



DPAS Defense Working Capital Fund (DWCF) Reference Document

In the Web Defense Property Accountability System (DPAS) there are two Type Fund Identifications, also referred to as Type Fund Id. This is a code that indicates if assets were purchased with Defense Working Capital Funds (DWCF), or by Other type of funding. This document will clarify for the user information about DWCF.

The DWCF was established to help the Government account for costs and budget outlays. In the simplest of terms, the DWCF was established to allow the Federal Government purchase and repair activities to account for costs and revenue as if they were commercial businesses. The Defense Business Operations Fund (DBOF) was a DoD-wide revolving fund established in 1991 by consolidating the Services and Defense Logistics Agency (DLA) stock and industrial revolving funds.

- A revolving fund is a fund in which all income is derived from its operations and is available to finance the fund's continuing operations without a fiscal year limitation. Simply stated, a revolving fund activity accepts an order from a customer, finances the costs of operation using its "working capita," then bills the customer who reimburses the fund.
- Prior to 1991, each component had its own stock fund and industrial fund. Stock Funds procure material (spare parts and other items) in volume from commercial sources and holds them in inventory to be sold to customers who need them to achieve weapon systems readiness or to provide personnel support. Industrial Funds provide industrial and commercial goods and services such as depot maintenance, transportation, and research and development.

The Under Secretary of Defense (Comptroller) returned primary responsibility for these funds to the parent Service or component, and the DBOF concept became the DWCF. The DWCF was established under the authority of Title 10, United States Code (USC) Section 2208, and was effective in fiscal year (FY) 1992.

The DWCF is a reimbursable operations fund that sells support goods and services to DoD and other users. The Service accomplishes these sales through its activity groups at prices necessary to recover material and operating expenses. These revolving funds are financial systems dependent on the sale of goods and services for the cash necessary to finance activities undertaken by stock funds (purchase goods for resale) and industrial funds (primarily government-operated maintenance and production activities). In the long run, revolving funds are to be a zero-profit activity for the government—the



payment for goods and services by the buying activities exactly equals the associated costs. A primary difference between DoD revolving funds and the way a commercial service, maintenance, or production concern works is the commercial firm expects to make a profit.

DWCF customers include any DoD command, organization, office, or other element; non-DoD federal government agencies; private parties and concerns when authorized by law—this includes foreign governments, state and local governments, and others not officially representing the federal government—and those manufacturers or developers authorized use of DWCF based on law.

Advantages of using the DWCF include:

- Identifies the total or "true" cost of DoD goods and services to Congress, military users (buyers), and those who provide goods and services (sellers), and thereby promotes more efficient and effective allocation and utilization of resources
- Underlines the cost consequences of certain choices and allows purchases to be made in anticipation of future funded orders
- Provides managers with the financial authority and flexibility to procure and use labor, materials, and other resources more effectively
- Improves cost estimates and cost control through comparison of estimates and actual costs
- Places customers in the position of critically evaluating purchase prices and the quality of goods and services ordered
- Allows for greater flexibility and security in decision-making, as there are no fiscal year limitations
- Establishes standard prices or stabilized rates and unit prices for goods and services furnished by DWCF business areas, enabling customers to plan and budget more confidently

To be included in the DWCF financial structure, a proposed business area must meet four criteria: (1) Outputs (i.e., goods produced and services provided) can be identified; (2) An approved accounting system is available; (3) Organizations (i.e., customers) that require and order products or services have been identified; and (4) Advantages and disadvantages of establishing a buyer/seller relationship have been evaluated.

The DWCF activity must decide for each unit of output, how the direct, indirect, and G&A cost must be allocated.

- Direct costs are directly attributable to the end product or output. An example would be the direct labor hours associate with and repair parts consumed in the overhaul of an aircraft engine. Direct costs are allocated over specific output units.



- Indirect costs are costs that can't be directly tied to the output and are normally allocated over a select number of outputs. Some examples include indirect labor and indirect materials. A supervisor who has responsibility over employees who contribute to multiple product lines (or customers) is an indirect labor cost. Indirect material is a part of the end product or consumed in producing it, but is not economical to account for on an individual basis, such as lubricating oil or small fasteners purchased in bulk quantities. Indirect costs are often referred to as production overhead costs. They are allocated on a percentage basis across groups of outputs.
- General and Administrative (G&A) costs are costs that do not contribute directly to a specific product or output, but to the overall operation. These costs are overhead costs, as well, and remain relatively constant. Some examples include security costs, custodial costs, and salaries of staff personnel (comptroller, purchasing, etc.). These costs are allocated across all output units.

DWCF rates/prices are established through the budget process and remain fixed during the year of execution. These rates/prices charged to customers are developed and proposed by the Components in their Budget Estimate Submissions and, once approved, remain fixed during the year of execution.

Using guidance from OSD and the respective Component, managers of DWCF business areas are required to set their rates and prices to recover all operating and capital costs associated with the products or services to be provided.

The cost recovery factor is developed based on cost recovery consisting of elements for: operating costs plus prior year gains/losses; shipping and transportation; inventory expenses; economic adjustments for inflation; and repair costs including attrition.

SOURCES:

<http://www.afhma.hq.af.mil/shared/media/document/AFD-100120-054.pdf>

http://www.nps.edu/services/usmc/Docs/FMGuide_v5_r2.pdf (Chapter 9: Defense Working Capital Fund)

http://comptroller.defense.gov/fmr/11b/11b_02.pdf