includes maintenance of unutilized capacity and support of underutilized capacity.

3.2.1.13. Commissary Services includes operation of Defense commissaries. Also includes provision of troop issue subsistence and programming of the replacement of War Reserve Materiel rotation rations. For example, the Defense Commissary Agency collects revenues from product sales in commissary stores through its Resale Stocks business activity.

3.2.1.14. Reutilization and Marketing Service includes the reuse of excess and surplus property within the Federal Government and other authorized agencies, donation to local governments, and the sale of the remaining property to the public on a competitive basis.

3.2.2. A work-in-process account **must** be used to capture and hold costs prior to their recognition as a **COGS that will support revenue recognition**. Descriptions of applicable projects and work that should be classified as end-product type orders are as follows:

3.2.2.1. Overhaul or a complete rebuilding of parts, assemblies, subassemblies, and end-items.

3.2.2.2. Manufacture and Assembly **such as** furnishing customers with new end-items and components. **In addition**, manufacturing prototypes or furnishing items to the customer for testing.

3.2.2.3. Ordnance is defined as explosives, chemicals, pyrotechnics, and similar stores, e.g., bombs, guns and ammunition, flares, smoke, or napalm. Refer to the [DoD Dictionary of Military and Associated Terms](#). This type order includes the receipt, segregation, demilitarization, storage, assembly, disassembly, test, maintenance, and issuance actions.

3.2.2.4. Construction and Conversion includes construction and conversion of property and equipment.

3.2.2.5. Alteration and Modification includes alteration and modification of property and equipment.

3.2.2.6. Other Products include products not otherwise classified such as the production of research and development items for service testing or engineer-user testing.

3.3 Revenue Billings (110303)

3.3.1. The customer funding an order **must** be billed for the revenue recognized **by the DWCF activity performing the order**. When advance payments **are** received, those advances **must** be **reclassified** to the appropriate revenue account **when the revenue is earned**. Revenue billings to customers **must** reflect due credit for the advances received. In no case **must** the total amount of revenue recognized and billed **by the DWCF activity** exceed the amount of the order. **The DWCF customer must not incur obligations for supplies or services ordered from a DWCF activity that exceed the amount of appropriations or other funds available for such purposes. See 10 U.S.C. § 2208 (f).**

3.3.2. Revenue billings **must** be accomplished at least monthly including applicable labor, material, overhead, and surcharges as well as the value of material in inventory that is identified and held in reserve for specific orders, and amounts of work-in-process in contractors' plants and other government plants that are identified to specific orders. **These** billings should be made as late as possible in the month so that they include **these** items to the maximum extent possible and still permit the orderly processing of the collection in the same month. Every effort **must** be made to reduce the billing and collection lag so that a greater portion of the costs **is** recovered in the month incurred.

*3.4 Accounting for Reimbursements and Revenue Recognition (110304)

The DoD Standard Reporting Chart of Accounts provides the DoD account definitions and determines how they are to be used. The DoD USSGL Transaction Library illustrates the accounting entries for USSGL budgetary and proprietary accounts. Both are updated on an annual basis at a minimum. Refer to the Standard Financial Information Structure given in subparagraph 1.3.3 for a decomposition of DoD USSGL accounting transactions for DWCF reimbursement and revenue recognition.

VOLUME 11B, CHAPTER 12: “WORKING CAPITAL FUND COSTS”**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also 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](#).

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All	Administrative updates in accordance with Department of Defense Financial Management Regulation Revision Standard Operating Procedures.	Revision

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CHAPTER 12

WORKING CAPITAL FUND COSTS

1.0 GENERAL

1.1 Overview

1.1.1. Working Capital Funds are designed to create a cost-conscious environment and provide an efficient and effective means for controlling the cost of goods and services. [Department of Defense \(DoD\) Working Capital Fund \(WCF\)](#) entities must have a cost accounting system capable of collecting and recording the costs of producing outputs in the financial reports, in compliance with the Statement of Federal Financial Accounting Standards ([SFFAS 4](#)), “Managerial Cost Accounting Standards and Concepts,” and the DoD United States Standard General Ledger (USSGL) Transaction Library.

1.1.2. Additional information relating to costs can be found in Volume 4, Chapter 17, “Expenses and Miscellaneous Items” and Chapter 19 “Managerial Cost Accounting”. For [WCF](#) entities, all costs must be recovered, unless specifically excluded by DoD policy.

1.2 Purpose

This chapter describes costs associated with [WCF](#) and sets forth the criteria for allocating certain costs to outputs (goods and services) in accordance with Federal accounting standards. The full costs of resources that directly or indirectly contribute to the production of outputs (goods and services) should be assigned to outputs (goods and services) through costing methodologies that are most appropriate to the operating environment and should be followed consistently. Costs must be assigned using the following methods listed in the order of preference: (a) directly tracing costs wherever feasible and economically practicable (e.g., direct costs), (b) assigning costs on a cause-and-effect basis (e.g., indirect costs), or (c) allocating costs on a reasonable and consistent basis (e.g., general and administrative (G&A) costs). Guidance related to budgeting for costs can be found in Volume 2B, Chapter 9 “Defense Working Capital Fund Budget Justification Analysis.”

1.3 Authoritative Guidance

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

1.3.1 Title 10, United States Code, section 2208 ([10 U.S.C. § 2208](#)), “Working-capital funds”;

1.3.2. [SFFAS 3](#), “Accounting for Inventory and Related Property”;

1.3.3. [SFFAS 4](#), “Managerial Cost Accounting Standards and Concepts”;

1.3.4. [SFFAS 5](#), “Accounting for Liabilities of the Federal Government”;

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

1.3.6. [SFFAS 10](#), “Accounting for Internal Use Software;” and

1.3.7. [SFFAS 55](#), “Amending Inter-entity Cost Provisions.”

2.0 MILITARY PERSONNEL EXPENSE

2.1 Military Personnel Cost

2.1.1. The cost of military personnel may involve two separate processes.

2.1.1.1. The first process involves the payment to military personnel appropriations for the budgeted amount of military personnel for an activity group regardless of the actual number of military personnel assigned.

2.1.1.2. The second process involves the assignment of costs for military personnel at the civilian equivalency rate for the number and grade of military personnel assigned to the [WCF](#) activity. In some circumstances, these costs are assigned to production orders or cost centers for services performed; other times they are assigned as overhead or G&A.

2.1.2. Rate guidance is provided in Volume 11A, Chapter 6, Appendix B.

2.1.3. See Volume 2B, Chapter 9 for additional military personnel reimbursement policy.

2.2 Military Personnel Services

[WCF](#) activities must price military personnel services reimbursement in support of [WCF](#) operations using the civilian equivalency rate. The respective Military Departments and [WCF](#) activities must reimburse the appropriate military appropriation every fiscal year.

2.3 Unresolved Disputes

In the event of an unresolved dispute between the military personnel appropriation manager and a [WCF](#) activity on the budgeted amount of the deposit, the budgeted amount requested by the military personnel appropriation manager must be provided. Upon resolution of the dispute, the military personnel appropriation manager will provide a refund to the [WCF](#) activity, if any is due, for the applicable amount.

3.0 DEPRECIATION EXPENSE

Depreciation is the systemic and rational allocation of the recorded cost of an asset over its estimated useful life. Refer to Volume 4, Chapters 24, 25, 26, 27, and 28 for guidance on useful lives.

3.1 Capital Assets

WCF activities will fully reflect the depreciation expense of capital assets owned by the activity in their operating costs, whether they were purchased with WCF budget authority or transferred to the WCF activity without reimbursement. WCF activities will recover only those costs incurred by the activity in the rates through the Capital Investment Recovery (CIR) factor. See Volume 2B, Chapter 9 for additional information regarding the CIR.

3.2 Capital Assets Transferred In

WCF activities will calculate the depreciation of capital assets that are transferred into a WCF business entity without reimbursement based on its 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. Since the transfer of capital assets to the WCF activity without reimbursement does not involve an outlay, the CIR factor is not applied.

3.3 Imputed Costs Related to Real Property

Volume 4, Chapter 24, directs WCF activities to impute costs in accordance with SFFAS 55. WCF activities that transfer out real property to comply with DoD policy must record imputed costs for those assets meeting the criteria defined in SFFAS 55.

4.0 MANAGEMENT IMPROVEMENT INITIATIVES

WCF activities must expense any management improvement initiative that does not qualify for the Capital Investment Program and does not result in a capital asset subject to depreciation.

5.0 REAL PROPERTY MAINTENANCE AND REPAIR

WCF activities must expense real property maintenance and repairs in the period in which the maintenance and repair occurs. See Volume 4, Chapter 24 for further policy on real property maintenance and repair.

6.0 DoD HEADQUARTERS ACTIVITIES COSTS

Each WCF activity is under the management control of a designated DoD Component. The WCF headquarters activities costs are related to specific WCF activity operations and are separate from the general policy direction for the Department or a DoD Component. WCF activities must identify management headquarters funded by the WCF in the WCF Charter (Management Command) for each applicable activity. See Chapter 2 for guidance on WCF charter requirements. Refer to Volume 2B, Chapter 9 for the DoD guidance related to headquarters activities.

7.0 ACCOUNTING FOR COSTS

The [*DoD USSGL Transaction Library*](#) illustrates the accounting entries with related USSGL accounts.

**VOLUME 11B, CHAPTER 13: “COST ACCOUNTING REQUIREMENTS FOR
DEPOT MAINTENANCE”**

SUMMARY OF MAJOR CHANGES

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CHAPTER 13

COST ACCOUNTING REQUIREMENTS FOR DEPOT MAINTENANCE

1.0 GENERAL

1.1 Purpose

The purpose of this chapter is to prescribe depot maintenance cost accounting requirements for Defense Working Capital Fund (DWCF) activities to uniformly record, accumulate, and report the job order cost of performing DWCF functions. Depot maintenance reporting requirements and procedures are contained in Volume 6A, Chapter 14, “Depot Maintenance Reporting”.

1.2 Authoritative Guidance

1.2.1. Title 10, United States Code, section 2460 ([10 U.S.C. § 2460](#)) generally defines depot maintenance and repairs as:

1.2.1.1. Material maintenance or repair requiring the overhaul, upgrade, or rebuild of parts, assemblies, or subassemblies, and the testing and reclamation of equipment as necessary, regardless of the source of funds for the maintenance or repair, or the location at which the maintenance or repair is being performed;

1.2.1.2. Including all aspects of software maintenance classified by the Department as depot level maintenance and repair, and interim contractor support or contractor logistics support (or any similar contractor support), to the extent that such support is for the performance of services;

1.2.1.3. Not including the procurement of major modifications or upgrades of weapon systems that are designed to improve program performance, the nuclear refueling or defueling of an aircraft carrier and any concurrent complex overhaul, and the procurement of parts for safety modifications; and

1.2.1.4. Including the installation of parts for safety modifications.

1.2.2. Statement of Federal Financial Accounting Standards ([SFFAS](#)) 4, “Managerial Cost Accounting Standards and Concepts” sets forth the fundamental elements for cost accounting in Federal agencies. [SFFAS 3](#) “Accounting for Inventory and Related Property” identifies the accounting standards that apply to several types of tangible property, other than long term fixed assets, held by federal government agencies.

1.2.3. Volume 4, Chapter 19 “Managerial Cost Accounting” provides guidance on implementing managerial cost accounting within the Department.

2.0 OVERARCHING POLICY

2.1 General

2.1.1. DWCF depot maintenance activities that utilize a job order costing methodology must use formal cost accounting practices in compliance with the provisions of SFFAS 4.

2.1.2. DWCF activities must ensure compliance with the requirements of this chapter and Volume 4, Chapter 4 “Inventory and Related Property” for all material, whether owned by the Department of Defense (DoD), other federal agencies, state or local governments, foreign governments, or private parties.

2.1.3. DWCF activities must uniformly record, accumulate, and report job order costs to assist management in measuring productivity and efficiency; developing and using performance measurement and cost standards; and highlighting areas that need increased management emphasis. This data also assists in the identification of total capability, duplication of capacity, and areas of interservice support of DWCF workload.

2.1.4. Depot maintenance serves to support Intermediate (I) and Organizational (O) level maintenance by providing technical assistance and performing maintenance that is beyond the capability/responsibility of the I and O levels.

2.2 Facilities Requirement

Depot maintenance may be performed in Government-Owned, Government-Operated facilities; Government-Owned, Contractor-Operated facilities; or Contractor-Owned, Contractor-Operated facilities. The primary funding source for depot maintenance operations is DoD operation and maintenance appropriations made available to customers of depot maintenance. Centrally managed procurement appropriations may finance certain specific programs such as weapon system upgrades and similar modernization and/or modification programs. Activities funded by an appropriation or fund legally authorized for the purpose, as well as customers outside of the DoD such as the Coast Guard and Foreign Military Sales, may place an order for maintenance work.

2.3 Managerial Cost Accounting

2.3.1. Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practical, should be integrated with other parts of the financial management system to provide consistent, cost-based information for reporting and management’s use.

2.3.2. DoD depot maintenance activities must, in accordance with SFFAS 4:

2.3.2.1. Accumulate and report the costs of activities on a regular basis for management information purposes;

2.3.2.2. Establish responsibility segments, and measure and report the costs of each segment's outputs and calculate the unit cost of each output;

2.3.2.3. Determine and report the full costs of government goods and services, including direct and indirect production costs and general and administrative (G&A) overhead costs;

2.3.2.4. Recognize the full costs of goods and services provided by other federal entities; and

2.3.2.5. Use and consistently follow costing methodologies or cost finding techniques most appropriate to the segment's operating environment to accumulate and assign costs to outputs. (Refer to Volume 4, Chapter 19 for additional guidance on managerial cost accounting).

3.0 ESTABLISHING THE COST ACCOUNTING MODULE

3.1 Job Order Cost Accounting Module

A job order cost accounting module should be subsidiary to, and integrated within, the financial system defined in Volume 1, Chapter 3 "Federal Financial Management Improvement Act Compliance". The cost module should be integrated with the depot payroll, fund control, and material control modules. Specifically, management should have information available from the cost accounting and reporting module to assist in the:

3.1.1. Comparison of historical unit cost trends with replacement cost trends to include proper identification and categorization of costs;

3.1.2. Oversight in the utilization of resources;

3.1.3. Evaluation of program budgets;

3.1.4. Comparison of cost trends among DWCF entities or between DWCF and contract sources;

3.1.5. Managerial direction and guidance for DWCF programs;

3.1.6. Evaluation of DWCF activities for efficient use of resources;

3.1.7. Estimation of DWCF requirements;

3.1.8. Monitoring of DoD Component compliance with various congressionally mandated reporting requirements;

3.1.9. Examination of the behavior of cost drivers over time (e.g., relationship between a given cost item and the quantity of its related cost driver(s) over time); and

3.1.10. Establishment of DWCF rates used for customer program budgets based on historic models of cost of repair and applied overhead.

3.2 Requisite Module

The cost accounting module must be established for, but not limited to, all DWCF depot maintenance activities.

3.3 Chart of Accounts

3.3.1. The United States Standard General Ledger ([USSGL](#)) provides a uniform chart of accounts and technical guidance for standardizing federal government agency accounting. Guidance on the use of individual general ledger accounts and transactions applicable to the DoD is provided within the Standard Financial Information Structure ([SFIS](#)). The DoD Standard Chart of Accounts ([SCOA](#)) includes all the point accounts and other information related to the USSGL for DoD purposes.

3.3.2. The following guidance further explains the use of the USSGL chart of accounts by a DWCF activity. For detailed DoD general ledger account guidance and DWCF transaction posting refer to the DoD SCOA and the DoD [USSGL Transaction Library](#).

3.3.2.1. Account 152500, "Inventory-Raw Materials," must be used to record all materials held for the purpose of providing a good or service to a customer regardless of the method acquired, e.g., purchase, donation, or transfer without reimbursement. DWCF activities must not charge raw materials to the work-in-process account until the materials are issued for use. Raw material issues must then be charged to appropriate job orders or cost centers. Unneeded material and supplies must be returned to the Inventory-Raw Materials account when a determination is made that the material is available for other uses.

3.3.2.2. DWCF activities must verify raw materials records and adjust them to physical counts. Any adjustments needed to reconcile the physical count with the recorded (book) value of raw materials must be charged to the appropriate cost center or to a gain or loss account as described in paragraph 9.8.

3.3.2.3. Account 152600, "Inventory-Work-in-Process," is the control account for all unbilled job orders. (Refer to Volume 4, Chapter 4 for work-in-process accounting policy.) The amount of work-in-process consists of all costs applied to unbilled job orders including direct labor, direct materials, direct contractual costs (exclusive of contracts that are awarded that directly cite the funds issuer's line of accounting), and applied overhead expenses. The balance in this account must be reconciled to the total charges on unbilled job orders as of the end of each quarter. In addition, the validity and reasonableness of the charges recorded on the unbilled job orders must be verified on a random sample basis at least annually. This validation must be performed by personnel not assigned to the accounting or maintenance function. For example, personnel from a DoD Component audit service or a local internal review staff may be assigned to perform this

function. Based on the results of the verification, DWCF activities must adjust accounts in accordance with the accounting scenarios contained in the DoD USSGL Transaction Library within SFIS.

3.3.2.4. DWCF activities must use account 141000, “Advances and Prepayments,” to record payment for expenses that properly apply to future accounting periods. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period. This account must not be used solely to level out significant expenses but must, in fact, represent an equitable distribution to the appropriate time period commensurate with the benefits that will accrue to that future period from the current payment. Refer to Volume 4, Chapter 5 “Advances and Prepayments” for additional guidance and definitions regarding prepayments.

3.4 Customer Funding

Depot maintenance workload performed by DWCF activities is considered non-severable in nature and thus customers must fund the full price of the order, through completion of the effort, using a reimbursable order. The DWCF activity must recognize revenue and bill the customer funding an order or, when advance payments have been received, relieve those advance payments to the appropriate revenue account. Revenue billings to customers must reflect due credit for the advances received. In no case must the total amount of revenue recognized and billed exceed the amount of the order. Chapter 11 “Reimbursements and Revenue Recognition” contains requirements for reimbursements and revenue recognition for DWCF entities.

3.5 Accruals

DWCF activities must record accrued expenses that are significant (material) in relation to the recording of costs for a DWCF activity in the appropriate expense accounts, budgetary accounts, and applicable liability accounts during the accounting period that the benefit was received rather than at the time of the payment for the expense. For example, DWCF activities must record accruals for accrued salaries, annual and sick leave, employee benefits, estimates for utilities, major real property maintenance and repair, and other significant services received and not yet paid. SFFAS 4 states that the determination of whether an item is material (i.e., significant) depends on the degree to which omitting information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission.

3.6 Missing or Erroneous Data

Occasions may arise when, due to missing or erroneous data, costs incurred cannot be identified to charge to the appropriate job order. Such costs must be temporarily recorded in the applicable expense account under suspense control until the correct data is available to make the proper distribution to the correct job order. Any unadjusted amount at the end of a fiscal year, if immaterial, must be charged to the applicable cost center using Account 610000 “Operating Expenses/Program Costs”.

4.0 ESTABLISHING JOB ORDERS

The performing activity must establish job orders in accordance with the following table:

Value of work to be performed	Units subject to “pre-shop analysis”¹ or “examination and evaluation”	Units NOT subject to “pre-shop analysis” or “examination and evaluation”
>\$150,000/unit	Job order per item	Not applicable
\$25,000 to \$150,000/unit ¹	Job order per monthly induction	Job order per monthly induction
<\$25,000/unit ²	Job order per quarterly induction	Job order per quarterly induction valued at \$500,000 or more
<\$25,000/unit ³ AND <\$500,000/TMS or NSN	Not applicable	Job order per quarterly induction, not to exceed \$1,000,000 per job order

¹ inspections and tests and other similar activities performed to determine work requirements

² for multiples of the same identification number (Type Model Series (TMS) or National Stock Number (NSN))

³ homogenous group, by stock classification, subclassification, repair category, or other appropriate criteria

5.0 JOB ORDER REQUIREMENTS

5.1 Job Order Cost Assignment Requirements

DWCF activities must assign costs to individual job orders at the time the job order receives a benefit from the incurrence of an expenditure. The benefit may occur at any time but usually occurs subsequent to the time the obligation is incurred, and before the disbursement occurs. DWCF activities may charge costs to job orders based on standard costs when those costs are properly adjusted for variances to arrive at the actual cost. Costs, including standard costs, must be recorded based on accrual concepts. DWCF activities must not charge direct material, labor, or other direct costs to job orders based on planned, programmed, or reserved amounts. Refer to Volume 4, Chapter 19 for additional guidance on job order cost accounting.

5.2 Job Order Opening and Closing Requirements

5.2.1. DWCF activities must open a job order when a new job order is required under section 4.0.

5.2.2. DWCF activities must close a job order as soon as all direct, indirect production, and G&A overhead costs are determined and assigned to the job order. Normally, all such costs must be determined and posted to the job order within 30 days of the completion of all direct labor chargeable to the job order. The job order must be closed with the use of predetermined indirect and G&A rates when authorized. DWCF activities must apply such indirect and G&A rates consistently to all job orders. At the end of the fiscal year, any under and/or over absorbed indirect and G&A (variances) must be adjusted using the transactions contained in the DoD USSGL Transaction Library within SFIS.

5.3 Segregation of Cost for Cancelled and Completed Job Orders

DWCF activities must identify costs associated with the cancellation or reduction of partially completed maintenance work, and report these costs separately from the costs of normally completed work. Paragraph 12.12 provides additional guidance on cancelled or reduced scope orders.

5.4 Customer Order Support of Job Orders

Customer orders, either project orders or Economy Act orders, from the activity responsible for the financing appropriation, are required to support each job order. The customer must provide full and adequate funds to cover all requirements. A customer may, however, issue orders to cover multiple job orders when agreed to in writing with the depot maintenance activity.

6.0 PROCESS COST CENTERS PROCEDURES

6.1 Process Cost Centers

A DWCF activity may perform certain unique operations that lend themselves to process cost center procedures. Process costing is a method of cost accounting that first collects costs by process and then allocates the total costs of each process equally to each unit of output flowing through it during an accounting period. For example, plating and painting operations are particular processes that may be uniformly and consistently performed to units that either are end items or will become part of end items. Rather than attempting to directly account for and assign each direct labor hour and material cost to an item that has undergone the particular plating or painting process, use of a process cost center allows the labor and material costs of the cost center to instead be accumulated and allocated to those items that were plated and/or painted during the respective accounting period. SFFAS 4 recognizes that process costing is appropriate when the production of goods or services involves a regular pattern of process, the output consists of homogeneous units, and all units are produced through the same process procedures. (Refer to Volume 4, Chapter 19 for additional guidance on process cost accounting).

6.2 Cost Allocation Basis

The DWCF activities must allocate process cost center costs to the job orders for the units processed through the cost center during the respective accounting period. The basis for the allocation of costs must be the number of equivalent units (e.g., number of units, linear feet, square feet, hours operating time) processed on-the-job orders through the cost center during the accounting period.

6.3 Cost Allocation Consistency

The DWCF activity should conduct a thorough analysis of alternative cost accounting and assignment methods before it adopts process cost center procedures. The method used to accumulate and allocate the costs for such operations must be documented and consistently applied from accounting period to accounting period to ensure consistency in the assignment of costs.

7.0 USE OF WORK MEASUREMENT STANDARDS

7.1 Work Measurement Standards

DWCF activities that establish work measurement standards for labor, material, and indirect production and G&A costs must develop cost estimates for each job order using these standards. Incurred costs must be compared against estimated costs to determine if corrective actions are required to control significant variances. Established work measurement standards need to be periodically re-evaluated and updated as necessary to assure that they encourage improvements in efficiency and continue to be within an attainable range.

7.2 Basis of Work Measurement Standards

DWCF activities that establish work measurement standards must base the standards on generally accepted industrial engineering techniques where high value, high volume work is involved. The work measurement standards may be established by in-house or other DoD personnel or they may be established by original equipment manufacturer's specifications of maintenance tasks and frequencies (product reliability engineered standards). DWCF activities that establish work measurement standards for labor, material, indirect production, or G&A costs must continuously review the standards to verify their accuracy in light of advanced processing equipment, and higher level of skills used. For low-value, low-volume work, the work measurement standards may involve less sophisticated engineering techniques, but the work measurement standards or estimated resources required must be developed for all work accepted.

8.0 LABOR COSTS

8.1 Civilian Labor Hours

DWCF activities must record all civilian labor hours worked in a cost center as either a direct cost on a job order or as an indirect production cost that will be allocated to a job order. Civilian labor hours must be charged at the current payroll rate to include DoD paid personnel benefits.

8.2 Use of Actual and Average Labor Rates

DWCF activities must use actual civilian payroll hourly rates as the basis to record labor costs. Average labor rates may only be used to record labor costs for cost centers when the range of actual hourly pay rates within that center is limited and significant distortions of recorded costs would not result from their use. DWCF activities must not use stabilized rates approved for billing purposes as the basis to record labor or other costs incurred. Stabilized rates are the result of budget estimates; actual costs incurred must be recorded in the cost accounting system independent of the rate setting process.

8.3 Labor Distribution System

DWCF activities must use a labor distribution system to charge all direct labor hours and costs to applicable job orders. Each pay period, DWCF activities must reconcile and correct differences between the labor hours recorded for payroll purposes, payroll costs incurred, and the labor hours and costs distributed to job orders and indirect production cost centers through the labor distribution system. For discrepancies that cannot be reconciled between job order records and payroll records without incurring a major expenditure of resources, DWCF activities must correct the job order records to equal the payroll records. Differences due to the use of average cost center labor rates must be charged to G&A expenses.

8.4 Military Labor Hours

DWCF activities must record all military hours worked as either a direct cost on a job order or as an indirect production cost of a cost center. DWCF activities must charge military labor hours to the job order at the current civilian equivalent rate applicable to the rank and military service of each military member. (Refer to Chapter 12 “Expenses” for the military personnel costing process.)

8.5 Military Personnel Depot Maintenance Costs

DWCF activities must record as an unfunded depot maintenance cost all military labor performed by a “ship’s force” or other military personnel that are part of the operating forces or an intermediate level organization that are loaned, without reimbursement, to and working under the supervision or direction of the depot maintenance activity when weapons systems, platforms or components are undergoing depot maintenance in a DWCF depot. Military personnel “on loan” and not assigned to DWCF activities are funded under other appropriations. The DWCF activities

must not bill these labor costs to, or accept reimbursement from, the customer. These costs are nonrecoverable and DWCF activities must not include them in the calculation of the net operating results used for developing future rates or prices. When military personnel are not working under the supervision or direction of the depot maintenance activity (not assigned), any maintenance work they perform must not be considered depot maintenance.

8.6 Timekeeping

A DWCF activity must maintain a timekeeping system to collect and distribute both military and civilian labor to applicable job orders or cost centers. A timekeeping system must provide the following information:

8.6.1. Source of Hours Available:

8.6.1.1. Normal duty hours available by cost center.

8.6.1.2. Premium time, overtime, and holiday time by cost center.

8.6.1.3. Loaned labor hours by gaining and losing cost center.

8.6.2. Application of Hours Available:

8.6.2.1. Direct hours worked by cost center on each job order.

8.6.2.2. Indirect hours worked by cost center.

8.6.2.3. Nonproductive (e.g., annual, sick) hours by cost center.

8.7 Allocation of Hours

DWCF activities must apply the allocation of hours worked to benefiting job orders, activities, services, or products on a per unit basis, where applicable. The allocation of hours worked to benefiting job orders may also be based on industrially engineered earned hour (actual hour efficiency of a cost center if the employees in the cost center are of a homogeneous type and the allocation of labor hours are properly adjusted for variances to arrive at actual hours worked). The industrially engineered earned hour method of allocation is not appropriate for a cost center with a diverse workforce or different types of workload.

8.8 Supervisor Responsibilities

Supervisors are responsible for the validity of timekeeping records. Supervisors are also responsible for establishing the job order(s) for each pertinent employee and notifying employees of the job orders. Employees are responsible for certifying that the time charged to job orders is correct. DWCF activities must reconcile the source documents used to record the hours worked by each employee on each job order to the total payroll hours.

8.9 Direct Labor

Direct labor is work that can be identified, without undue cost or difficulty, to a single, specific job order. Direct labor generally includes the hands-on maintenance, repair, overhaul, test, and related direct production effort that follow the established sequence and content of work necessary to accomplish the billable job. Direct labor does not include the support work identified as either indirect production or G&A in nature.

8.10 First Line Supervision

First line supervision is that position level immediately over nonsupervisory workers. First line supervisors and above occupy an official supervisory designated position, and when acting in a supervisory capacity, must have their labor costs charged by the DWCF activity as an indirect production cost of the cost center supervised. First line supervisors may be borrowed and when used as direct labor, DWCF activities must classify the time of the first line supervisor as direct labor and charge it to the applicable job order rather than as an indirect production cost. “Crew chiefs,” “snappers,” “team leaders,” and other subordinate job leaders are not first line supervisors.

8.11 Loaned Labor

DWCF activities must place special emphasis on accurately recording the use of loaned labor, which occurs when an employee is temporarily transferred (loaned) from one cost center to another within a DWCF activity. When an employee is loaned, the gaining cost center must record the labor hours of the employee. Care must be exercised to assure that the costs of loaned employees are not charged by both, or by neither of, the loaning and gaining cost centers. First line supervisors at both the loaning and gaining cost centers may be tasked to validate that such costs are accurately recorded. Only personnel assigned to the DWCF are recoverable in the rate structure, while loaned labor is funded by other appropriations.

8.12 Temporary Employees

If employees are temporarily assigned to a DWCF activity from an organizational entity other than DWCF activity and the DWCF activity neither pays the individual directly nor makes payment or reimbursement to the activity loaning the employee, the labor costs must be recorded as unfunded. These costs are nonrecoverable and DWCF activities must not include them in the calculation of net operating results used for developing future rates or prices.

8.13 Civilian Leave and Benefits

The following requirements apply to accounting for civilian leave and benefits. For DoD general ledger accounts and related transaction posting detail, refer to the DoD SCOA and the DoD USSGL Transaction Library.

8.13.1. Accruals.

8.13.1.1. Account 221000, “Accrued Funded Payroll and Leave,” must be used to account for accrued annual leave of DWCF civilian employees. DWCF activities must include a factor for annual leave accruals in stabilized rates or prices in order to provide funding for annual leave.

8.13.1.2. Account 221300, “Employer Contributions and Payroll Taxes Payable,” must be established to account for accrued sick leave, accrued holiday, and other miscellaneous leave in addition to other employee benefits such as life and health insurance, and retirement contributions. The accruals are to be based on estimates of leave to be taken, not the amount of leave earned.

8.13.2. Leave must be costed to job orders based on an allocation factor for all time worked except when a holiday is involved. When an employee works on a holiday, the regular pay for the holiday must be charged against the holiday leave accrual liability, the same as for employees who do not work on the holiday. DWCF activities will only cost the additional pay for working on the holiday, along with the leave accrual, at the prescribed allocation factor, to the job order as stated in paragraph 8.16.

8.13.3. Leave actually taken must be relieved from the appropriate accrued leave account based on payroll labor distributions, and must not be charged to current job orders.

8.13.4. Reconciliation.

8.13.4.1. The amount of annual leave accrued must be reconciled at the end of the fiscal year with individual employee leave records. Adjustments to reconcile the balance in the account to the individual leave records must be costed to USSGL Account 610000, “Operating Expenses/Program Costs” as a G&A expense adjustment. After reconciliation, the balance of the accrued annual leave account must be carried forward into the following fiscal year.

8.13.4.2. At fiscal year-end, the estimates of sick leave, holiday leave, and other leave to be taken may not agree with the actual leave taken. Adjustments necessary to result in a \$0 balance in the sick leave, holiday leave, and other leave accounts must be costed to Account 640000, “Benefit Expense (Personnel Benefits – Civilian)” as a G&A expense adjustment. Accrued sick, holiday, and other leave balances are not to be carried forward into the following fiscal year.

8.14 Allocation Factors

The use of allocation factors for calculating leave accruals and applying them to the proper cost centers on labor cost distributions is normally the simplest, most economical, and most accurate method of accruing and costing leave. DWCF activities must update the allocation factors periodically to limit the adjustments to the accrued leave accounts to a minor amount at the end of the fiscal year.

8.14.1. A DWCF activity may determine its own allocation leave accrual factors because of variances caused by average length of service, climate, turnover, and local leave usage experience.

8.14.2. When establishing the allocation factors, it is necessary to estimate the average annual workdays for the activity to which the factor must be applied. The following is an illustration:

8.14.3. Total days in year	365.0
Less time off	
Average annual leave taken	20.0
Average sick leave taken	9.0
Holidays and other events	11.0
Saturdays and Sundays	<u>104.0</u>
Normal time off	<u>144.0</u>
Normal workdays	221.0
Estimated overtime work	3.5
Estimated holiday time work	<u>.5</u>
Average workdays	225.0

8.14.4. The annual leave accrual factor may be calculated as follows:

1. Average days net accrual of annual leave		21
2. Average workdays (computed in para. 8.14.3)	+	225
3. Preliminary accrual factor (excluding pay adjustments) [(1) ÷ (2)]	=	.093
4. Estimated regular pay for regular time and overtime worked and premium pay for holiday time worked	x	\$10,000,000
5. Total amount accrued for annual leave using preliminary factor	=	\$ 930,000
6. Estimated increase in accrual of annual leave due to pay increase	+	\$ 30,000
7. Total leave accrual requirements	=	\$ 960,000
8. Amount to which leave accrual factor is to be applied (para. 8.14.4.4)		\$10,000,000
9. Annual leave accrual factor	=	.096

8.14.5. The composite leave accrual factor may be calculated as follows:

<u>Type of Leave</u>	<u>Average Days Annually</u>	<u>Average Workdays</u>	<u>Accrual Factor</u>
Annual	(refer to para. 8.14.4.9)		= .096
Sick	9	÷ 225	= .040
Holiday and Other	11	÷ 225	= .049
Composite Accrual Factor			.185

8.15 Fringe Benefits

In addition to the factor for leave, DWCF activities must add a factor to cover the employer's share of other employee fringe benefits such as retirement, life insurance, health, and other benefits. Each activity may develop its own factor. Standard accrual factors for leave, retirement, insurance, health, and other benefits must be applied against all payroll costs.

8.16 Overtime Premium

The costs of overtime premium pay (that is, the amount paid for working overtime that is above the normal labor hour rate) must not be charged directly to the applicable job order except when the overtime is clearly caused by the unique conditions of the job order. A clear relationship for the incurrence of overtime costs may be established when a DWCF activity agrees with a customer to meet an expedited completion date or accepts additional work within the same time frame on the same order. Otherwise, the overtime premium must be recorded as an indirect production cost.

8.17 Other Premium Pay

Other premium pay includes payments for extra shift, hazardous duty, and night duty. Consistent with the policy for overtime premium, DWCF activities must only classify other premium pay as a direct labor charge when the incurrence of the premium pay is clearly the result of unique conditions of the job order. Unless the peculiar conditions of the job order require the incurrence of the premium pay, premium pay must be charged as indirect labor costs.

9.0 MATERIAL COSTS

9.1 Raw Materials

All material purchased by DWCF depot maintenance activities, for the purpose of providing a good or service to a customer, must be accounted for in general ledger account 152500, "Inventory-Raw Materials". This account must be debited based upon receipt of materials and supplies. The same account must be credited with an offsetting debit (charge) to general ledger account 152600, "Inventory-Work-In-Process," upon issue of the material for use in the performance of DWCF work. Inventory accounting policy and related requirements necessary to establish financial control over DoD inventory, operating materials and supplies, and stockpile materials is contained in Volume 4, Chapter 4.

9.2 Allocation of Direct and Indirect Material

Direct material and supplies must be charged directly to the applicable job order. Indirect material must be charged to the using cost center upon issue.

9.3 Moving Average Cost (MAC)

Materials and supplies contained in the inventory account must be valued at historical cost using the moving average cost flow assumptions in accordance with SFFAS 3 and Volume 4, Chapter 4. More detailed guidance regarding the calculation of MAC is contained in Volume 4, Chapter 4.

9.4 Acceptance and Use of Customer Furnished Material

DWCF activities must accept and use customer furnished material only when its use could be expected to result in a more economical, efficient, or timely output.

9.5 Return of Customer Furnished Material

9.5.1. DWCF activities must return customer furnished material that remains after job order completion to the customer within 60 days unless there is, or soon will be (generally within 90 days), a direct production requirement from the customer who furnished the material for which the material may be used.

9.5.2. If the customer abandons the material, it may be retained if needed for other work requirements. If the inventory is retained, no accounting entry is needed other than the original accepting entry.

9.6 Direct Material

Direct material is that material and supplies that can be identified, without undue cost or difficulty, to the performance of work specified by a work authorization document or job order. A small amount of material may be treated as indirect material even though the material is incorporated as part of the final product, if this practice is consistently applied to all job orders. Direct material may either be incorporated as a part of the final product or consumed in the process.

9.7 Indirect Material

Indirect material is that material that cannot be identified, without undue cost or difficulty, to the performance of work as specified by a work authorization document or job order. The determination of what constitutes “without undue cost or difficulty,” although not defined, is subject to reasonable interpretation. If questioned, it is the responsibility of the DWCF activity to demonstrate that identification of material (or labor) as direct would be unduly costly or difficult in relation to the benefit received.

9.8 Excess Materials

DWCF activities should review the material and supplies on hand in a cost center at least annually to determine if excesses exist. Those items that are excess and are not needed for a particular job order must be returned to the materials and supply stock account. The unused material returned to the materials and supplies stock account must be recorded as follows:

9.8.1. Credit must be granted to the job order originally charged for unused direct material and that material must be recorded as an increase to Account 152500, “Inventory-Raw Materials”. If the job order to which the material was originally charged has been closed, and a decision is made not to reopen the order to post the credit, the credit must be applied to Account 719000, “Other Gains.”

9.8.2. Credit must be granted for the return of usable indirect material to the materials and supplies stock account. The credit must be applied to the indirect material expense account of the applicable cost center.

9.8.3. Items in excess of the needs of a DWCF activity must be returned to the supply system. DWCF activities must record transactions for materials returned and credit received (if any) in accordance with the DoD USSGL/SFIS requirements and transaction library and Volume 4, Chapter 4.

9.9 Reparable Carcasses

When an item such as an assembly, subassembly, or an end item is designated as an “exchange” item, the depot can order and pay for a replacement from the Supply activity to install on the customer’s equipment. The job order must be charged the price the depot pays for the replacement. Further, the depot must return the damaged part or carcass to the Supply activity. If the depot receives credit from the Supply activity, the depot must credit the job order for the amount received. For non-DoD carcasses including those owned by foreign governments, refer to the requirements in [Volume 15](#), “Security Assistance Policy and Procedures”.

9.10 Items Beyond Repair

If an exchange carcass is beyond repair or an exchange item is missing and the depot maintenance activity must order and pay for a replacement from the Supply activity, the cost of the new item must be charged to the job order as a direct material cost.

10.0 OTHER DIRECT COSTS

10.1 Purchased Services

Purchased services must be charged as direct costs to the job order that benefits from the services. If only one job order benefits from a contract or purchase, the cost of the contract must be charged to that job order. If more than one job order benefits from a contract, the costs of the contract must be prorated to the benefiting job orders based on estimates or calculations of the benefits received by each job order.

10.2 Purchased Services Benefiting Indirect Cost Centers

Purchased services that benefit indirect cost centers must be recorded as indirect production costs. If purchased services benefit the activity as a whole, they must be recorded as G&A costs.

10.3 Contracts Supplementing Capacity or Capability

The costs of contracts that supplement the capacity or capability of a DWCF activity must be charged to the job orders that use the additional services.

10.4 Material Costs

The costs of material procured from contractors must be recorded in account 152500, “Inventory-Raw Materials” and charged to job orders under normal procedures. If, however, material is procured for a specific job order, the acquisition cost of the material must be a direct charge to the applicable job order.

10.5 Travel and Per Diem Expenses

Travel and per diem expenses (including regular labor hours spent in travel) must be charged as direct costs only if the labor hours worked while traveling are charged as direct labor. If the traveler works on more than a single job order, the travel and per diem expenses must be prorated based on the related direct labor hours to each order. If the travel is not related to job orders, all travel and per diem expenses must be charged as an indirect production expense of the employee's cost center.

11.0 INDIRECT COSTS

11.1 Indirect Production Rates and Standard Costs

The indirect production rates and standard costs discussed in this chapter should not be confused with stabilized billing rates. Stabilized billing rates or stabilized prices are used solely to price work to DoD-funded customers and may only be changed upon approval of the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)).

11.2 Indirect Production Costs

DWCF activities must record as indirect production costs, by object class as specified in Office of Management and Budget [\(OMB\) Circular A-11](#), all costs incurred that are not chargeable as direct costs, unless specifically designated otherwise. Indirect production costs must be recorded by activity, department, cost center, or other organizational element responsible for incurring the cost. The number and type of indirect production cost centers to be established is a function of the diversity of the indirect activities at the depot and the level of management information required. The minimum number of cost centers required to separately identify and record homogeneous groupings of cost is a function of the number of different types of facilities, equipment, and/or skills required in the indirect area. The number of additional cost centers is a management prerogative in terms of the number and type of cost centers needed to ensure efficient and effective operations.

11.3 Indirect Production Cost Pools

Costs of departments, service, and processing centers that provide support directly to direct cost centers must be classified as operating support indirect production cost pools. The costs assigned to these cost pools must be allocated in full to the benefiting direct cost centers (refer to paragraph 11.5) and not included in the G&A expense rate described in paragraph 11.6. Costs assigned to operating support indirect production cost pools must be allocated to the benefiting direct cost centers using a base that results in the distribution of costs incurred in proportion to the benefits received.

11.4 Indirect Production Cost Allocation

Indirect production costs must be allocated to job orders by the use of an operations rate and a G&A rate as described in paragraphs 11.5 and 11.6, respectively. These rates are not the stabilized rates and prices to be used to price DoD customer bills. Refer to Volume 2B, Chapter 9 “Defense Working Capital Fund Budget Justification Analysis” for policy guidance on stabilized rates and prices.

11.5 Operations Rate

DWCF activities must develop an operations rate for each direct cost center in which direct labor is utilized in the performance of DWCF activities. The operations cost pool must consist of all indirect production costs incurred by the cost center plus the allocated share of operating support costs of departments or service cost centers, if any (refer to paragraph 11.3). Use direct labor hours, including both military and civilian direct labor, as the basis for allocating the operations cost pool to the direct cost centers. This base is appropriate because operations in a DWCF activity is normally a function of direct labor hours. When the use of direct labor hours as an allocation base will not result in an equitable allocation of the operations cost pool costs (that is, charges are not commensurate with benefits received), a more appropriate alternate allocation base may be selected providing:

11.5.1. An organizational authority that is above the level of the local performing DWCF activity, including the OUSD(C), has not directed that particular DWCF activity to use a specific allocation base. If a higher organizational authority has not previously directed a specific allocation base for use, then approval of the alternate preferred base need not be obtained by the local performing DWCF activity;

11.5.2. The alternate allocation base preferred for use is approved by the comptroller of the local performing DWCF activity; and

11.5.3. Justification for the decision is documented and retained in the office of the local comptroller for review.

11.6 G&A Rate

DWCF activities must allocate G&A [overhead](#) expenses to job orders using an allocation rate separate from the operations rate. The G&A expense pool is comprised of all G&A expenses incurred by a DWCF activity. The base used to allocate G&A expenses to a job order is total incurred costs (both direct and indirect production costs). When the use of total incurred costs as an allocation base will not result in an equitable allocation of G&A expenses (that is, charges are not commensurate with benefits received), a more appropriate alternate allocation base may be selected providing:

11.6.1. An organizational authority that is above the level of the local performing depot maintenance activity, including the OUSD(C), has not directed that particular depot maintenance activity to use a specific allocation base. If a higher organizational authority has not previously directed a specific allocation base for use, then approval of the alternate preferred base need not be obtained by the local performing DWCF activity;

11.6.2. The alternate allocation base preferred for use is approved by the comptroller of the local performing DWCF activity; and

11.6.3. Justification for the decision is documented and retained in the office of the local comptroller for review.

11.7 Variances

Indirect production costs and G&A overhead expenses must be allocated to job orders using, respectively, the indirect production rate and G&A rate. These rates are not the stabilized rates and prices to be used to price DoD customer bills. (Refer to Volume 2B, Chapter 9 for policy on stabilized rates and prices.) The indirect production and G&A rates must be developed based upon estimated costs with an anticipated level of activity (base). The applied overhead account must be used to record any over- and/or under- absorbed indirect production and G&A. A variance between actual indirect production and G&A costs and applied indirect production and G&A may require a change in the indirect production or G&A rate as applicable. The development of a new indirect production and/or G&A rate must include plans to absorb the amount of the realized variance during the time period the new rate is in effect. A change in the indirect production or G&A rate must be approved by the comptroller of the performing DWCF activity when it is apparent that:

11.7.1. The variance is not due to seasonal fluctuations such as summer vacations;

11.7.2. The variance will continue to exist at fiscal year-end; and

11.7.3. The expected variance is significant. The determination of what is “significant” must be made by, or in consultation with, the local DWCF comptroller.

11.8 Completed Job Orders

When a job order is complete, it must be closed—moved from work-in-process to Account 650000, “Cost of Goods Sold”—including indirect production and G&A costs allocated based upon the particular rates in effect during the life of the order. Adjustments in rates made after a job order is closed must not be posted to a completed job order unless the effect of the adjustment would have a significant impact on the total costs assigned to the job order. Adjustments applicable to the current fiscal year for under/over-applied indirect production and G&A must be accounted for using the DoD USSGL Transaction Library within SFIS.

11.9 Permanent Change of Station

The costs of Permanent Change of Station movements for transferred civilian employees that are the responsibility of a DWCF activity must not be charged as a direct cost but as an indirect production expense and recorded in accounts 610000, "Operating Expenses/Program Costs. Use object class 210 to record travel and transportation costs of persons and object class code 220, as identified in OMB Circular A-11, to record the transportation cost of items to make the proper distinction of expense type.

12.0 COSTS REQUIRING SPECIAL ATTENTION

12.1 Quality Assurance

DWCF activities must charge quality assurance costs (including test design and analysis); testing conducted to independently assure the quality of the work accomplished; and related supervision and support incurred in direct support of a customer order, directly to the order. DWCF activities must charge quality assurance costs that are not identifiable to specific job orders to an operating support indirect cost center as described in paragraph 11.3 and allocate the costs to the benefiting direct cost centers.

12.2 Inspections and Tests

Operational inspections and tests performed to determine the condition of the item and make adjustments are inherent in performing maintenance and must be recorded as "direct labor - production." Specifically, DWCF activities must record inspections and tests made to determine work requirements, such as pre-shop analysis, initial evaluation and inspection, and pre-inspection or shakedown inspection, as "direct labor" on the applicable job order. Likewise, DWCF activities must record final inspection and tests performed after a process is complete to assure operational or functional adequacy as "direct labor - production."

12.3 Repairables

The National Inventory Control Point item manager directs the reclamation of unserviceable depot level repairables. Depots must establish a separate job order for each reclamation project and return items produced as a by-product of the reclamation process to the DoD supply system.

12.4 Borrowed Assemblies, Subassemblies, Components, or Parts

12.4.1. Depots use two terms in reference to borrowed assemblies.

12.4.1.1. "Backrobbing" (also called "rob-back") is defined as the taking of an assembly, subassembly, component, or part from an item that has been inducted for maintenance for use on another item inducted for maintenance with the intention of replacement at a later time. It is the temporary borrowing of the required part.

12.4.1.2. “Cannibalization” is defined as the taking of an assembly, subassembly, component, or part from an item (serviceable or unserviceable) that has not been inducted for maintenance (without regard to its location or ownership) by a maintenance activity for use on an item that has been inducted for maintenance.

12.4.2. Generally, borrowing is authorized only to prevent a work stoppage. Depots must charge the current acquisition cost of the assembly, subassembly, component, or part that was borrowed, and the cost of installing it, to the benefiting job order. Depots must charge all costs incurred in removing the borrowed item and reinstalling the replacement item to the operations cost pool of the cost center requiring the part. These costs must not be separately identified for reporting purposes.

12.5 Calibration

Depots must charge the cost of calibration of an assembly, subassembly, component, part, or other equipment from an item that has been inducted for maintenance to the benefiting job order. Calibration of equipment used by a depot maintenance cost center in the performance of its work must be charged as an indirect production expense of the cost center that uses the item being calibrated.

12.6 Modifications and Upgrades

12.6.1. Depots must establish a separate job order for each modification or upgrade of a major end item such as an aircraft. Separate job orders must only be established for other than major end item modifications or upgrades when the work is easily identifiable, such as when the modification or upgrade is the primary purpose of inducting the item. Depots must charge the cost of material used in the modification or upgrade process, such as a modification kit, and the cost of direct labor incurred to install the modification, to the modification job order.

12.6.2. Depots must also charge to the modification or upgrade job order the modification or upgrade material (modification kits) used for the modification or upgrade job order when a modification or upgrade is performed concurrently with depot maintenance work on the same major end item. In addition, repair requirements that are the direct result of the modification/modernization installation work (also referred to as repair incident to mod) are also legitimate charges to the modification job order. However, direct labor must be charged as modification or upgrade work only when it is peculiar to the modification or upgrade process. For example, depots must charge labor costs incurred in disassembly, test, inspection, repair, rebuild, replacement and servicing that are performed as a normal part of the overhaul to depot maintenance overhaul when modification or upgrade is performed concurrently with overhaul; these costs must not be prorated between overhaul and modification or upgrade.

12.6.3. Depots may charge labor costs incurred installing a modification or upgrade concurrently with depot maintenance overhaul work to the depot maintenance overhaul job order if the amount of the modification or upgrade labor is so small that no significant or material distortion in either the modification or upgrade or the depot maintenance cost will occur. When this practice is followed, there must be no adjustments to the depot maintenance overhaul job order based on labor or material standards or other estimates of modification or upgrade labor in order to support reimbursement from fund citations for modification or upgrade work.

12.7 Information Technology

12.7.1. Depots must capitalize the costs of computer programming efforts for DWCF equipment (that is, the costs of software development efforts for use on DWCF activity assets) when they meet the DoD capitalization criteria. Programming efforts that do not meet prescribed capitalization criteria must be treated as operations overhead expense of the performing cost center. If the programming effort consumes significant amounts of resources, the depot must establish a separate indirect department or service center and allocate the service center's capitalized and other costs to the benefiting direct cost centers based on program use. Depots must charge the costs of programming effort for non-DWCF activities to those activities before allocating the remaining costs to the benefiting direct cost centers. When the programming costs are not appropriately chargeable as an indirect production cost, depots must charge the costs to a G&A expense account. General cost guidance applicable to information technology can be found in Volume 4, Chapter 6 "Property, Plant, and Equipment".

12.7.2. DWCF activities perform software support to ensure that fielded software systems, as updated by modification and improvement efforts, continue to support original missions. All DWCF costs for software support must be charged to specific job orders established for this purpose. DWCF activities must include all applicable direct labor, direct material, all other direct costs, indirect production, and G&A costs in costs charged to the orders.

12.8 Machine Set-Up Costs

12.8.1. Depots must charge the cost of programming efforts for automatic test and numerically controlled machines to the benefiting job order(s). However, if a depot expends significant effort for programming that benefits more than one job order, then the depot must allocate the programming cost to all benefiting job orders. If new machinery or equipment is required, then these costs are part of the Capital Investment Program. The nonproductive labor hours of employees waiting for programming to be completed is an indirect expense of the worker's cost center.

12.8.2. Depots must charge machine tool set-up time to the benefiting job order(s). Set-up time is normally recorded as direct labor on a job order and should not be separately recorded from the job order. However, if a significant effort is expended for a set-up that must benefit more than one job order, then the depot should allocate the set-up to all benefiting job orders. The nonproductive labor hours of employees waiting for a set-up to be completed are an indirect expense of the worker's cost center.

12.9 Defective Work and Spoilage Costs

12.9.1. Depots must charge the applicable job order for efforts undertaken to correct work defects and spoilage when quality control standards are not met. Examples of corrective work that should be directly charged to a job order include:

12.9.1.1. Reworking castings, welds, and brazing involving acceptable reject rates.

12.9.1.2. Minor realignment or refitting of units that are improperly finished or aligned.

12.9.1.3. Resoldering of connections broken in transit.

12.9.2. Depots must charge the responsible cost center's indirect material and labor costs with the costs of the corrective work when unusual defects or excessive spoilage occurs. When the responsible cost center cannot be determined, depots must charge the applicable material and labor cost as an indirect production cost. Defective work and spoilage that are chargeable to indirect production costs include the following:

12.9.2.1. Costs for additional material and labor necessary to remedy or rework end products when defects beyond acceptable levels are detected during the normal production and inspection processes. Such costs do not add value to the work performed but are necessary to bring the work up to stated specifications.

12.9.2.2. Costs related to work on items with defects so severe that the item must be removed from the production process and sold as scrap or returned in part to raw materials. When this happens, the depot must relieve the applicable job order of the costs and charge the indirect production costs of the responsible cost center. If a responsible cost center cannot be determined, the depot must charge a G&A account for "Defective Work and Spoilage" for the costs of the rejected item.

12.10 Disposition

12.10.1. Depots must comply with [40 U.S.C. § 574](#) and Volume 11A, Chapter 5, "Disposition of Proceeds from Department of Defense Sales of Surplus Personal Property" regarding disposition of proceeds from DoD sales of surplus property. Proceeds from the sale of surplus property generated, collected, or otherwise obtained by DWCF activities as a part of normal operations must be credited to the DWCF and accounted for as follows:

12.10.2. Estimated proceeds from the sale of material removed during work on vessels, aircraft, vehicles, and weapons that can be feasibly and economically related to a specific job order may be credited to that job order. When actual proceeds are known, the job order amount must be adjusted if the job order is still open. Otherwise, the net difference between the estimated amount and the actual amount of proceeds must be adjusted to USSGL Account 711000, "Gains on Disposition of Assets - Other".

12.10.3. Carcasses received from customers that are later condemned or deemed unserviceable are considered a normal part of DWCF operations. Therefore, the proceeds from the sale of carcasses received from customers must be credited to USSGL Account 711000.

12.10.4. All other proceeds from the sale of DWCF items must be credited to USSGL Account 711000.

12.11 Mobilization Capability Costs

Mobilization capability costs include the costs to maintain a surge capacity and/or maintain other assets, functions, or capabilities required to meet an operational contingency as documented in the Secretary's force planning guidance or operational plans. Surge capacity most often manifests itself in facilities and equipment that are unutilized or underutilized during normal peacetime operations. DoD policy and guidance associated with mobilization costs is contained in Chapter 14 "Mobilization Costs", and in Volume 2B, Chapter 9.

12.12 Job Order Cancellations or Reductions in Scope

12.12.1. Depots must charge the costs incurred plus the applied indirect production and G&A costs, and costs associated with the cancellation or reduction, to the customer when a job order is canceled or reduced in scope after a DWCF activity has commenced work or incurred costs on the order. Funds personnel must ensure the customer provides and/or does not reduce funding below amounts required to cover canceled/reduced orders. Examples of directly associated cancellation or reduction costs to be charged to customers are advance planning costs, non-creditable direct material, special test equipment, necessary preservation and/or shipment effort, and any additional effort necessitated by the cancellation and/or reduction; for example, salvaging of material. In addition, depots must charge the customer for the costs of salaries payable to employees hired specifically to work on the canceled order until the employees are, or could have been, separated through a reduction in force or other appropriate action (taking into account appropriate administrative lead time), or reassigned to other direct jobs.

12.12.2. Costs that are indirectly associated with cancellation or reduction actions must not be charged to the customer. Although normally allocated indirect production and G&A costs must be charged to canceled or reduced customer orders, any underapplied indirect production and G&A costs that may occur as a result of a reduced workload base of the DWCF activity as a whole must not be charged to the customer canceling or reducing their order. The underapplied costs must be recorded against the net operating results of the performing DWCF activity.

12.13 Employee Training Costs

12.3.1. Depots must record the cost of training performed for the DWCF activity's benefit as an indirect expense of the employees' cost center. General developmental training for WCF employees not required to support actual productive workload (i.e., training in the installation, operation, and maintenance of DoD weapons, equipment, and systems to develop organic expertise) may not be charged as a direct cost to customer orders.

12.3.2. Training costs must include all applicable elements of cost, including labor costs of trainees, travel, transportation, per diem costs, labor costs of instructors, tuition, books, and materials. Training costs must include the cost of planning the course of instruction, conducting the course, and any related support effort.

12.3.3. The development and qualification of employees requested by activities outside of the performing DWCF activity must be charged to a specific job order.

12.3.4. The hours of on-the-job training in the form of actual productive effort (as opposed to observation or other noncontributory effort) are chargeable as direct labor to the related job order. Noncontributory effort, including time spent observing others, should be charged to the indirect costs of the cost center of the employee.

12.14 Technical Assistance

Depot maintenance technical assistance is a specialized service, provided by qualified depot maintenance technicians, that is performed in many different ways depending upon the requirement. Technical assistance may include instruction on maintenance repair or support processes for military equipment, special programs for military reserve units, training foreign nationals using uniquely qualified personnel to provide technical assistance, performing specific work requiring special skills for operational activities, other maintenance organizations, or foreign governments. All depot maintenance activity costs for technical assistance must be charged to specific job orders established for that purpose. The costs charged to these job orders must include direct labor, direct material, all other direct costs, and operations overhead and G&A costs including variances for applied overhead.

12.15 Assets Manufactured by a DWCF Activity for Itself

Normally, the material requirements of a DWCF activity are met by the supply system or commercial procurement. However, in some cases, material requirements may be fulfilled by a manufacturing process at the DWCF activity. The manufacturing process includes several phases:

12.15.1. Preparation of a work authorization document (in-house job order) to replace the normal funded customer order;

12.15.2. The costing of direct labor, material, and applied overhead to the manufacturing job order as work-in-process; and

12.15.3. The posting of the completed job order to an asset account, or, if the transaction is reimbursable, to a job order.

12.16 Special Non-DWCF Functions

Occasionally, some uniquely qualified DWCF personnel are asked to perform various types of special functions that are not DWCF activities or functions. Such work is chargeable to other separately budgeted functions such as supply operations, property disposal, or family housing.

12.17 Concurrent Maintenance

Concurrent maintenance occurs when the depot inducts component parts of an end item into the maintenance process at the same time as the end item is inducted for maintenance. This approach is used instead of an exchange. The approach selected is usually a function of the desired outcome and the availability of exchanges. Concurrent maintenance and exchange do not normally result in the same costs being incurred, and no attempts should be made to balance the costs incurred for work performed in the two separate modes. All concurrent maintenance costs must be charged to the weapon system order and not allocated to component repair job orders.

12.18 Host/Tenant Support Services

The DWCF activities give and receive different types and levels of support services to and from the host installation depending upon location and mission assignments.

12.8.1. Uniform costing requires that support services that benefit the performance of the depot maintenance function be recognized as part of the indirect expenses of the benefiting cost center, or the entire DWCF activity as appropriate, regardless of the funding source for the support services.

12.8.2. The DWCF activities must not provide or receive goods or services on a nonreimbursable basis. In addition, offset or barter arrangements must not be made with other activities for goods or services. Special arrangements to avoid normal funding requirements may result in apparent violations of the Antideficiency Act.

12.19 Employee Bonuses and Awards

Depots must charge monetary awards paid to employees for suggestions and one-time bonuses, such as special act awards performance bonuses, and productivity gain sharing program payouts, to indirect production costs of the cost center of the employee receiving the award. Annual pay increases resulting from the employee performance appraisal process are simply increases in base pay that affect regular payroll cost.

VOLUME 11B, CHAPTER 14: “MOBILIZATION COSTS”**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also 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 2020](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Administrative updates to include clarifying language in accordance with Department of Defense Financial Management Regulation (FMR) Revision Standard Operating Procedures.	Revision

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CHAPTER 14

MOBILIZATION COSTS

1.0 GENERAL

1.1 Overview

Each Defense Working Capital Fund (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 satisfy mobilization conditions when required. The nature and extent of the costs to be paid by a separate appropriation rather than charged to other customers through the rates must be in accordance with this policy.

1.2 Purpose

1.2.1. The policy contained herein addresses the requirement for a separate appropriation to finance the cost of maintaining a mobilization capability during peacetime; these are not normal operating costs that are passed on to DWCF customers. This policy applies to all DWCF activity groups. This requirement is hereafter referred to as a mobilization requirement.

1.2.2. The Statement of Federal Financial Accounting Standards 4 ([SFFAS 4](#)), “Managerial Cost Accounting Standards and Concepts,” [requires](#) the reliable and timely information on the full cost of federal programs, their activities, and outputs. SFFAS 4 provides a general understanding of cost accounting, definitions of direct and indirect costs, and the methodology for accumulating the total costs of the supporting DWCF mobilization/surge activities.

1.3 Authoritative Guidance

The National Defense Authorization Act delineates appropriations for mobilization costs. The following accounting policy and related requirements prescribed by this chapter are in accordance with the applicable provisions of:

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

1.3.2. [10 U.S.C. § 7541](#), “[Army Arsenal: Treatment of Unutilized or Underutilized Plant Capacity Cost](#);” and

1.3.3. SFFAS 4, “Managerial Cost Accounting Standards and Concepts.”

2.0 DEFINITIONS

2.1 Mobilization Capability Costs

Mobilization capability costs include the costs to maintain a surge capacity, to procure and maintain approved war reserve material levels, and/or to maintain other assets, functions, or capabilities required to meet an operational contingency as documented in the Secretary's force planning guidance or operational plans.

2.2 Surge Capacity

2.2.1. An activity group's total surge capacity often manifests itself in facilities and equipment that are unutilized or underutilized during normal peacetime operations. Unutilized Capacity is that part of a DWCF activity's assets including plant and equipment that is held in a standby, idle, or lay away status or for war reserve storage. The DWCF uses a separate appropriation to procure and/or maintain wartime reserve materials, and to maintain other assets, functions, or capabilities required to meet an operational contingency.

2.2.2. Unutilized capacity associated with the ability to satisfy a projected surge capability is considered a mobilization requirement eligible for separate appropriation funding if it is utilized only 20 percent or less of available workdays in a month. The DWCF rates must not include the cost of unutilized capacity. Instead, the host activity will budget direct appropriated fund support (labor, materials, contractual support, and overhead) for the unutilized capacity and will reimburse the DWCF activity for costs incurred in the DWCF.

2.2.3. Unutilized capacity associated with the ability to provide capability in excess of any known or projected requirement is not a mobilization requirement.

2.3 War Reserve Materiel

War reserve materiel includes secondary items procured and/or stored in support of wartime scenarios established in the Secretary's force planning guidance or contingency operations identified in specific Operational Plans.

3.0 FUNDING

3.1 Operations

The cost incurred to maintain unutilized plant and equipment capacity must be reimbursed by the Department of Defense (DoD) Component responsible for the activity's management unless funds have been appropriated directly to the DWCF for that purpose. The DWCF activity must separately accumulate the portions of direct, indirect, and general and administrative (G&A) costs supporting the maintenance of this capacity. When a portion of a DWCF activity's plant is purposely set aside as idle capacity, the Component must request a direct operation and maintenance appropriation to pay for the cost of essential operation and maintenance for that portion of the plant and idle equipment as well as an allocated portion of G&A costs. The

percentage of G&A costs allocated to the cost center for the unutilized plant capacity must be the same as the percentage of G&A costs allocated to other cost elements of the activity. Separate cost centers must be maintained for all such costs.

3.2 War Reserve Materiel

The purchase of secondary items of supply, such as War Reserve Materiel, must be funded from a direct appropriation. The applicable Supply Management or Commissary Resale activity Annual Operating Budget must reflect such appropriated amounts as a separate goal. Items such as ammunition and/or principal and major end items procured for war reserve must not be funded with DWCF, but must be funded through amounts available to Component/Defense Agency procurement appropriations.

3.3 Capital Investments

Component procurement appropriations must fund new capital asset investments at DWCF activities necessary to satisfy a mobilization requirement. The DWCF activity groups must assume ownership of such assets. New capital assets to satisfy a mobilization requirement (as well as other, older capital assets laid away for use in mobilization) must be depreciated for reporting purposes on the Accounting Report (Monthly) 1307 (AR(M) 1307). These expenses are non-recoverable for rate setting purposes because the assets are funded by appropriations, see Volume 2B, Chapter 9.

3.4 United States Transportation Command

The United States Transportation Command (USTRANSCOM) activity must maintain a capability to respond expeditiously to requirements to transport personnel, material, or other elements required to satisfy a mobilization condition. The following paragraphs describe direct appropriations, requested by the Air Force or Army, as appropriate, that support USTRANSCOM operations.

3.4.1. The Air Mobility Command (AMC) [develops](#) airlift flying hour requirements and associated costs to maintain the capability of the airlift system, including crew training (and concurrent mobilization) requirements. The DoD uses the airlift system training generated capacity to move air eligible cargo and passengers. The USTRANSCOM generally establishes rates that are competitive with commercial carriers to extend air eligibility and increase capacity utilization. However, resulting revenue does not cover the costs of operations due to the mobilization requirement. This requirement will be budgeted and recorded as follows:

3.4.1.1. The costs for military personnel will be recorded at the civilian equivalency rate in accordance with the policy on Military Personnel Expense in Chapter 12. A Military Personnel appropriation will directly fund military personnel within the AMC. These expenses must be reported on the AR(M) 1307 [and](#) are recoverable for rate setting purposes because the expenses are reimbursed to the respective Military Personnel appropriation. [See](#) Volume 2B, Chapter 9.

3.4.1.2. The Air Force will request a direct appropriation for and place an order with the DWCF to fund the balance of the mobilization requirement costs. This will ensure revenue offset the costs.

3.4.2. The Surface Deployment and Distribution Command must plan for and maintain a Reserve Industrial Capacity (RIC) to transport personnel resources, material and other elements required to satisfy a mobilization requirement. The costs of RIC will be funded by the Army Operation and Maintenance appropriation.

4.0 ACCOUNTING

4.1 Cost Center Capability

DWCF activities must establish a cost center capability to separately account for all costs applicable to the continuance of a mobilization requirement. Where necessary, DWCF activities must maintain such costs to the function or task level, as necessary to segregate costs between normal operating costs and mobilization costs.

4.2 War Reserve Items

DWCF activities must account for purchases of DWCF-funded War Reserve items at the same level of detail as items procured for peacetime requirements, recording amounts in separate general ledger accounts, or appropriate subaccounts, to retain separate visibility of such assets. Inventory levels funded by such amounts are not available for sale; therefore, DWCF activities must maintain and report War Reserve costs separately to ensure that the unit cost targets for Supply Management activities are not affected.

5.0 REPORTING

The DWCF activities must record and report financial information on the maintenance of a mobilization capability in accordance with the DoD accounting and reporting requirements specified for the DWCF. AR(M) 1307 must be prepared to include a footnote that identifies the amount of the mobilization requirement costs that are funded through direct appropriations or reimbursable orders accepted specifically for mobilization requirements.

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

Changes are identified in this table and also 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 [March 2021](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Administrative updates to include clarifying language in accordance with Department of Defense (DoD) Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.2.3, 4.1.4	Removed Title 10 United States Code Section 2306 (10 U.S.C. § 2306), “Kinds of contracts” which Congress repealed on January 01, 2021, and replaced with 10 U.S.C. § 3501, “Multiyear contracts: acquisition of property.”	Revision
1.2.5 through 1.2.9 (previous version)	Removed authoritative guidance 31 U.S.C. § 3901 – 3905 as they are not unique to the chapter and are appropriately referenced in Volume 4, Chapter 9 on accounts payable.	Deletion
1.2.16 (previous version)	Removed DoD Manual 4140.01, Volume 2, “DoD Supply Chain Materiel Management Procedures: Demand and Supply Planning” from authoritative guidance and added it to paragraph 2.2.5.	Revision
1.2.17 (previous version)	Removed DoD Manual 4140.68, “Integrated Materiel Management of Non-consumable Items 3” from authoritative guidance and added it to paragraph 2.2.1.	Revision
2.2.9.2	Updated language to clarify inventory augmentation definition and responsibilities.	Revision
2.5.4 (previous version)	Removed discount pricing as an exception to OUSD(C) approval to de-conflict with approval requirements in paragraph 2.6.	Deletion
2.8	Removed confusing, non-policy text on “Infrastructure costs” formerly at subparagraph 2.2.11 and replaced it with “Capital Investment Recovery” guidance.	Deletion/ Addition

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CHAPTER 15

SUPPLY MANAGEMENT ACTIVITIES

1.0 GENERAL

1.1 Purpose

This chapter provides the policy to guide budget formulation and execution for Supply Management Activities (SMA) of the Defense Working Capital Fund (DWCF) and is applicable to all DoD working capital funds.

*1.2 Authoritative Guidance

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

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

1.2.2. [10 U.S.C. § 2210](#), “Proceeds of sales of supplies: credit to appropriations;”

1.2.3. [10 U.S.C. § 3501](#), “Multiyear contracts: acquisition of property;”

1.2.4. [31 U.S.C. § 1502 \(a\)](#), “Balance available;”

1.2.5. The Office of Management and Budget ([OMB Circular A-11](#)), Part 4, “Instructions on Budget Execution;”

1.2.6. [Statement of Federal Financial Accounting Standards 3](#), “Accounting for Inventory and Related Property;”

1.2.7. [Defense Federal Acquisition Regulation Supplement 217.74](#), “Undefined Contract Actions;”

1.2.8. [DoD Directive 5134.12](#), “Assistant Secretary of Defense for Logistics and Materiel Readiness;”

1.2.9. [DoD Instruction \(DoDI\) 1330.17](#), “DOD Commissary Program;”

1.2.10. [DoD Manual \(DoDM\) 4140.01 Volume 1](#), “DoD Supply Chain Materiel Management Procedures: Operational Requirements.”

2.0 PRICING OF INVENTORY ITEMS

2.1 Budgeting

Policy requirements for the budget development of prices for SMA items are in Volume 2B, Chapter 9.

2.2 Standard Price

2.2.1. Charge DoD customers the standard price for DoD Inventory Control Point (ICP)- managed items (excluding subsistence), or Integrated Materiel Management (IMM) items. The Federal Logistics Information System (FLIS), accessible through WebFLIS, is the authoritative source of standard prices. Prices are computed based on factors, including replenishment cost of the item; surcharges for transportation, inventory loss, obsolescence and maintenance; Capital Investment Recovery; and supply operations. Each cataloged inventory item with an assigned national stock number and, under DoD ICP management, must have a selling price for all authorized customers. See [DoDM 4140.68](#) “Integrated Materiel Management of Nonconsumable Items,” for non-consumable items standard pricing details.

2.2.2. Charge the standard price to non-DoD customers directly supporting DoD-related mission requirements. The selling price to other non-DoD customers is prescribed in Volume 2B, Chapter 9. See paragraph 2.5 for exceptions to this policy.

2.2.3. DWCF activities must institute selling prices at the lowest practical item level to promote cost visibility/management and motivate cost effective customer/supplier behavior.

2.2.4. The SMA must determine the item standard price annually in advance of the execution year. The standard sales price is effective for billing purposes on the first day of the fiscal year (FY). A standard price cannot change in the FY without prior approval from the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), Office of the Deputy Comptroller for Enterprise Financial Transformation (EFT), Directorate for Financial Management Operations and Analysis (FMOA), except as stated in paragraph 2.5. The dollar amount of unfilled customer orders accepted at the previous FY’s standard price must be adjusted (upon notification to and confirmation from the customer) to reflect the latest standard price when notice of the price change is received.

2.2.5. Catalog and assign all local procurements a standard price including any retail level cost recovery element. In accordance with the [DoDM 4140.01, Volume 2](#), “DoD Supply Chain Materiel Management Procedures: Demand and Supply Planning,” inventory retail level is the level below the wholesale, either at the consumer level for providing material to ultimate users or at the intermediate or region level. See DoDM 4140.01-V2 for additional demand and supply planning guidance.

2.2.6. The DWCF establishes selling prices in the budget that are normally fixed during execution to mitigate the impact of unforeseen fluctuations on customers’ ability to execute programs. See Volume 2B, Chapter 9 for full recovery of costs and setting of prices.

2.2.7. The standard price must also contain the total materiel costs, see Volume 2B, Chapter 9. Total materiel costs include:

2.2.7.1. Materiel costs (without inflation) for 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.

2.2.7.2. Materiel Inflation (normal inflation) is the dollar amount of the inflation rate set by OMB. Materiel Cost Adjustments as outlined in Volume 2B, Chapter 9 accounts for any anticipated price growth beyond normal inflation.

2.2.7.3. Loss/damage/washout/obsolescence are costs where a replacement unit is required. Activities that manage on an exchange carcass basis incur replacement cost for carcass losses and washouts. Lost carcasses, e.g., in transit to customer or supply system, must be investigated and necessary internal controls strengthened as required by Volume 12, Chapter 7. Carcass washouts are carcasses initially determined to be repairable but subsequently determined to be unrepairable and require replacement. If determined unrepairable due to customer-caused cannibalization or other malicious damage, charge the customer the difference between the exchange price and the current standard price, and this cost must not be included in the surcharge element. Maintenance activities must maintain all documents, see Volume 1, Chapter 9.

2.2.8. In a system supporting exchange pricing, the price charged to customers returning a Depot Level Repairable part for repair and purchasing a serviceable (new or repaired) part, equates to the latest repair price plus wash out costs per item plus pricing elements necessary to recover other operating costs. If no carcass is returned, the customer must be charged the full standard price. See Volume 2B, Chapter 9, paragraph 2.6.2.13 for specifics on exchange pricing. Also, see Volume 4, Chapter 4, for information on supply turn-in.

2.2.9. SM operations also incur non-materiel overhead and pricing adjustment costs, including adjustments for prior year operating results, approved surcharges, and other factors. The Cost Recovery Rate reflects the markup on total materiel costs required to recover operating costs, 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. These cost elements are displayed on the SM-5a “Markup on Materiel Cost” exhibit in Volume 2B, Chapter 9.

2.2.9.1. The provisioning cost element is provided when a weapon system was originally fielded under a contractor logistics support agreement. The component may fund the provisioning action in the standard item price if the contractor fails to perform or a component decision is made to transfer program management to a DWCF supply activity. The component may fund this action using contract authority without an immediate reimbursement if a funding source can be identified and used for reimbursement by the time of first delivery and the OUSD(C), EFT/FMOA, has preapproved the action. Preapproved reimbursable transactions of this type must be recorded as “other income” and not included in the standard price.

* 2.2.9.2. Inventory Augmentation. An anticipated inventory requirement that drives growth in inventory beyond replenishment, excluding appropriately resourced increases for mobilization. When required, the supply activity develops a financing strategy for the Program and Budget Review, or the Budget Execution Review if, in the year of execution, the activity must execute above its planned Unit Cost Ratio (UCR). When an activity internally augments inventory, regardless of the UCR, the activity provides a prioritization strategy in accordance with DoDM 4140.01, Volume 2. The Joint Logistics Resource Requirement Board co-chairs must approve the financing strategy. Recoup costs by direct appropriation or a cost recovery element in the pricing structure. See Volume 2B, Chapter 9.

2.2.9.3. Unusual or nonrecurring 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 must not be included in the cost recovery element for inventory expenses. DWCF Activities must obtain approval from the OUSD(C), EFT/FMOA, to fund such losses.

2.2.10. The standard item sales price must include recovery of operating costs including payroll, personnel travel, transportation, defense agency billings, other DWCF purchases, operating materials and supplies, rent/communications/utilities, depreciation, transportation, and other service contracts.

* 2.2.11. Other cost recovery elements, as approved by the OUSD(C), EFT/FMOA, during the budget review, may be added to the price and include Accumulated Operating Results adjustments, cash surcharges, and fund management adjustments.

2.2.12. The purpose of the cost recovery elements is to balance total revenues with total net operating costs. Total net operating costs must not include requirements funded by appropriations, such as war reserve materiel or national defense stockpiles (see Volume 4, Chapter 4). The costs within the recovery elements must account for the following as applicable:

2.2.12.1. The SMA finances the costs of wholesale ICPs and wholesale supply depot operations. Such costs include civilian labor and benefits, military labor, supplies, purchased services, and reimbursements to other defense agencies providing support. The cost of performing equivalent functions at the retail level (installation/area supply support) may be included in the cost assessed by the wholesale activities if the retail activity is managing the distribution of Defense Logistics Agency, General Services Administration, or any other government agency where an additional rate would not be applicable.

2.2.12.2. The SMA finances the costs of separate activities that exist primarily to benefit the wholesale ICP and/or a wholesale supply depot mission. Establish mission support overhead cost pools that identify civilian labor and benefits, supplies, purchased services, and other costs incurred in functions such as line management command and control, staff management and policy, centralized procurement, accounting, personnel, and automated data processing. The portion of overhead costs directly benefiting the SMA mission is allocated to, and reimbursed by,

the SMA. The allocation must be prorated on the relationship of the cost of the benefits provided to the SMA, to the cost for all activities or functions.

2.2.12.3. Shipping and transportation costs, including 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).

2.2.12.3.1. Transportation costs include SMA-issued items. To the extent that first destination transportation is not included in the acquisition cost, an estimate of the cost must be included. Second destination transportation (SDT) costs should assume average cost as adjusted by budget year projected changes. A SMA generally finances SDT costs for transportation within the Continental United States (CONUS) and between overseas locations. Assess additional charges for expedited delivery.

2.2.12.3.2. The SMA must reimburse transportation and other shipping costs only for items approved by an item manager for return to the SMA from DoD customers.

2.2.12.3.3. Costs of shipping and transportation for customer return of reparable exchange carcasses. Accordingly, customers are not charged separately for the returns.

2.2.12.3.4. Shipping and transportation costs of item manager-directed Lateral Redistribution Orders (LRO) of stock. The ICP or IMM must reimburse the supplying/holding activity for packing, crating, handling, and transportation for ICP/IMM-directed materiel moves.

2.2.12.4. The costs of providing and managing commissary items, including related operating costs, must be identified as commissary operating costs. These costs include headquarters or regional-level costs. Commissary operating costs are reimbursed by appropriations for commissaries and the commissary trust revolving fund, see DoDI 1330.17.

2.2.12.5. If a SMA experiences a sudden decrease in volume of customer orders, it may require additional revenue to liquidate contract authority. Resources may be obtained through either transfer or direct appropriation, or by SMA establishment of a cost recovery element (or combination of both). The SMA will eliminate any cash surcharge once undelivered order stock levels have stabilized for the new volume of demand.

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

2.2.13.1. Will include inventory (materiel) expenses for retail-managed items which are the net of gains and losses, obsolescence, and shelf-life deterioration.

2.2.13.2. May include other cost recovery elements, when approved by the OUSD(C), EFT/FMOA.

2.3 Foreign Military and Private Party Sales

Per Volume 15, the DWCF must sell items to Foreign Military Sales customers at the current price. The current price is also applicable to private parties (state and local governments, and non-governmental entities not under a DoD contract) authorized SM support.

2.4 Lateral Redistribution of Stock

When another activity has stock to fill an order, a SMA may direct an LRO to that activity to issue stock directly to the customer. As provided in [DoDM 4140.01, Volume 5](#), “DoD Supply Chain Materiel Management Procedures: Delivery of Materiel,” LRO billing procedures ensure a supply holding activity is reimbursed for both the standard price of the materiel and standard packing, crating, handling, and transportation costs. The item manager will bill the customer for the standard price of the materiel and pay the supply holding activity via the ICP/IMM for the standard price of the materiel and the standard packing, crating, handling, and transportation costs. DoD Components facilitating LROs must record outlays of Fund Balance with Treasury (FBwT) as a disbursement. Recording a negative collection is prohibited. Since these are intra-agency transactions, trading partners must use the correct detailed transaction-level codes. See the Deputy Chief Financial Officer financial policy memorandum (FPM), “Accounting Treatment of Lateral Redistribution Activities ([FPM 20-05](#)).”

*2.5 Authorized Changes of Standard/Exchange Prices

Prices cannot be changed during a FY without justification to, and prior written approval of the OUSD(C), EFT/FMOA. The item manager will group all approved price changes and release for updates to the SMA’s pricing catalog not to exceed once a month. The only exceptions to the price changes requirement for prior approval are:

2.5.1. Unit of issue changes;

2.5.2. First time buys; and

2.5.3. Contract modifications or new contracts for the same requirement.

2.6 Discount Pricing

2.6.1. Product prices must reflect the full cost of the product and the related management activity unless the following conditions are met, and approved by OUSD(C), EFT/FMOA:

2.6.1.1. Requests to discount item prices must include an impact analysis of the anticipated cost (profit/loss) and Component approval.

2.6.1.2. Reductions from standard prices may be made for an actual difference in item utility or desirability due to age, condition, or model for items being phased out of the

system; and items no longer procured, with limited remaining shelf-life, in less-than “fully serviceable” condition, or in long supply, i.e., assets stratified as “potential reutilization stock.”

2.6.1.3. See Volume 4, Chapter 4, for SMA development of exchange transaction prices.

2.7 Pricing for Additional/Premium Service

2.7.1. Components may establish and offer variable levels of service related to a product, at variable prices, to allow customers to economize according to needs. Appropriate fees may be established annually and may vary according to the item/class of items. Refunds (credits) are available when a customer paid but was not provided a level of service. Customers are authorized to pay for enhanced service; this policy does not authorize reduced charges. Individual orders may be assessed an additional cost based on the following elements:

2.7.1.1. Expedited delivery.

2.7.1.2. Delivery outside the CONUS based on destination.

2.7.1.3. Depot handling fees related to order issues only. The fee(s) includes 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.

2.7.1.4. Other additional/premium charges as approved by OUSD(C), EFT/FMOA.

*2.8 Capital Investment Recovery

Reflects the estimated recoupment of all assets defined by the capital program in terms of recoupment of outlays. See Volume 2B, Chapter 9 for details on recovering these infrastructure related costs.

3.0 CONTRACT AUTHORITY FOR SUPPLY MANAGEMENT OPERATIONS

3.1 Background

3.1.1. Based on 10 U.S.C. § 2210, obligations may be incurred against anticipated reimbursements, without regard to FY limitations. OMB Circular A-11 defines Contract Authority as a type of budget authority permitting obligations in advance of appropriations, offsetting collections, or receipts to make outlays to liquidate the obligations.

3.1.2. Contract Authority is apportioned and allocated without a supporting Treasury cash balance. Consequently, contract authority must be replaced or liquidated by other budgetary resources. Contract Authority is apportioned to the DWCF Capital Programs and the SM Operating Programs for the current FY of the apportionment only, and for no other FY.

3.2 Budgetary Resources

3.2.1. **SM** budgetary resources available during the current **FY** consist of congressionally appropriated and re-appropriated amounts made available; the net of any non-expenditure transfers and internal distributions of budgetary authority into and out of the **SMA** and other Federal Government accounts (cash transfers); and apportioned contract authority.

3.2.2. Liabilities (accounts payable) are typically payable from the **FBwT** within the terms of the Prompt Payment Act, [Title 31, U.S.C., Chapter 39](#), as implemented under [Title 5, Code of Federal Regulations, part 1315.31](#). Unfunded (unliquidated) contract authority is a **SMA** long-term liability because budgetary resources required have not yet materialized through customer orders or Congressional appropriations.

3.2.3. Unobligated appropriation balances are not available for use in the subsequent year unless reapportioned as a **new** apportionment in the new **FY**.

3.2.4. The OMB may approve and apportion contract authority in the amount of the approved **SMA**-operating program, which may include the amount of the requested variability target or a portion thereof.

3.2.5. The OMB apportions contract authority on the Standard Form (SF)-132, "Apportionment and Reapportionment Schedule." The Office of the Deputy Comptroller (Program/Budget) allots contract authority on the Annual Operating Budgets.

3.2.6. Apportioned contract authority is either obligated or returned. Obligated contract authority is substituted with the receipt of customer orders, and then liquidated with revenue collection from order fulfillment. With Congressional approval, appropriations can be used to liquidate contract authority rather than spending authority from offsetting collections.

3.2.7. Customer orders received are requisitions and other orders accepted for furnishing items on a reimbursable basis. Order-generated budgetary resources are available to fund obligations provided that, in the case of orders from the public, an advance has been collected. Contract authority must not be used to fulfill orders from the public unless an advance is collected and reflected in the **SMA's FBwT**, except when explicitly authorized by law.

3.3 Contract Authority and Cash Management

3.3.1. Components' activity groups are responsible for cash management (see Volume 2B, Chapter 9). The liquidation of contract authority is only authorized by collections from customer orders or by an appropriation. **SM** cash collections are the primary funding source for liquidation unless otherwise approved in writing by OUSD(C), EFT/FMOA.

3.3.2. **SM** activities may also submit requests as part of the component's budget request, for appropriations to liquidate contract authority, if a change in customer demands warrants this action. Similarly, OUSD(C), EFT/FMOA, must pre-approve in writing any proposed budget negative surcharges, other than Accumulated Operating Results recovery.

4.0 MULTIPLE-YEAR CONTRACTS

4.1 Overview

4.1.1. **SM** activities are authorized to use multiple-year contracts to procure items from a single contractor **and** more than one annual program increment of items to obtain an Economic Order Quantity (EOQ).

4.1.2. The **SMA** determines if items with stable demand are **sole sourced** and/or acquired by a multiple-year contract.

4.1.3. **SM activities** fund advance EOQ procurement for manufacturing components, parts, and raw material in quantities exceeding the current annual requirement when it is cost effective to do so. Advance procurements may be funded fully in single-year increments on a termination liability basis or included in a multiple-year contract with the nonrecurring contract costs.

* 4.1.4. Under **10 U.S.C. § 3501**, the DoD is authorized to enter into multiple-year 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 limit the use of multiple-year contracts. OUSD(C), **EFT/FMOA**, must approve, prior to contract award, a single contract in excess of \$100 million or \$10 million in estimated termination liability. Each separate contract option must be **treated** as a single contract event, with the dollar amounts determining whether OUSD(C), **EFT/FMOA** approval is required.

4.2 Obligations

4.2.1. The **SMA** must obligate the minimum amount required for the period of the contract.

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

4.2.1.2. If the contract provides for minimum quantities over a period of more than one year, the obligation must be recorded for the sum 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 must be recorded for the sum of the minimum dollar amounts.

4.2.1.3. The bona fide needs rule, derived from 31 U.S.C. § 1502(a), applies to appropriations limited to a definite period of time. Although the **rule** does not statutorily restrict a **SMA** from incurring obligations against contract authority for subsequent **FY** requirements, contract authority may impose limitations on execution of obligations. Also, **SM** activities use contract authority to incur obligations to acquire stock or **forecasted** customer orders, and do not execute **customer** budgetary resources. **Therefore**, the timing of **SMA**'s contract authority obligations do not govern, establish, or reflect the customers' appropriation bona fide need.

4.3 Cost of Items

The cost of items procured by multiple-year contracts must 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 must be recorded as SMA materiel obligations.

5.0 BUDGETARY ACCOUNTS

5.1 Overview

Budgetary accounts are used to control and account for obligation authority received from appropriations and contract authority apportioned by OMB. SM activities are subject to apportionment, as required by the Antideficiency Act, in accordance with the procedures prescribed in OMB Circular A-11, “Instructions on Budget Execution” and Volume 3, Chapter 19.

5.2 Allotments

Annual Appropriation Act general provisions provide that, “Except in amounts equal to the amounts appropriated to DWCF in this Act, no obligations may be made against a DWCF to procure war reserve materiel inventory unless the Secretary of Defense has notified the Congress prior to any such obligation.” Obligation authority for mobilization must be allotted and allocated separately as a direct program. Conversely, non-mobilization obligations must be allotted and allocated separately as a reimbursable program and accounted and reported separately.

5.3 Budget Execution

Balances for budgetary accounts are displayed on the SF-133 “Report on Budget Execution and Budgetary Resources” and the Defense Finance and Accounting Service “Accounting Report (Monthly) 1307, part VII” (see Volume 3 Chapter 19).