



**Defense Acquisition University**

# **Defense Working Capital Funds Lunch and Learn**



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# Objectives

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- Provide information on:
  - General concept of how a working capital fund (revolving fund) works
  - Background and basic principles of the Defense Working Capital Fund (DWCF)
  - Laws and Regulations regarding DWCF
  - Benefits of DWCF
  - Disadvantages of DWCF

# Revolving Funds History

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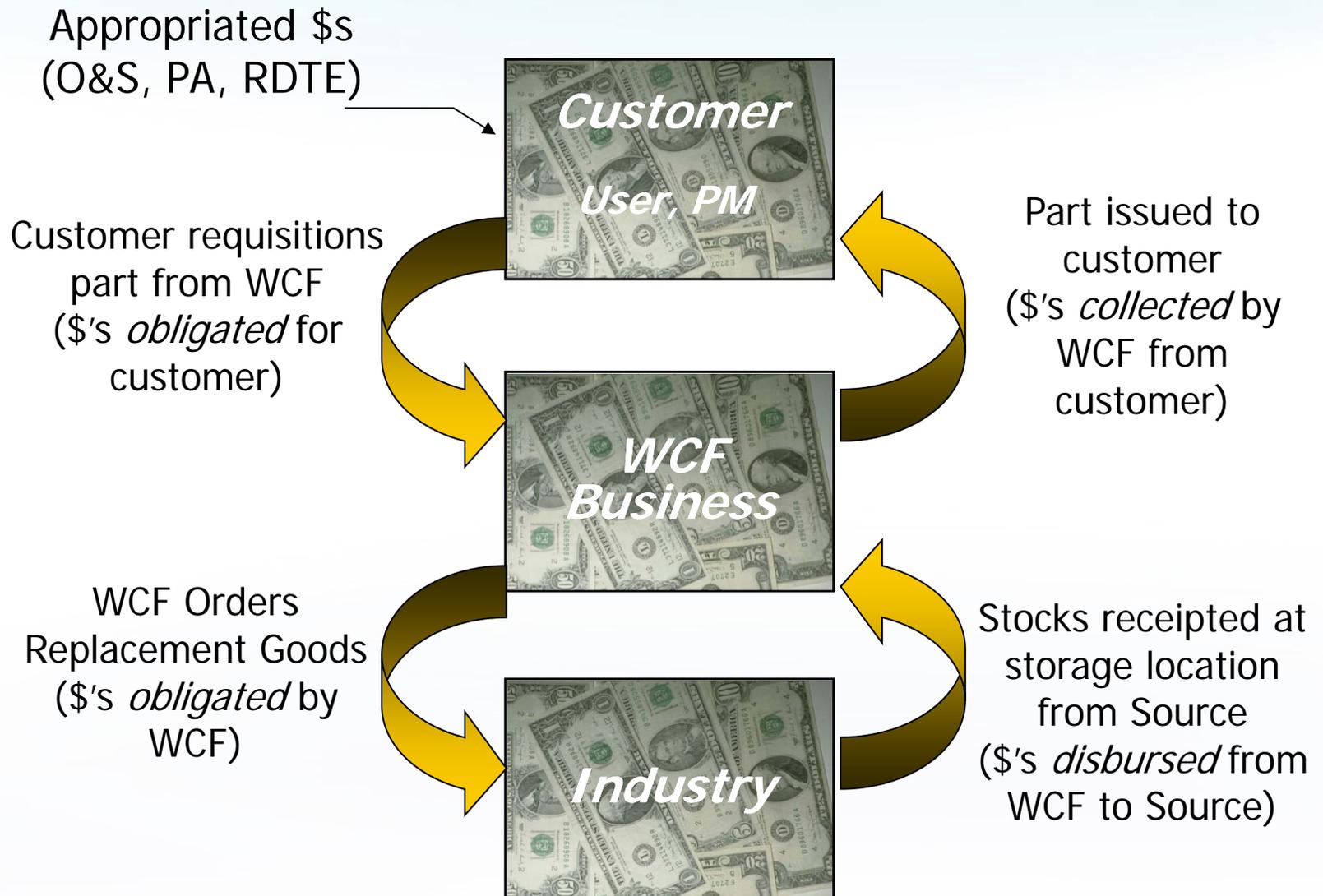
- National Security Act Amendments of 1949 first established working-capital funds to finance “industrial-type activities”
- Defense Business Operations Fund (DBOF) was established October 1, 1991 by the Secretary of Defense under authority of Title 10, U.S. Code, Section 2208.
  - Consolidated individual industrial and stock funds (which financed parts and goods, such as petroleum) into a single stock fund
- USD(C) disestablished the DBOF on December 11, 1996 by *PBD 426 (Surcharges and Rates)* and established the Defense Working Capital Fund (DWCF) as successor to the DBOF. USD(C) changed the names, but not the concepts
  - Split into individual working-capital funds for the Army, Navy, Air Force and DoD-wide activities to establish functional and financial management responsibilities across the Services

# Working Capital Funds are Revolving Funds

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- What is a Revolving Fund?
  - An account or fund in which all income is derived from its operations and is available to finance the fund's continuing operations without fiscal year limitation
  - Revolving fund structure creates a customer-provider relationship between operating units and support organizations
- Working Capital Funds (WCF) are revolving funds that exist to finance the continuing operations of government business units that are managed like a commercial business
  - Provides visibility of total costs
- WCF can be used to fund provisioning in support of PM fieldings, repairs at depots and contractor sites, services in support of secondary items and similar efforts

# How Does a Revolving Fund Work?



# Defense Working Capital Funds

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- Defense Working Capital Fund (DWCF) resources Services and Agencies' (USA, USN, USAF, DLA) industrial operations, supply, distribution and other fee for service activities in exchange for customer appropriated funds
- DWCF activities dependent on reimbursement for goods and services furnished in response to customer orders
  - Labor forces and inventories coordinated with workload, budgeting and cost control
  - Projected workload drives the plan and incorporates customers' changing needs

# Benefits of WCFs

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- WCFs provide tremendous flexibility
  - WCFs use contract authority and spending authority (from customer orders)
  - Tremendous flexibility to surge – don't need prior Capital Hill approval
- WCFs are critical to readiness
  - Have a basis in law; Title 10
  - Cannot go to war without them
- WCFs are like having an in-house contractor
  - Provide rapid response to customer needs
  - Set up to mirror private sector operations
- WCFs present other advantages:
  - Operate with the same means, methods and management as all private sector defense firms
  - Use a Balance Sheet approach for financial management incorporating Generally Accepted Accounting Principles (GAAP). This gives Congress an understanding of what things cost
  - Allow for partnering with private sector and give services in-house expertise
  - Use “working capital” and can allow for multi-year programs
  - Avoids issues with Continuing Resolution Authority, Furloughs and the like

# What Destabilizes the DWCF?

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- Fluctuating customer orders
  - changing requirements
  - unforeseen events such as contingency operations
  - increased demands
- Forces of nature
- Aged accounts receivable
- Force restructuring
- DoD policy changes
- Cash cow for other funds'/services' bills

# The Customer Has Control

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- The customer has control of what you budget for
  - Must meet mission readiness objectives
  - Ration spending for what needs to be procured
  - Determine level of support and establish workload for DWCF activities in POM and budgets
- Customer controls the workload

# DWCF Receives Obligation Authority to Operate

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- WCF operates with either Contract Authority or Spending Authority from Offsetting Collections
  - Authorized to spend to the limit approved in President's Budget
  - Submitted budget requests obligation authority to spend to a limit defined by workload
  - Authority not limited by Congressional appropriation or CRA; allows operations to continue – a direct recognition of the readiness mission

# Cost Recovery, Rates and Prices

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- Rates are established on a fiscal year basis to recover the cost of operations within the business activities
  - Budgets are submitted to get an approved rate
- Rates are used to recover costs
- Once established, rates are used to set prices. Some prices are stabilized (held constant) for the applicable fiscal year
  - Prices include costs incurred for direct labor, material, indirect labor, and operations related to DWCF, including depreciation
- The DWCF operates on a break even basis
  - Calculated on a 3 year rolling average – Goal is no profit and no loss over the 3 year period
  - Gains are returned to the customer through lower prices in later years
  - Losses are recouped from the customer through higher prices in later years

# DWCF Incurs Profits and Losses (Called Operating Results)

- Two kinds of operating results
  - Net operating result (NOR)
    - Result of operations during the fiscal year which represents the net difference between expenses and financing
    - Sound like profit and loss to you?
  - Accumulated operating result (AOR)
    - Net difference between expenses and financing sources since inception through the annual closing of account on 30 Sep
- Formula:

Target for the year

Used to build rates and set prices



# Cash Also Needed in DWCF

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- Like any business, the DWCF requires cash to cover current disbursements and a reserve for future capital expenditures
- Objective: Maintain adequate balance to pay business bills
  - 7-10 days operational cost
  - 6 months capital disbursements
  - There is NO benefit from maintaining excessive cash balances
- Cash is not revenue
- Cash is there to pay the bills

**Title 10, US Code 2208 says: The Secretary of Defense shall ....ensure that the balance in that working-capital fund does not exceed the amount necessary to provide for the working-capital requirements of that fund**

## Defense Working Capital Fund Accounts

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- Five separate cash accounts: 97X4930
  - .001 (Army)
  - .002 (Navy)
  - .003 (Air Force)
  - .004 (DeCA)
  - .005 (Defense Agencies)
- Each cash account is subject to an ADA Violation

# What does the Army do with the Army Working Capital Fund?

- The AWCF is a financial management structure used to promote total cost visibility and full cost recovery of support services rendered to the Army's operating forces
- The AWCF has 2 Activity Groups



AMC manages the AWCF



**Mission: Provide required goods and services at best value**

# AWCF Business

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## Industrial Operations

- Depots
  - Letterkenny Army Depot
  - Corpus Christi Army Depot
  - Anniston Army Depot
  - Red River Army Depot
  - Tobyhanna Army Depot
- Arsenals
  - Pine Bluff Arsenal
  - Rock Island Arsenal
  - Watervliet Arsenal
- Ordnance
  - Blue Grass Army Depot
  - McAlester Army Ammunition Plant
  - Crane Army Ammunition Activity
  - Tooele Army Depot
- Storage & Distribution
  - Sierra Army Depot

## Supply Management Army

- Four commodity groups
  - Aviation and Missile
  - Tank, Armament, and Automotive
  - Communication and Electronics
  - Non Army Managed Items (NAMI)
- Customer rates
- Inventory
- Sales

# AWCF Hardware OA

## What is it?

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- OA is Obligation Authority (aka Operating Cost Authority)
- Hardware OA
  - The amount of funding received for new procurement and repair in a given year
  - Changes throughout the year based on AMC Release Letters
- OA Requirement
  - Funding needed to do all the procurement and repair identified by the Weapon System Teams and PMs
  - OA requirement is identified in the annual Budget Estimate Submission (BES) to AMC, DA and OSD
- AWCF is not included in the POM
- To increase OA requirement must submit a separate request to HQ AMC G3 for acknowledgement of requirement and approval

# AWCF Hardware OA

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Pays for...

- New procurement of spares
- Provisioning in support of PM Fieldings
- Repair at depots and contractor sites
- War Reserve
- Operating Support Cost Reduction (OSCR) and Reliability Improvement Program (RIP) (where there is a return on investment)

# AWCF Logistics Operations

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Pays for.....

- Pay of people
  - Contracts for services in direct support of secondary items
    - Acquisition Center
    - AMRDEC
    - G4
    - IMMC
  - Second Destination Transportation (SDT)
  - Supply Depot Operations (SDO)
  - Overhead
  - Other agency support (i.e. DFAS, LOGSA)
- ✓ CSI (Critical Safety Items)
  - ✓ Engineering Services
  - ✓ NMP (National Maint Program)
  - ✓ OZONE Depleting
  - ✓ TECH LOOP/Cong Mgmt
  - ✓ Contract personnel

# LOGOPS Funding Earned From Cost Recovery Rate (CRR)

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- CRR is a percentage added to the cost to buy or repair an item
- Generates the LOGOPS portion of funding
- Determined by HQAMC
- Developed and locked 2 years in advance of execution year



# What does the Air Force do with the AF Working Capital Fund?

## HQ Air Force Materiel Command

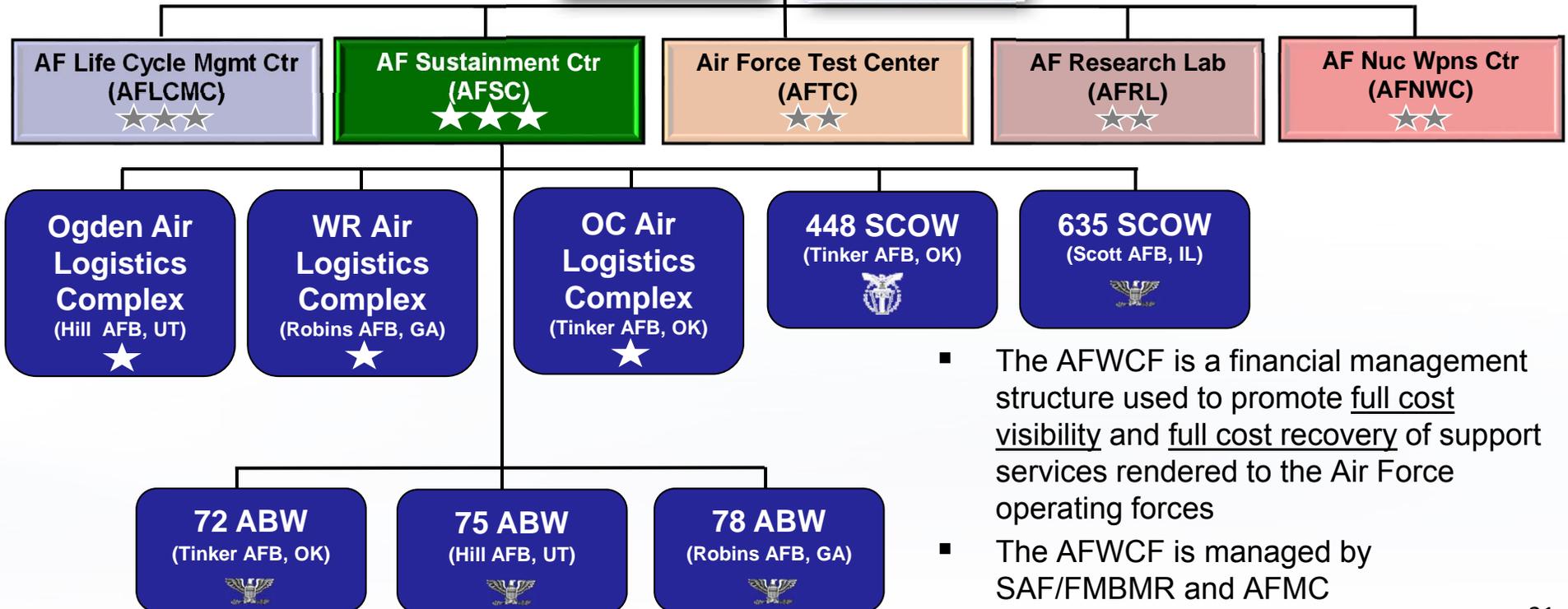


### Depot Maintenance

- Gross orders
- Organic
- Contract
- 3 Maintenance Depots

### Supply

- Gross orders
- inventory
- requisitions



- The AFWCF is a financial management structure used to promote full cost visibility and full cost recovery of support services rendered to the Air Force operating forces
- The AFWCF is managed by SAF/FMBMR and AFMC



# What Does the Navy Do With the Navy Working Capital Fund?

## The NWCF has 5 Activity Groups

### Depot Maintenance

Fleet Readiness  
Centers & Marine  
Corps Depots

### Base Operations

Facility Engineering  
Commands (Public  
Works)

### Transportation

Military Sealift  
Command (unique  
vessels & Programs)

### Supply Management

Navy Supply Systems  
Command Weapon Systems  
Support (NAVSUP WSS)  
Fleet & Industrial Supply  
Centers  
Navy Supply Information  
Systems Activity

### Research & Development

Navy Air Warfare Center  
Naval Surface Warfare  
Center  
Naval Undersea Warfare  
Center  
Space & Naval Warfare  
Systems  
Naval Research Labs



# What does DLA do with the Defense Working Capital Fund?

Defense Logistics Agency has 3 Activity Groups



Consumable  
Supply  
Management

Material Supply  
Material Distribution  
Material Disposition



Energy  
Management

Bulk Petroleum  
Airplane fuels  
Natural Gas



Document  
Automation &  
Production

Publishing, Printing,  
&  
Online Documents

# Reliability Improvement Process (RIP)

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## Objective:

- Improve reliability, quality and logistics
- Reduce field maintenance actions
- Enhance supply to the Service by transitioning the new/improved part into the supply chain

## Purpose:

The DLA program uses Defense Working Capital Funds (DWCF) to facilitate the new or improved DLA-managed components, assemblies, or modules for presently fielded systems that enhances reliability, maintainability, quality and/or safety.

## Program Criteria:

- PMO endorsement
- Program will fund new/improved DLA-managed items
- Will not fund production
- Will fund feasibility studies
- Requires ROI (minimum 10:1)
- DLA will remain as supplier of the new/improved part

**Utilizes DWCF \$s to Reduce Total Cost and Improve DLA Items**



# What Does DFAS Do With the Defense Working Capital Fund?

DFAS is a service provider. They direct, approve, and perform finance and accounting activities for the Military services and other activities.



# Summary

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## The DWCF:

- Focuses management and workforce attention on:
  - Full cost visibility
  - Full cost recovery
- Workload Drives Everything
  - Incur loss greater than budgeted - recover through increased rates in the next budget cycle
  - Incur gain greater than budgeted – return through lower rates in the next budget cycle

Objectives:  
Provide best value  
Recover all costs; break even over time