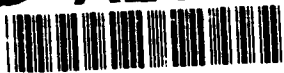


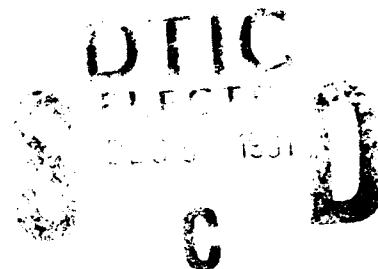
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NAVAL POSTGRADUATE SCHOOL

Monterey, California



THESIS

PROBLEMS IN NAVY REIMBURSABLE ACCOUNTING

by

Bernadette A. Kernan

December 1990

Thesis Advisor:

Glenn D. Eberling

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Problems in Navy Reimbursable Accounting

by

Bernadette Anne Kern
Lieutenant, United States Navy
B.A., University of Notre Dame, 1981

Submitted in partial fulfillment of the
requirements for the degree of

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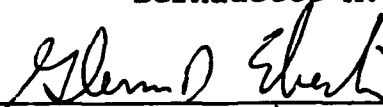
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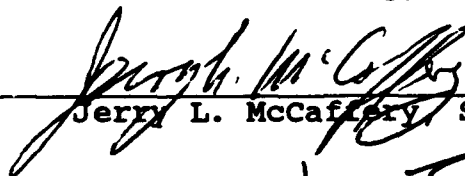


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ABSTRACT

The purpose of this thesis is to identify problems in Navy reimbursable accounting and to develop a comprehensive, entry level financial management guide to assist financial managers at the field level in improving their accountability and control over reimbursable funds.

This thesis discusses specific procedures for the effective administration and management of Intra- and Interservice Support Agreements, Economy Act Orders, and Project Orders as well as the problems peculiar to each. It provides an introductory overview of the reimbursable accounting process and defines key terms critical to understanding this system. Recommendations for improved accountability and control of reimbursables are offered.



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I. INTRODUCTION

A. BACKGROUND

While most Naval activities receive the majority of their financial resources directly from their organizational seniors in the form of allotments or operating budgets, they also can receive funding laterally from other DOD, DON, or non-DOD sources. This lateral transfer of financial resources is referred to as a "reimbursable." When one activity does not have the expertise or assets to provide itself with a good or service it requires (e.g., utilities, janitorial services, communications, or specialized technical work), it may issue a reimbursable work order to another activity outside its claimancy for the desired good or service. The reimbursable order is a written agreement between components of the federal government requiring the performance of work or services by the recipient of the order with ultimate payment by the issuer of the order. For example, a personnel support detachment (PSD) aboard a naval air station may lease a government vehicle from the base commander by issuing a reimbursable order.

According to the Department of Defense (DOD) Regulation 4000.19R, reimbursable funding is designed to:

...promote interservice, interdepartmental, and inter-agency support within the Department of Defense and among participating non-DOD agencies and to improve effectiveness and economy in operations by eliminating

duplicate support services among DOD components and participating non-DOD agencies without jeopardizing mission accomplishments.

In today's fiscally constrained environment, the efficient and effective use of financial resources is of paramount importance. Understanding the dynamics of reimbursable accounting is a critical step to improving the control and accountability over reimbursable funds in order to make the most of these limited resources. To ensure that reimbursable funds are accounted for properly, a separate accounting record and job order number must be established for each reimbursable account authorized. In addition, the spending of reimbursable funds must be in accordance with the requirements of the original appropriation e.g., reimbursable money provided by an Operations and Maintenance, Navy (O&M,N) appropriation may not be used for purchasing investment type items. This constraint coupled with the proliferation of accounts and job order numbers creates a tremendous administrative burden, making it more difficult to track these funds.

In view of the above, the reimbursable accounting process is much more complex than accounting for direct funds within the Resource Management System and relies heavily on the cost accounting function to accurately log expenses against the correct job order number. These factors, coupled with the sheer volume of transactions involved and the often difficult decisions regarding the

chargeability of some costs, can present an overwhelming challenge to the financial manager.

B. OBJECTIVE AND RESEARCH QUESTIONS

This thesis will address the difficulties experienced by the financial manager at the field level with the following types of reimbursables: Intra-/interservice support agreements, Economy Act Orders and Project Orders. Problem areas include, but are not limited to, the complexity of the reimbursable accounting process, the sheer volume of transactions, the difficulty in obtaining accurate cost estimates, and decisions regarding the chargeability of certain costs. The research will also focus on providing recommended solutions to problems faced by financial managers on a daily basis. The final draft of this thesis will serve as an informational guide for field level users.

The primary research question is: To improve the accountability and control over funds provided by reimbursable orders, what elements of reimbursable accounting should be addressed in a financial management system and subsequently incorporated in an informational guide for field level users? Secondly, by conducting a review of reimbursable accounting policies and procedures at various commands, what solutions to problems or recommendations for improvement/streamlining could be suggested?

Additional questions include:

- * What are the field level fiscal requirements with respect to reimbursable funding?
- * Which aspects of financial reporting and record keeping for reimbursables do field level personnel find most difficult to prepare?
- * What changes can be made to simplify the reimbursable accounting process?

C. SCOPE, LIMITATIONS, AND ASSUMPTIONS

This thesis focuses on the problem areas associated with the administration and management of intra- and interservice support agreements, Economy Act Orders and Project Orders and the preparation of an informational guide to facilitate the reimbursable accounting process at the field activity level. While the Navy Industrial Fund and the Navy Stock Fund are also reimbursables, they are beyond the scope of this thesis.

The desk guide is intended for use by financial managers and other government employees who have minimal experience in managing the complexities of reimbursable accounting. The guide will address those areas that impact directly on the control and accountability of reimbursable orders and consequently the legal ramifications for a commanding officer.

D. LITERATURE REVIEW AND METHODOLOGY

Information for this thesis was obtained by conducting a literature review of applicable Navy Comptroller manuals and

directives, guidance prepared by other naval activities and individuals, and current Naval directives and instructions. Additionally, personnel from various echelons of field activity chains of command were interviewed to collect first-hand information on the problems experienced on a daily basis. Budget analysts, accounting technicians and other Comptroller department personnel from the following commands were interviewed:

- * Commander, Naval Surface Forces, Pacific, San Diego, California.
- * Commander, Naval Special Warfare Center, San Diego, California.
- * Public Works Center, Naval Station, San Diego, California.
- * Naval Air Station, North Island, Coronado, California.
- * Naval Submarine Base, Bangor, Washington.
- * Naval Air Station, Alameda, California.
- * The Naval Postgraduate School, Monterey, California.
- * Naval Air Station, Oceana, Virginia.
- * Naval Air Station, Lemoore, California.
- * Naval Station, Norfolk, Virginia.
- * Naval Station, Charleston, South Carolina.
- * Naval Sea Support Center, Atlantic, Norfolk, Virginia.
- * Personnel Support Activity, San Diego, California.
- * Fleet Numerical and Oceanographic Center, Monterey, California.

These commands are fairly representative of the types of Navy installations found within the continental United

States. Given the variety of missions, this sample encompasses a good cross-section of the types of tenant activities and reimbursable support offered.

To obtain a balanced view of the problems in reimbursable accounting and collect information on the latest policy changes, personnel from the following commands were also interviewed:

- * Office of the Navy Comptroller, Washington, D.C.
- * The Navy Accounting and Finance Center, Washington D.C.
- * Fleet Accounting and Disbursing Center, Pacific, San Diego, California
- * Navy Regional Finance Center, San Francisco, California.

E. SUMMARY OF FINDINGS

The significant findings of this research are presented below.

1. Problems in Reimbursable Accounting

The problems with the reimbursable accounting process in general can be classified into three categories:

- * Accounting data is difficult to work with.
- * The process of matching obligations with expenditures is time-consuming, tedious and requires a high level of attention to detail to be successful.
- * The multiplier effect of transactions results in a lack of control which ultimately can lead to the loss of expired funds.

2. Problems with Intra-/InterService Support Agreements

Problems in the preparation and administration of Intra- and InterService Support (ISSAs) agreements are:

- * Getting an ISSA through two organizations.
- * Interpreting applicable regulations.
- * Demands of other job responsibilities.
- * Lack of cost information.
- * Proper identification of a reimbursable service.
- * Outdated engineering estimates.
- * Personnel shortages.

3. Problems with Other Reimbursables

Problems in this area include:

- * Time lag in recording expenditures.
- * Performance of work without an approved funding document.
- * Failure to properly complete funding documents.
- * Failure to follow regulations.
- * Cost transfer problems.
- * DOD accounting policy change and its impact on intra-appropriation and intra-claimant reimbursable orders involving civilian labor.

F. ORGANIZATION OF STUDY

Chapter II provides an overview of Navy reimbursable accounting procedures and defines terms critical to understanding this system. Chapter III discusses specific methods and problems peculiar to proper administration and management of Intra- and Interservice Support Agreements (ISSA's). Chapter IV contains a similar discussion for Economy Act Orders and Project Orders. Recommendations for

improved accountability and control of reimbursable funds
are presented in Chapter V.

II. OVERVIEW OF NAVY REIMBURSABLE ACCOUNTING

A. INTRODUCTION

1. Definition

Reimbursable work or service refers to work or service provided by one federal activity to another activity which may or may not belong to the government. This occurs when an activity does not have the necessary expertise or assets to accomplish a job or provide a service on its own (e.g., utilities, training courses, and specialized technical work). The requesting activity reimburses the providing activity for the cost of the work or service performed. These reimbursements may be an exchange of cash (e.g., when one of the activities involved is a private party). However, when both the supplier and receiver are federal agencies, the reimbursement is usually a transfer of obligational authority.

2. Background

A Navy fund administrating activity receives funding resources primarily from its organizational senior, called a major claimant, in the form of an allotment or operating budget. This type of funding transmitted down the chain of command is known as "direct" funding and must be distinguished from those resources which are received laterally from other activities in payment for reimbursable work.

Figure 2.1 illustrates the difference between direct and reimbursable funds. When the supplier and receiver are both in the same claimancy, the major claimant authorizes the supplier to perform the work for the receiver then adjusts the resource allocations of each accordingly: the operating budget of the provider will be increased by the cost of the work or service accomplished, and the operating budget of the requestor will be reduced by the same amount. This shift of resources occurs at the major claimant level. [Ref. 1:p. I-24]

3. Types of Reimbursables

Reimbursables fall into two major categories:

- * Intra-service support agreements for reimbursable work performed within the same Department of Defense (DOD) component or within some other federal agency (e.g., an agreement between a Navy Public Works Center and a naval air station).
- * Interservice support agreements for reimbursable work performed by one federal activity or DOD component for a different federal activity, DOD component, or a private party (e.g., an agreement between DOD schools and a naval base).

"Revolving funds" such as the Navy Industrial Fund for reimbursable commercial type activities, and the Navy Stock fund for reimbursable issues to fleet and shore units may be either intra- or interservice reimbursables.

Intra- and interservice support agreements will be discussed in detail in a subsequent chapter. However, the Navy Industrial Fund and the Navy Stock Fund, because they

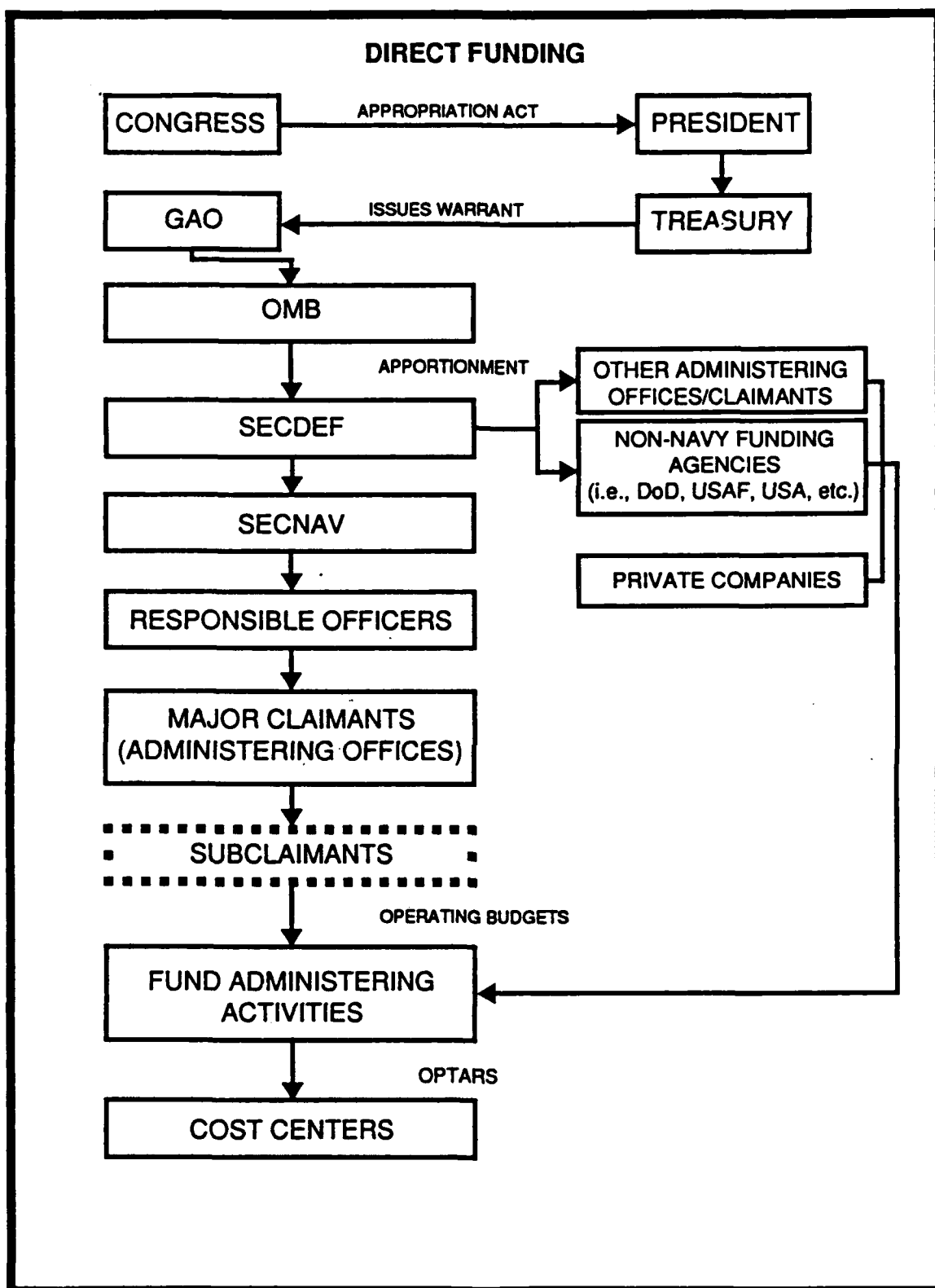


Figure 2.1. Flow of funds.

operate as "revolving" reimbursable funds, are beyond the scope of this thesis.

B. REIMBURSABLE ORDERS

1. General

A reimbursable work order authorizes and funds reimbursable work. If accepted, it is a source of funding which increases the obligational authority of the performing activity and decreases that of the requesting activity. It is initiated by the requesting activity and contains a description of the work requested in addition to a funding citation and a specific dollar amount for which the work must be completed. This document is then transmitted to the providing activity which will determine whether the work requested can be accomplished within the constraints of its expertise and resources. Depending on the scope and priority of the work requested, the performing activity has the option to accept or reject the reimbursable order based on its ability to meet the job requirements.

2. Types of Reimbursable Orders

Reimbursable orders can take many forms. However, they generally fall into four categories:

- * Project Orders (POs) are used when the work to be performed is a specific project or task within the Navy and usually has a specified completion date. Requests for the production, repair, maintenance or overhaul of material, equipment or facilities would be submitted as Project Orders.
- * Economy Act Orders (EAOs) are used to request routine or recurring day-to-day services within the Navy such

as janitorial services, electrical repairs, garbage removal or utilities, and similar work or services which are not as specific as those required in a Project Order.

- * Military Interservice Procurement Orders (MIPRs) are used when the supplier and receiver are from different DOD components.
- * Requisitions are used to request material from the Supply System (Stock Fund).

In addition, private organizations may use a letter to request a reimbursable service. Figure 2.2 provides an overview of reimbursable funding.

Another type of funding document which is used by an activity that does not have the assets to provide itself with a desired good or service is called a Request for Contractual Procurement (RCP) and is issued as a NAVCOMPT Form 2276. RCPs are appropriate when the performing activity's only role is to let a contract or order goods and services on behalf of the requesting activity. For example, a Naval base may request the contracting office at the local Naval Supply center to let a contract for base telephone service. RCPs differ significantly from Project Orders and Economy Act Orders in that the performing activity cites the requestor's funds directly on the contract. The requesting activity also performs its own obligational accounting for these transactions. Therefore, RCPs are not reimbursable orders in the true sense of the word. However, this brief description has been included to acquaint the financial manager with the concept. [Ref. 1:p. I-25]

SOURCES OF REIMBURSABLE ORDERS

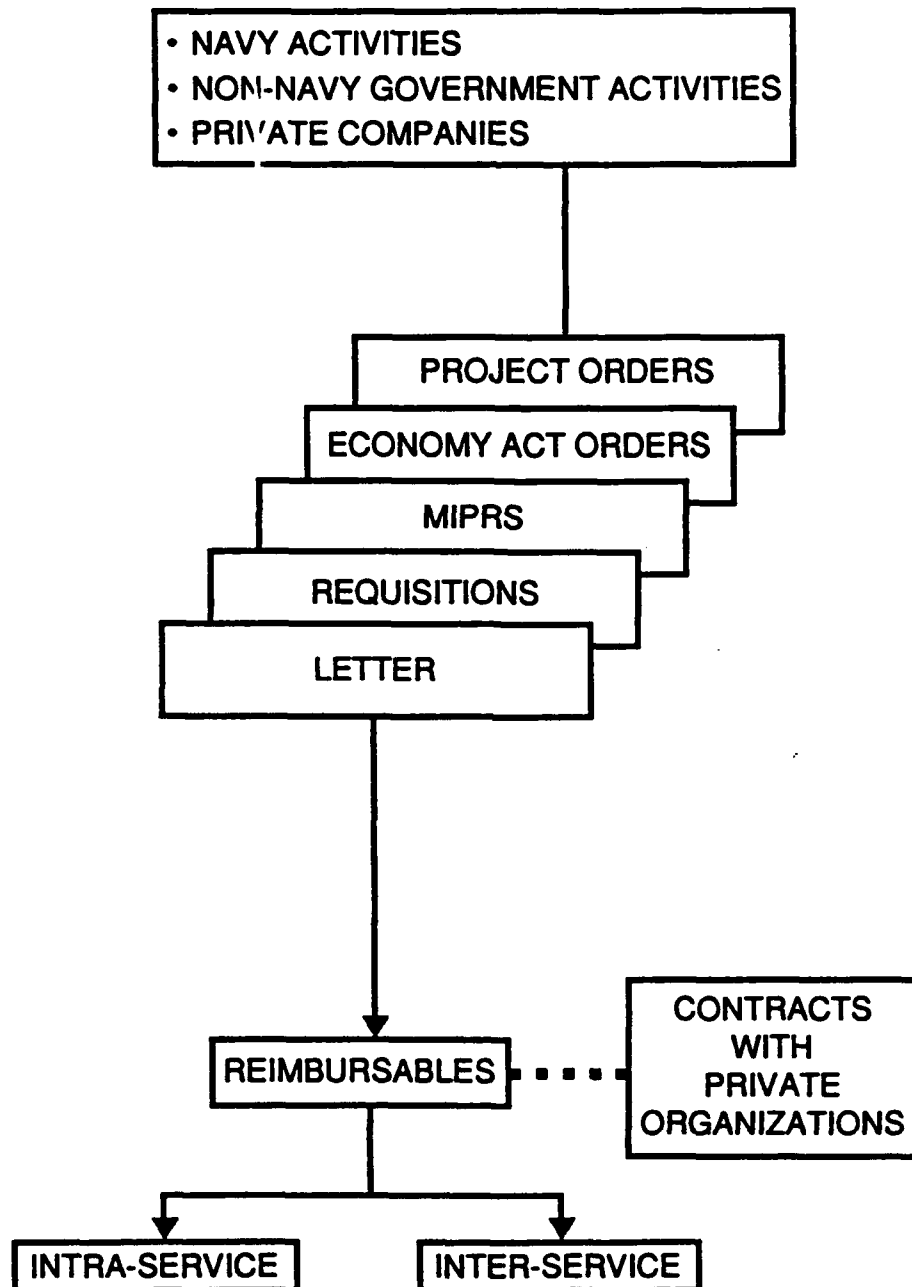


Figure 2.2. Reimbursable funding.

Detailed discussions of the other types of reimbursable orders appear in a subsequent chapter.

C. REIMBURSABLE ACCOUNTING

1. Reimbursable Terminology

Familiarity with the following terms is essential in gaining a basic understanding of the reimbursable accounting process.

- * Host: An activity that provides facilities to another activity and may supply services. For example, a naval air station that provides office space and janitorial service for the base Personnel Support Detachment (PSD) would be the host command, while the PSD would be the tenant.
- * Tenant: An activity which uses facilities and receives support from another activity.
- * Supporting activity: An activity which provides only services to another activity. The Navy Printing and Publishing Service is an example of a supporting activity.
- * Common service: Nonreimbursable service that has been directed or agreed upon between or among DOD components at the department level (i.e, medical and dental care).
- * Cross service: Support performed by one activity for which payment is required from the activity receiving the support. There are four conditions which characterize cross- service:
 - The costs of performing the service must be significant. More specifically, they must accumulate to more than \$100 within a calendar quarter.
 - The cost must be identifiable, that is, the cost must be specifically attributable to the activity receiving the service.
 - The cost must be "out-of-pocket," that is, the activity providing the service cannot charge for items for which it already receives direct funding. For example, a naval station cannot charge commands located on base for the maintenance of real property

because it receives direct funding to perform that function.

- The provider of the service must be able to develop the cost without undue administrative difficulty. For example, it would be difficult for a host command to prorate the janitorial costs incurred cleaning common areas, such as restrooms, used by both host and tenant command personnel.
- * Common use facility: A building or structure in which space is used concurrently by both supplier and receiver. Examples include dining halls, theatres, and chapels.
- * Joint use facility: A separate building or structure that is occupied jointly, when specific space has been designated for the sole use of each of the occupants; for example, a two-story building in which the second floor or a portion thereof is designated for occupancy by a receiver.
- * Sole use facility: A building or structure that is designated for the exclusive use of the receiver.
- * Funded reimbursement: Is one in which the performing activity directly receives funds via a written reimbursable order and is responsible for ensuring that the requesting activity is billed.
- * Unfunded reimbursement: Results when work or services are provided without a specific reimbursable order. When reimbursable work is requested and accepted at an organizational level above the performing activity (i.e., at the major claimant level), the funds are incorporated into the performing activity's normal operating budget. Reimbursement for user charges (e.g., firing range usage), surcharges (e.g., commissary surcharges), and jury duty fees are examples.

2. Sequence of Events

When an activity recognizes the need for a good or service it is unable to provide for itself, the following sequence of events occurs:

- * The requesting activity initiates the process by submitting a reimbursable work order. Depending on the nature of the work to be performed and the parties

involved, the reimbursable order may be a Project Order (PO), an Economy Act Order (EAO), or a Military Interdepartmental Purchase Request (MIPR). An Order for Work or Services (NAVCOMPT Form 2275) is used to issue POs and EAOs within the Navy. Figures 2.3 and 2.4 are samples of these forms. At this point in time, prior to acceptance of the reimbursable order by the performing activity, the requesting activity has committed its funds.

- * The supplying activity decides whether to accept or reject the request based on its available capabilities and the scope and priority of the work to be done. Two conditions must be met for all POs and EAOs:

- A need for the work requested must exist in the fiscal year the reimbursable order is let.
- At least 51 percent of the work requested must be performed by the supplying activity with in-house resources. That is, the performing activity cannot simply contract out the work requested.

If the supplier determines that it can perform the work requested without degrading its own mission accomplishment in accordance with the conditions above, it accepts the reimbursable order and forwards the acceptance to the requestor within five days after the receipt of the order. If the order is rejected, the supplier may either return it to the requestor or forward it to another activity for acceptance and performance. [Ref. 2:para. 035411]

- * Upon acceptance of the reimbursable order, the requesting activity's funds become obligated. The requesting activity's Financial Information Processing Center (FIPC) will "reserve" obligational authority in an amount equal to the authorized dollar value of the reimbursable work order to pay for services to be rendered by the performing activity. This action serves to reduce the amount of obligational authority the requesting activity has available for other purposes.
- * The performing activity forwards a copy of the accepted funding document to its FIPC to increase its obligational authority by the same amount in anticipation of "payments" to be received from the requesting activity.
- * Upon acceptance of a reimbursable order, the supplying activity establishes a job order number and a

MILITARY INTERDEPARTMENTAL PURCHASE REQUEST					1. PAGE 1 OF PAGES	
2. PSC	3. CONTROL SYMBOL NO.	4. DATE PREPARED	5. MIPR NUMBER		6. AMSNO NO.	
7. TO:			8. FROM: (Agency, No., 2, telephone number of originator)			
9. ITEMS <input type="checkbox"/> ARE <input type="checkbox"/> ARE NOT INCLUDED IN THE INTERSERVICE SUPPLY SUPPORT PROGRAM AND REQUIRED INTERSERVICE SCREENING <input type="checkbox"/> HAS <input type="checkbox"/> HAS NOT BEEN ACCOMPLISHED.						
ITEM NO.	DESCRIPTION <small>(Federal spec number, nomenclature, specification and/or drawing No., etc.)</small>	QTY.	UNIT	ESTIMATED UNIT PRICE	ESTIMATED TOTAL PRICE	
a	b	c	d	e	f	
10. SEE ATTACHED PAGES FOR DELIVERY SCHEDULES, PRESERVATION AND PACKAGING INSTRUCTIONS, SHIPPING INSTRUCTIONS AND INSTRUCTIONS FOR DISTRIBUTION OF CONTRACTS AND RELATED DOCUMENTS.						11. GRAND TOTAL
12. TRANSPORTATION ALLOTMENT (Use if FOB Consignor's plant)			13. MAIL INVOICES TO (Payment will be made by)			
PAY OFFICE DODAAAD						
14. FUNDS FOR PROCUREMENT ARE PROPERLY CHARGEABLE TO THE ALLOTMENTS SET FORTH BELOW. THE AVAILABLE BALANCES OF WHICH ARE SUFFICIENT TO COVER THE ESTIMATED TOTAL PRICE.						
ACRN	APPROPRIATION	UNIT	SUPPLEMENTAL ACCOUNTING CLASSIFICATION		AMOUNT	AMOUNT
15. AUTHORIZING OFFICER (Type name and title)			16. SIGNATURE		17. DATE	

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Figure 2.3 Military Interdepartmental Purchase Request

1. THIS ORDER MUST BE ACCEPTED ON A REIMBURSABLE BASIS ONLY AND IS SUBJECT TO THE CONDITIONS LISTED ON THE REVERSE SIDE.										2. DOCUMENT NUMBER	
3. REFERENCE NUMBER		4. FUNDS EXPIRE ON		5. WORK COMPLETION DATE		6. DATE PREPARED		7. AMENDMENT NO.			
8. FROM:						9. FOR DETAILS CONTACT:					
10. TO:						11. MAIL BILLINGS TO:					
12. ACCOUNTING DATA TO BE CITED ON RESULTING BILLINGS											
A. ACRN	B. APPROPRIATION	C. SUB-HEAD	D. OBJ. CLASS	E. SUB. CONTROL	F. SA	G. AAA	H. TT	I. FAA	J. COST CODE	K. AMOUNT	
L. TOTAL THIS DOCUMENT											
M. CUMULATIVE TOTAL											
13. THIS ORDER IS ISSUED AS A <input type="checkbox"/> PROJECT ORDER <input type="checkbox"/> AN ECONOMY ACT ORDER AND IS TO BE ACCOMPLISHED ON A <input type="checkbox"/> FIXED PRICE <input type="checkbox"/> COST REIMBURSEMENT BASIS. WHEN THE FIRST BLOCK IS CHECKED, THIS ORDER IS PLACED IN ACCORDANCE WITH THE PROVISIONS OF 41 U.S. CODE 23 AND DOD DIRECTIVE 7225.1. THE FOLLOWING SUPPLEMENTARY ITEMS ON REVERSE ALSO APPLY AND ARE AN INTEGRAL PART OF THIS ORDER:											
14. DESCRIPTION OF WORK TO BE PERFORMED AND OTHER INSTRUCTIONS											
15. I CERTIFY THAT THE FUNDS CITED ARE PROPERLY CHARGEABLE FOR THE WORK OR SERVICES REQUESTED.											
AUTHORIZING OFFICIAL (NAME, TITLE AND SIGNATURE)										DATE	
16. THIS ORDER IS ACCEPTED AND THE WORK OR SERVICES WILL BE PROVIDED IN ACCORDANCE HERewith.											
ACCEPTING OFFICIAL (NAME, TITLE AND SIGNATURE)										DATE	

Figure 2.4 Order for Work or Services (NAVCOMPT Form 2275)

reimbursable account. As work is performed, the performing activity consumes its own resources then seeks reimbursement from the receiver. The performing activity charges these costs against the appropriate Job Order Number and forwards this information to its FIPC. Costs are charged using a report on the Status of Reimbursables, (a NAVCOMPT Form 2193) when both the supplier and receiver are naval activities.

- * The performing activity's FIPC then prepares and transmits the billing (a NAVCOMPT Form 2277) to the requesting activity's FIPC.
- * This billing serves to reduce the balance of available reimbursable funds as work is performed. Upon receipt of the bill, the requesting activity's FIPC will record an expenditure which immediately reduces the obligational authority of the performing activity by the amount of the billing. The "payment" is usually a transfer of obligational authority and not an exchange of cash when both the supplier and receiver are federal agencies. However, cash may change hands when a private party is involved. Figure 2.5 illustrates this process.

In short, reimbursables are a transfer of obligational authority between major claimants at the field activity level i.e., it is a lateral flow of resources as opposed to direct funding. The FIPCs associated with the supplier and receiver consolidate accounting information and serve as clearinghouses for obligational authority. To illustrate, the FIPC can be thought of as a bank where the requesting activity "writes a check" to reserve obligational authority at its FIPC who will "make payment" i.e., expend funds when a bill for services rendered by the performing activity is received. The performing activity's FIPC records the increase of obligational authority brought about by the agreement to provide service to the requestor for a specific amount.

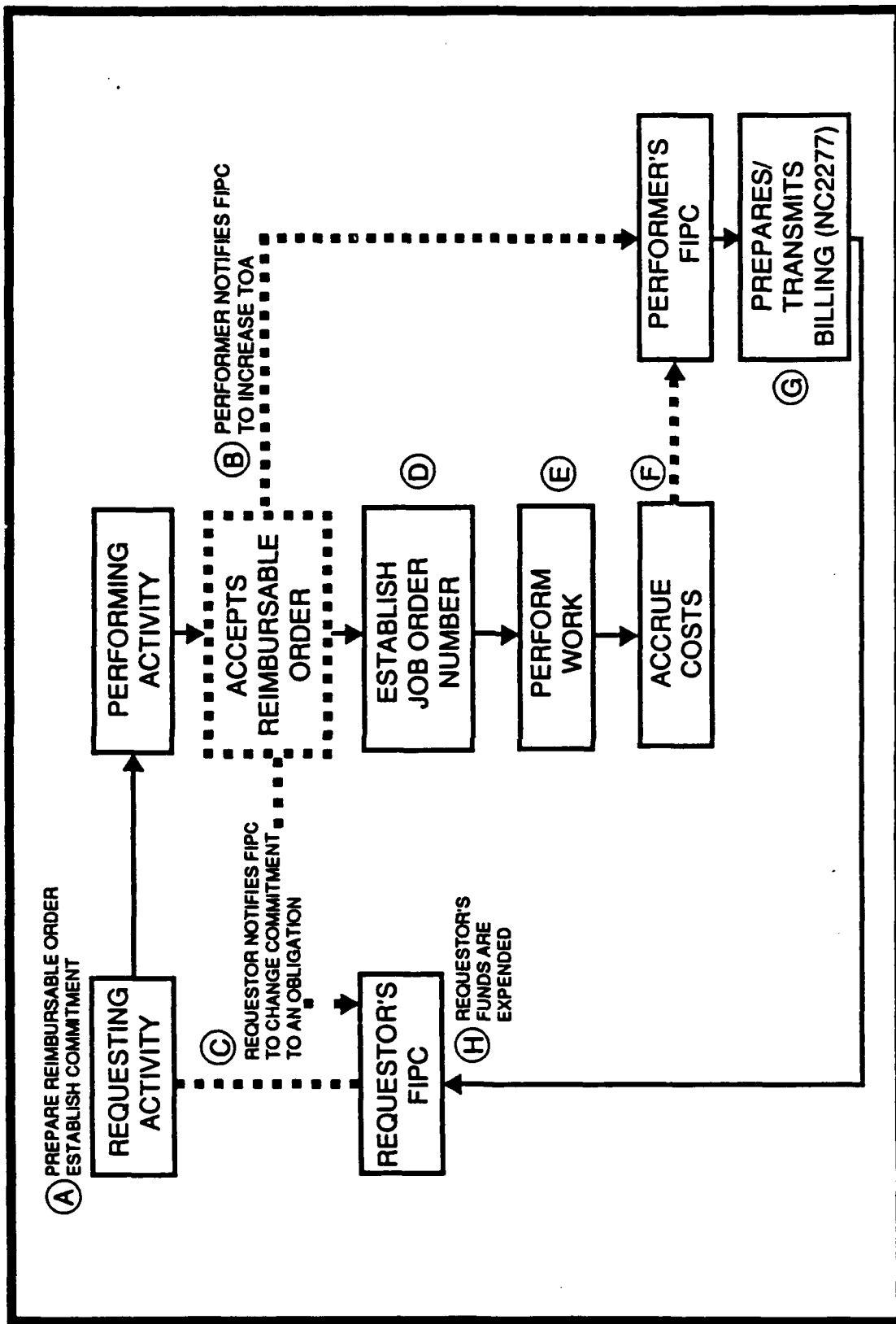


Figure 2.5. Reimbursable accounting sequence of events.

3. Key Rules in the Use of Reimbursable Funds

Guidelines for the proper use of reimbursable funds are described below.

- * Reimbursable funds must be accounted for separately from the operating budget (i.e., direct funds). Thus, separate records are maintained for each to ensure that reimbursable resources are not used to support mission-funded operations and vice versa.
- * The reimbursable work order contains a funding citation that specifies the dollar amount authorized for the performance of the work. Cost overruns are absorbed by the performing activity out of its operating budget and thereby decreases the balance available for obligation. Therefore, it is critical that the performing activity negotiate with the requesting activity for the required additional funds prior to proceeding with the work.
- * To efficiently manage reimbursable funds, the financial manager must know when these funds become officially obligated.

As explained earlier, the requesting activity's funds are committed when a reimbursable order is issued and become obligated when the order is accepted by the performing activity. For the performing activity, funds become obligated when goods or services are ordered or consumed. He or she must also know when they expire for obligational purposes. This is indicated by the expiration date of the appropriation cited on the reimbursable order. In addition, the availability of the funds for billing (i.e., expenditure) purposes will depend on whether it is an Economy Act Order or a Project Order. To avoid the expiration of funds, it is critical that the matching of obligations and expenditures be completed in a timely manner. However, for reasons which are discussed in a later section, the matching

process is even more complex within the context of reimbursable accounting. Recently, in an effort to control the inefficient management and encourage the follow-up of obligations by the requesting activity, major claimants sometimes reduce upcoming fiscal year direct funds by an amount equal to the lost (expired) reimbursable funds from the previous fiscal year.

4. The Importance of Cost Accounting

In order to appreciate the important role of cost accounting as it relates to Navy reimbursables, it is important to recognize the need for exercising good accounting practices and maintaining accurate accounting records in general.

Accurate accounting records are essential if an activity and its cost centers are to stay within the spending limits set by higher authority. Failure to stay within established spending limits is a violation of federal law (U.S. Code Title 31) and may result in harsh penalties. In addition, inaccurate accounting records reflect poorly on an activity's ability to efficiently manage funds and could lead to a reduction in funding as a penalty for perceived lack of attention to detail.

The cost accounts are the "building blocks" of the accounting records and therefore must be properly constructed to ensure the accuracy and reliability of the accounting records overall.

The reimbursable accounting area relies heavily upon the cost accounting function to attribute obligational and accrual accounting values against the reimbursable order. In the event of a breakdown of the cost accounting coding structure, or its utilization, these costs would tend to be logged against the performing activity's own resources. [Ref. 3:p. 152]

Therefore, accurate cost accounting is essential to ensure that the correct activity is charged the correct amount for the services provided.

5. Problem Areas

The complexity of the reimbursable accounting process makes it difficult for the financial manager to exercise control over these funds. This complexity is due to: 1) the requirement for extensive cost accounting procedures which makes matching difficult, and 2) the multiplier effect.

a. Cost Accounting Complications

When the disbursing office located at either the requesting activity or its FIPC issues a NAVCOMPT Form 2277 to record the expenditure of reimbursable funds, the information is reported electronically to the performing activity's FIPC. The payment information is then electronically matched with obligations resident in the data base of the performing activity's FIPC. If the information matches, the matched obligation is liquidated and the transaction is reflected as an expenditure in the performing activity's official records. If a match is not achieved, then unmatched expenditures result which could ultimately lead to

the loss of funds when the appropriation expires or when the expenditure availability period lapses.

The payment information referred to above consists of accounting classification codes, which are at the heart of the problem in cost accounting for reimbursables. Accounting classification codes contained in reimbursable work orders enable the financial manager to accumulate, track and report financial/accounting information by purpose and location. The codes define why money was spent and who spent it. While a detailed discussion of the construction of accounting classification codes, or "lines of accounting" as they are frequently called, is beyond the scope of this thesis, Figure 2.6 is a sample line of accounting data included to give the reader an appreciation of the large potential for error and its impact on the matching process. Clearly, accounting data is tedious to work with and requires painstaking attention to detail to ensure its accuracy. Furthermore, a competent, motivated employee is required to conduct the equally tedious research involved in the matching process.

b. The Multiplier Effect

This phenomenon can best be explained using the following example.

Activity A issues a reimbursable order for \$10 million to Activity B. At this point in time, Activity A has committed its funds. Activity B evaluates the scope and

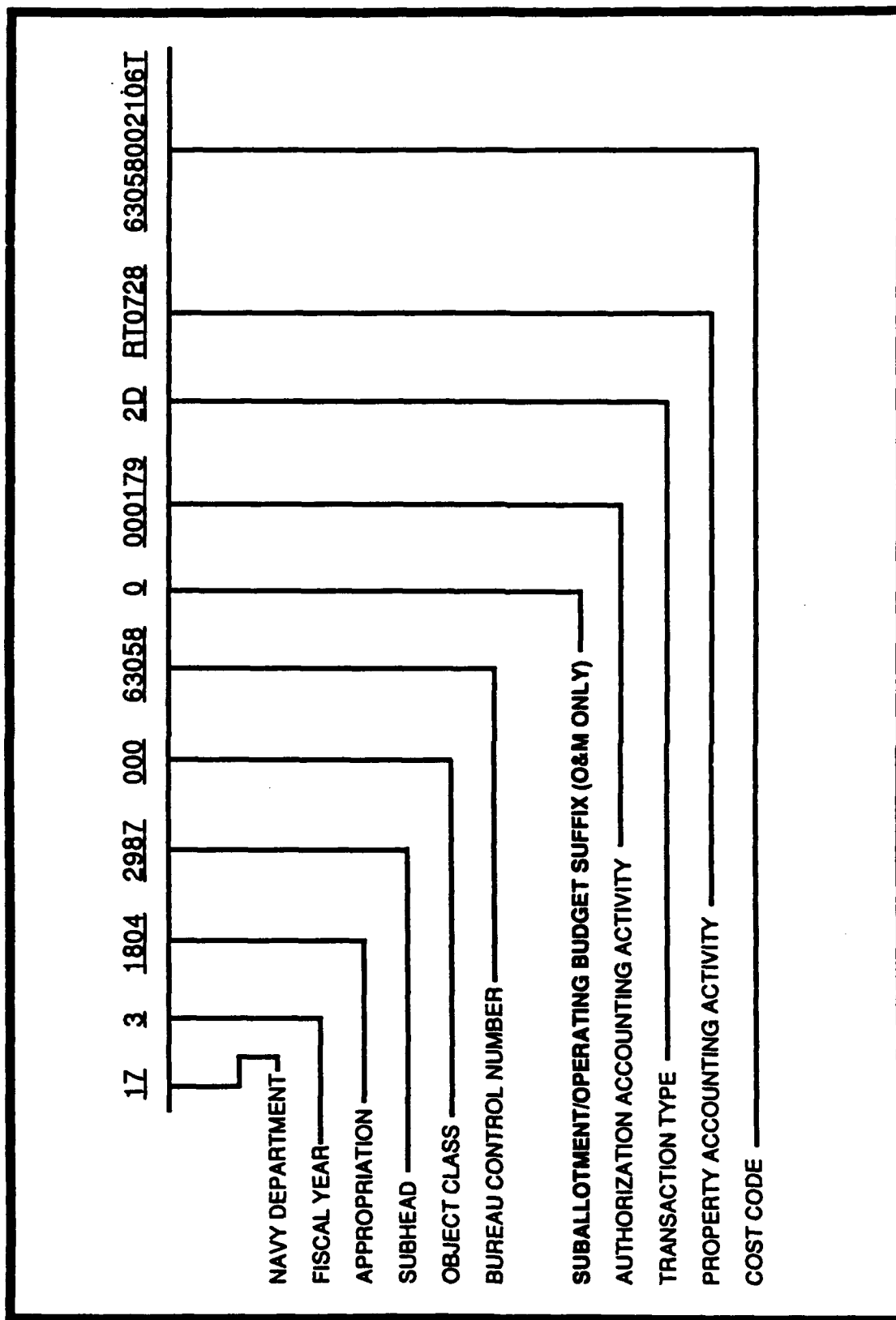


Figure 2.6. Sample line of accounting data.

priority of the work requested and compares the job requirements to its in-house capabilities to determine whether to accept or reject the request. If Activity B accepts the reimbursable order, Activity A now has an obligation for \$10 million for services to be received from Activity B. Using the additional obligational authority it received by accepting the reimbursable work order from Activity A, Activity B then decides to subcontract out to Activity C for some of the services it is providing to Activity A, and thereby generates another reimbursable work order for some of the same services originally requested. Activity B now has an obligation to Activity C for the amount of the subcontract and Activity C's obligational authority is increased by that same amount. Activity C may also decide to subcontract out some of the services it is providing to Activity B and create yet another reimbursable. Figure 2.7 depicts this chain of events.

The number of transactions required to account for the funds obligated by the original reimbursable work order increases by two with each new subcontractor involved. As the quantity of transactions increases, so does the potential for error. Matching outstanding obligations with expenditures becomes even more difficult and the inability to trace unmatched bills to the correct obligation can ultimately lead to the loss of expired funds.

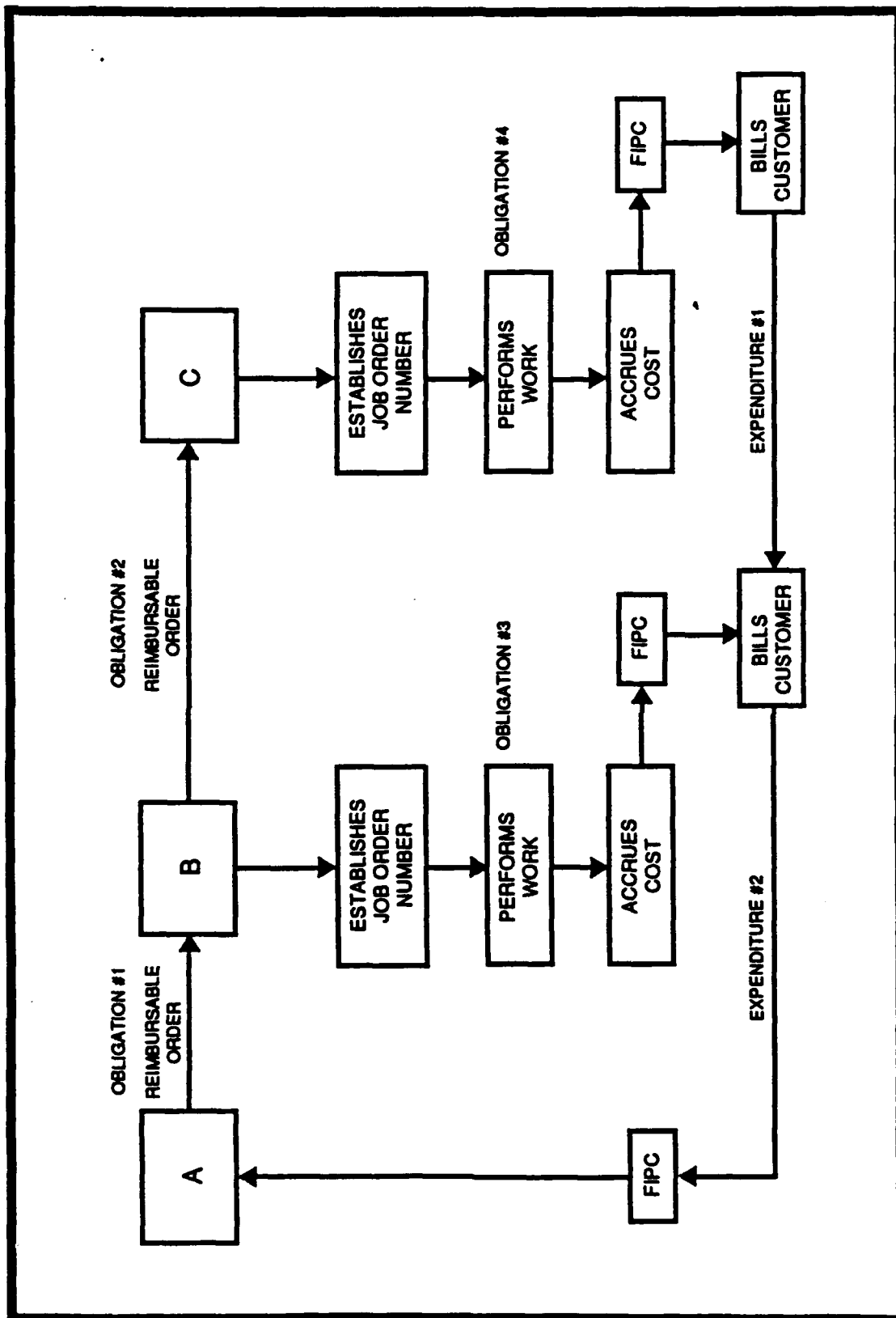


Figure 2.7. The multiplier effect.

III. INTRA- AND INTERSERVICE SUPPORT AGREEMENTS

A. INTRODUCTION

Managers throughout all levels of DOD are responsible for promoting the use of interservice support agreements (ISSAs) whenever:

'... an existing capability to support their own requirements...duplicates those of other Components....' and the agreement 'does not result in significant degradation of mission readiness.' [Ref. 4:p. 1-i]

In short, ISSAs should be negotiated between commands in a geographic area whenever the opportunity exists to reduce costs through the consolidation of support activities or when the cost of common facilities and functions can be allocated among users. The purpose of ISSAs is to document the types and levels of support the host command agrees to provide the tenant command.

The Defense Regional Interservice Support (DRIS) Program was established by the Office of the Secretary of Defense in 1973 to promote the use of interservice support agreements for the purpose described above. These consolidation efforts are directed specifically at base support services which include over 100 categories of services such as civilian personnel support, laundry, police and fire services, maintenance of real property, and maintenance of vehicles. [Ref. 5:p. 7]

Key players include the Defense Base Operations Analysis Office, which has overall responsibility for ISSA administration; Joint Interservice Resource Study Groups, which review interservice support functions within a geographical area on an ad hoc basis to identify other areas for potential consolidation; and the Commanding Officer or head of a DOD component who is responsible for the decisions to request or provide support.

B. THE AGREEMENT

Intra- and interservice support agreements are more commonly referred to as "host-tenant" agreements because the document identifies the providing activity as the "host," and the receiving activity as the "tenant."

According to DOD Regulation 4000.19R, more commonly known as the Defense Regional Interservice Support Regulation, or the DRIS manual, host-tenant agreements can take three forms:

- * ISSAs.
- * Memoranda of Agreement.
- * Memoranda of Understanding.

All three of these have the same purpose, which is articulated in the preceding paragraphs. However, the ISSA is the most formal type of host-tenant agreement. A DD Form 1144 is utilized to document this type of agreement. An example of a DD Form 1144, Support Agreement, is provided in Figure 3.1. The host-tenant agreement may also contain

Figure 3.1 Support Agreement (DD Form 1144)

special provisions such as the rates being charged by the host and the expected reimbursement from the tenant. Figure 3.2 is an excerpt from Appendix H of the DRIS manual which lists all categories of support and specifies whether each is reimbursable or non-reimbursable. In addition to providing a comprehensive Reimbursable and Non-Reimbursable Support Matrix, the DRIS manual also provides step-by-step instructions for the proper completion of DD Form 1144.

Memoranda of Agreement and Memoranda of Understanding do not have a specified format. However, within the Department of the Navy they are considered as binding as the more formal DD 1144. [Ref. 6:para. 075200] Memoranda of Agreement and Memoranda of Understanding can also be attached to an ISSA in order to elaborate on a particular aspect of the ISSA.

C. ADMINISTRATIVE GUIDANCE

This section provides an overview of the more significant policies contained in DOD Regulation 4000.19R.

A financial manager must be aware that:

- * ISSAs must be re-negotiated every six years, and reviews should be accomplished by the host and tenant activities at least every three years. Host activities are responsible for initiating these reviews at least 120 days before the anniversary of the third year or termination month, as applicable.
- * In the event that a request for support is denied, the next higher level of the DOD Component chain of command will be notified.

CATEGORY OF SUPPORT		DoD COMPONENTS				U.S. GOVERNMENT AGENCIES OUTSIDE DoD	
		REIMBURSABLE	NONREIMBURSABLE	REIMBURSABLE	NONREIMBURSABLE		
AI	POLICE SERVICE DoD Directive 5200.8		X ³			X ³	
AJ	HOUSING and LODGING DoD Instruction 4165.44 DoD Instruction 4165.51 DoD Instruction 7150.6		X			X	
AK	LAUNDRY AND DRY CLEANING	X			X		
AL	HEALTH SERVICES DoD Directive 6015.5		X		X		
AM	FOOD SERVICE DoD Directive 1330.10	X NONACTIVE DUTY	X ACTIVE DUTY		X		
AN	STORAGE AND WAREHOUSING DoD Directive 4145.19		X ⁴		X		
AO	TRANSPORTATION DoD Instruction 4500.9 DoD Directive 4500.36 DoD Directive 4100.37	X ⁵			X		
AP	UTILITIES DoD Directive 4165.2	X			X		

³ Unusual, unique, or inordinate security requirements are reimbursable.

⁴ In some cases, reimbursable (see DoD 4145.19-R).

⁵ The administrative aspects of transportation services are nonreimbursable.

Table M-1, continued

Figure 3.2 Excerpt from DRIS Manual, Appendix H

- * Details of the support agreement outlining the responsibilities of the providing and requesting activity should be negotiated at the lowest practical command level (i.e., between the commanding officers of the activities involved).
- * The preparation of a DD Form 1144 is required in all cases involving two DOD Components even if the receiver is not paying for the support. In this case, the DD 1144 is used to document recurring support and acknowledge the responsibilities of both the supplier and receiver.
- * The receiving activity initiates the request for support by providing the prospective supplying activity with a written statement of requirements in the form of a draft support agreement or a letter of request.
- * A host activity cannot unilaterally change, reduce or terminate the support being provided to the tenant. DOD Directive 4000.19R and the Navy Comptroller Manual requires a minimum of 180 days notice before the type or level of support can be modified. Conversely, the receiver must inform the supplier of projected increases in support requirements in "enough time to allow programming or budgeting for additional resources." [Refs. 4:pp. 1-4; Ref. 6:para. 075201]
- * When a host activity provides the tenant activity with facilities, the following guidelines apply:
 - Common-Use Facility: The host finances all cost associated with the provision and maintenance of a common use facility.
 - Joint-Use Facility: The host finances the cost of acquiring, constructing, rehabilitating or otherwise making a facility usable for both the host and the tenant. However, if the tenant requires changes to the facility to meet unique mission requirements, the tenant is responsible for the costs of modification.
 - Sole-Use Facility: The tenant finances all costs (with the exception of routine maintenance) associated with a sole use facility for the duration of its occupancy.
- * Routine maintenance costs of facilities are the responsibility of the host command, even in the case of sole use facilities, unless the tenant holds the title. In this event, the tenant bears the financial burden of

routine maintenance and cyclical repairs. The tenant is also responsible for reimbursing the host for costs of facility maintenance above and beyond that which is normally prescribed by the host. [Ref. 6:para. 075203]

- * Military labor costs are not reimbursable when both the supplier and the receiver are DOD components; these costs are reimbursable if the receiver is a non-DOD federal agency or private party. Appendix F of the DRIS Manual and the DOD Accounting Manual (DOD 7220.9M) provide detailed information on the procedures used to determine reimbursement rates for both military and civilian personnel services.
- * Reimbursable costs are based on DOD determined standard or stabilized rates when available. If DOD standards do not exist, the calculation of reimbursable costs will be explained in the support agreement. Host-tenant reimbursements may also be charged on a negotiated, i.e., fixed price, basis.
- * Only direct costs may be billed as reimbursable.
- * Reimbursement is waived if the total value of work or services performed by the supplier during a fiscal quarter is less than \$100.
- * A host activity is required to recover, via reimbursements, the net identifiable costs that result from providing support to a tenant. The DRIS manual defines "net identifiable costs as:

...a supplier's gross additional cost less non-reimbursable support costs and value of resources provided by the receiver. The resultant is the value of reimbursable support. [Ref. 4:p. x]

- * Receiving activities are billed for actual costs incurred in performing the work or service; amounts documented on DD Form 1144 are only estimated annual costs. If actual costs are greater than the estimated annual costs, the receiver must be notified so that the support agreement can be modified.
- * DD Form 1144 should be updated for budgetary purposes when:
 - the workload changes plus or minus five percent, or
 - either party requests it.

Cost factors are usually adjusted on an annual basis in order to stabilize rates for uncontrollable costs such as commercial utilities, wages, and fuel, and to protect performing activities from wide variances in cost escalation.

- * Host activities are responsible for financing the cost of common-service support functions which include: supply, medical and dental care, fiscal, troop feeding, local transportation, firefighting, common-use facilities and preservation of facilities. [Ref. 6:para. 075123]
- * When a host command can identify the additional costs of providing administrative base support to a tenant, the tenant can be charged on a cross-service basis. These cross-service functions include public affairs, legal, military personnel, law enforcement, mail service and personnel support. [Ref. 6:para. 075123]

For a complete description of the common-service and cross-service support functions as well as a discussion of special circumstances in support relationships, see the Navy Comptroller Manual, Volume VII.

D. PROBLEM AREAS

This section discusses the most commonly reported problems experienced in ISSA administration.

1. Getting an ISSA Through Two Organizations

The length of time required to complete the routing process and obtain official approval for an agreement in both the host and tenant chains of command was the most frequently mentioned difficulty. ISSA administrators who had experienced this problem reported that the 120-day lead time prescribed by the DRIS manual was insufficient to complete the routing process. A budget officer at one command reported that the routing process was so cumbersome

that changes to ISSAs were, for all practical purposes, implemented informally at the department head level without formal renegotiation of the agreement.

2. Interpreting Applicable Regulations

The language used in both the DRIS regulations and the Navy Comptroller's Manual posed an interpretation problem. Both manuals focus on inter-service support agreements and do not address intra-service support agreements in any significant detail. Consequently, questions arise about the applicability of the regulations in these cases.

3. Demands of Other Job Responsibilities

ISSA administration in many cases was a low priority. Attention was directed to this area only when problems arose. This lack of attention on a regular basis undoubtedly contributes to the difficulty of getting the agreement routed through two organizations. Furthermore, failure to accurately identify and incorporate reimbursable services provided to a tenant into an ISSA can cost the host command money out of its own pocket.

4. Lack of Cost Information

One tenant command stated that they were not being provided with sufficient information about what was being charged to their reimbursable account.

In addition, this command objected to being charged for equipment maintenance on the basis of a single labor

rate when different rates applied for different types of machinery. The result was that this tenant's reimbursable account reflected an unrealistic use of funds and confounded the accuracy of their financial planning. Consequently, they sometimes had to augment their reimbursable funds throughout the fiscal year.

A third aspect of this problem reported by several personnel interviewed was the difficulty in obtaining accurate labor cost estimates. Estimation of labor costs attributable to a specific reimbursable job order number is particularly difficult and is often the cause of a tenant command running out of funds. Furthermore, labor resources used to support the direct-funded mission of a host command are often used to perform reimbursable work or services. Problems can arise if labor is not recorded against the correct job order number; these costs may be improperly logged against the performing activity's own resources rather than that of the receiver, or vice versa.

5. Proper Identification of a Reimbursable Service

This difficulty frequently arises in the determination of who is responsible for costs associated with the routine maintenance of joint-use and sole-use facilities. The ISSA fails to spell out in sufficient detail how these maintenance costs will be billed and contains a vague phrase such as "additional maintenance as required." As a result, questions arise about what

maintenance is considered beyond that prescribed by host regulations or can be attributed to tenant abuse and is therefore the responsibility of the tenant.

6. Outdated Engineering Estimates

Tenant commands who are not charged for utilities on the basis of a metered usage rate are forced to rely on engineering estimates which become outdated as their mission requirements, workload, or office space needs change. In this case, disputes arise when a tenant contests the accuracy of the utility charges presented by the host.

7. Personnel Shortages

ISSAs are either neglected entirely (that is, until problems arise) or never formally revised as required due to manpower shortages.

IV. OTHER REIMBURSABLES

A. ECONOMY ACT ORDERS

1. Purpose

Economy Act Orders (EAOs), formerly known as work requests, are used to request routine work or services of a recurring nature within the Department of the Navy (DON). Duplication services, janitorial services, and utilities are examples of the types of services requested using EAOs. Usually, the receiving activity initiates an EAO at the beginning of each fiscal year or quarter. [Ref. 3:p. 150]

2. Administrative Guidance

This section provides an overview of the more significant policies governing the proper administration of EAOs.

- * Funds cited on an EAO are generally available for obligation at the performing activity during the financing appropriation's obligational availability period. This means that the use of these resources is limited to the current fiscal year since these funds usually come from the requesting activity's Operating and Maintenance, Navy (O&M,N) appropriation. [Ref. 2: para. 035404]
- * Reimbursable orders (i.e., NAVCOMPT 2275s) are not issued when the performing and receiving activities are in the same chain of command.
- * NAVCOMPT 2275s must not be issued in lieu of an operating budget to fund activities directly related to the performing activity's primary mission. [Ref. 2: para. 035404]
- * A performing activity must obtain additional funding from the requesting activity before incurring costs

greater than the amount authorized by the reimbursable order.

- * A single EAO may be issued to finance the cost of more than one continuing service or type of work with separate dollar amounts estimated for each; however, whenever possible, the performing activity's FIPC should separately identify, accumulate and bill costs. [Ref. 2:para. 035409]
- * The authorizing official at the performing activity is responsible for verifying the propriety of the fund citation on reimbursable orders to ensure that the funds should, in fact, be used to finance the work requested.

B. PROJECT ORDERS

1. Purpose

Project Orders (POs) are used to request work that is specific and clearly defined, such as the repair, maintenance, or overhaul of weapons systems, and minor construction and maintenance of real property. Project Orders are essentially the same as contracts with commercial concerns because the supplying activity agrees to perform a discrete project or task. In addition, funds appropriated through the issuance of a PO are accounted for by the requesting activity in a manner similar to that of commercial contracts; consequently, funds obligated for POs remain available until the requested work is complete regardless of when the funds expire for obligation purposes, and thus, can cross fiscal year boundaries. [Ref. 3:p. 150]

2. Administrative Guidance

This section provides an overview of those guidelines financial managers should pay particular attention to when dealing with POs.

- * POs may not be used to extend the availability of an appropriation which is about to expire. [Ref. 2:para. 035407]
- * POs may not be used to fund Research, Development, Test and Evaluation, Navy (RDT&EN) projects. [Ref. 2:para. 035408]
- * To be considered a PO, all reimbursable work orders (including Military Interdepartmental Purchase Requests) must contain the statement:

This order is placed in accordance with the provisions of 41 U. S. Code 23 and Department of Defense Instruction 7220.1. [Ref. 2:para. 035408]

- * POs may be amended to reflect an increase in the scope of the project as long as the financing appropriation has not expired. In that event, a new PO citing a current appropriation must be issued.
- * Amendments which serve to terminate a PO must reimburse the performing activity for the costs of termination.
- * POs involving actual cost reimbursements (as opposed to fixed price) will normally be re-negotiated whenever the cost of performance requires significant adjustment. If differences between actual amounts and ceiling amounts are small, the performing activity will absorb the cost overrun.

C. CONTROL OF REIMBURSABLES

Performing activities are required to monitor the status of reimbursables using a NAVCOMPT Form 2193. This report is prepared by the performing activity's FIPC on a quarterly or monthly basis and contains information on amounts authorized, obligated and billed. It is also the official

document used for reporting unused funds and returning this excess to the grantor. Figure 4.1 is a sample NAVCOMPT Form 2193. [Ref. 2:para. 035416]

D. PROBLEM AREAS

This section discusses the most commonly reported problems with other reimbursables.

1. Time Lag in Recording Expenditures

Both host and tenant commands interviewed stated that the Status of Reimbursables Report (NAVCOMPT 2193) is of limited use in tracking reimbursable funds because it is usually a month behind. Commands are forced to rely on local records to obtain current information about the status of reimbursable account balances.

In addition, the slow rate at which expenditures are recorded can mislead the grantor of the reimbursable funds to believe that the receiver of the funds is not spending the funds provided. In this situation, the receiver of the funds may have difficulty justifying amounts needed in the future for similar services.

2. Performance of Work Without an Approved Funding Document

This problem usually arises at the beginning of a new fiscal year when commands that receive recurring services, such as utilities or electrical repairs, fail to forward funding documents to the performing activity in a timely manner. From a strictly legal standpoint, the

1. STATUS OF REIMBURSABLES REPORT		NAVCOMPT FORM 2193		DATE: 1968	
2. THIS FORM IS TO BE USED TO REPORT THE STATUS OF REIMBURSABLES		3. AS OF DATE: 31 OCTOBER 1968		4. REPORTING OFFICE: 101-101-101	
5. REPORTING OFFICER: J. W. KELLEY		6. TITLE: J. W. KELLEY		7. SIGNATURE: J. W. KELLEY	
8. REPORTING OFFICER'S TITLE: J. W. KELLEY		9. REPORTING OFFICER'S ADDRESS: 101-101-101		10. REPORTING OFFICER'S PHONE: 101-101-101	
11. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	12. REPORTING OFFICER'S TITLE: J. W. KELLEY	13. REPORTING OFFICER'S ADDRESS: 101-101-101	14. REPORTING OFFICER'S PHONE: 101-101-101	15. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	16. REPORTING OFFICER'S TITLE: J. W. KELLEY
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47. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	48. REPORTING OFFICER'S TITLE: J. W. KELLEY	49. REPORTING OFFICER'S ADDRESS: 101-101-101	50. REPORTING OFFICER'S PHONE: 101-101-101	51. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	52. REPORTING OFFICER'S TITLE: J. W. KELLEY
53. REPORTING OFFICER'S ADDRESS: 101-101-101	54. REPORTING OFFICER'S PHONE: 101-101-101	55. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	56. REPORTING OFFICER'S TITLE: J. W. KELLEY	57. REPORTING OFFICER'S ADDRESS: 101-101-101	58. REPORTING OFFICER'S PHONE: 101-101-101
59. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	60. REPORTING OFFICER'S TITLE: J. W. KELLEY	61. REPORTING OFFICER'S ADDRESS: 101-101-101	62. REPORTING OFFICER'S PHONE: 101-101-101	63. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	64. REPORTING OFFICER'S TITLE: J. W. KELLEY
65. REPORTING OFFICER'S ADDRESS: 101-101-101	66. REPORTING OFFICER'S PHONE: 101-101-101	67. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	68. REPORTING OFFICER'S TITLE: J. W. KELLEY	69. REPORTING OFFICER'S ADDRESS: 101-101-101	70. REPORTING OFFICER'S PHONE: 101-101-101
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77. REPORTING OFFICER'S ADDRESS: 101-101-101	78. REPORTING OFFICER'S PHONE: 101-101-101	79. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	80. REPORTING OFFICER'S TITLE: J. W. KELLEY	81. REPORTING OFFICER'S ADDRESS: 101-101-101	82. REPORTING OFFICER'S PHONE: 101-101-101
83. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	84. REPORTING OFFICER'S TITLE: J. W. KELLEY	85. REPORTING OFFICER'S ADDRESS: 101-101-101	86. REPORTING OFFICER'S PHONE: 101-101-101	87. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	88. REPORTING OFFICER'S TITLE: J. W. KELLEY
89. REPORTING OFFICER'S ADDRESS: 101-101-101	90. REPORTING OFFICER'S PHONE: 101-101-101	91. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	92. REPORTING OFFICER'S TITLE: J. W. KELLEY	93. REPORTING OFFICER'S ADDRESS: 101-101-101	94. REPORTING OFFICER'S PHONE: 101-101-101
95. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	96. REPORTING OFFICER'S TITLE: J. W. KELLEY	97. REPORTING OFFICER'S ADDRESS: 101-101-101	98. REPORTING OFFICER'S PHONE: 101-101-101	99. REPORTING OFFICER'S SIGNATURE: J. W. KELLEY	100. REPORTING OFFICER'S TITLE: J. W. KELLEY

Figure 4.2 Status of Reimbursables Report (NAVCOMPT Form 2193)

performing activity should terminate the service; however, in practice, this does not occur.

3. Failure to Properly Complete Funding Documents

Common errors in the preparation of NAVCOMPT Form 2275 included:

- * Failure to indicate whether the document was a project order or an Economy Act Order. This information is needed to determine the availability of funds.
- * Failure to change the appropriation heading at the beginning of a new fiscal year. If not corrected, this will cause costs incurred in the performance of reimbursable work to be charged to the wrong year's appropriation, possibly leading to overobligations.

4. Failure to Follow Regulations

Some of the more common violations of applicable regulations included:

- * Reimbursable funds were received for one purpose and used for another.
- * Project orders were used to improperly extend fund availability.
- * Reimbursable dollars were used to perform mission work.
- * Excess funds were not reverted.
- * Reimbursable orders were accepted improperly.

5. Cost Transfer Problems

This problem usually occurs at the beginning of a new fiscal year when Congress has failed to approve the federal budget. In this event, FIPCs do not receive the new fiscal year's appropriation information required for reimbursables in a timely manner and are unable to establish official accounting records for their customers. In the

meantime, however, field activities are continuing to perform reimbursable work without an appropriation reference. To accumulate and record costs, they are forced to set up job order numbers using old lines of accounting as "dummy" references. Once the new official accounting records are established, field activities must go back and transfer all costs previously accumulated against the "dummy" references to new job order numbers reflecting the correct appropriation data. This process is time-consuming, a duplication of effort and subject to many errors during the translation.

6. DOD Accounting Policy Change

Current DOD policy regarding reimbursement for civilian labor states that "direct civilian labor shall not be reimbursable within a DOD component unless performed by working capital fund." [Ref. 7:p. 26-3] This represents a significant change from previous policy which had allowed intra-appropriation and intra-claimant reimbursements for civilian labor.

The Department of the Navy was unable to implement the change to DOD policy which prohibits internal reimbursements by other than industrial fund activities because it requires a capability not present in the current field accounting systems.

As a short-term solution, the Comptroller of the Navy directed that beginning October 1, 1989, all

reimbursable work performed within the Navy will become direct funded by the activity that is currently performing the work and receiving the reimbursable funding. Major claimants were to issue a single operating budget to field activities which included mission funding and funding for work that had previously been included in reimbursable work orders. However, systems commands have still continued to use intra-appropriation and intra-claimant reimbursables involving civilian labor. Use of these reimbursables caused three major problems:

- * Use of these reimbursables causes 100% obligation of funds through the use of reimbursable funding documents, whereas actual work performance takes place over a period of time. Budget personnel see this as a distortion of obligation rates.
- * Often these reimbursables created unliquidated obligations at the end of the fiscal year. Additional documents were processed, funding commands did not monitor reports from the activity receiving the reimbursable, billing was late, etc.
- * There was a general feeling that reimbursable orders of this nature were issued early in the fiscal year to increase the obligation rate, and thus reduce any recoupment from higher authority during the year. Later in the year, systems commands, when additional funds were needed for other purposes, would adjust downward or cancel the reimbursable order.

The Navy has been directed to implement DOD Accounting Manual guidance beginning FY 92. In addition to enhancements to the accounting systems, this change will require more thorough knowledge of actions associated with these reimbursables and adjustment to FY 92 and out-year budgets. [Ref. 8]

V. RECOMMENDATIONS AND CONCLUSION

A. RECOMMENDATIONS

The objective of this thesis was to identify problem areas in the Navy reimbursable accounting process and develop an informational guide which would facilitate the administration of inter-/intra-service support agreements, Economy Act Orders and project orders. During the course of the research the following areas of concern became apparent:

- * The move to functionally transfer funding that had been previously included in reimbursable work orders to a performing activity's operating budget and eliminate intra-claimant/intra-appropriation reimbursements has potentially negative consequences for the performing activity. First of all, budget cuts will reduce an activity's operating budget even though an activity may still be required to provide work or services that otherwise would have been reimbursable. Secondly, unanticipated job requirements may cause costs to exceed what was incorporated into the operating budget to cover what used to be reimbursable. Reimbursables ensured that a performing activity would receive full payment.
- * In view of the time lag between the obligation and expenditure of reimbursable accounting transactions and the resulting uncertainty about available balances due to differences between actual costs incurred and amounts obligated, the prudent financial manager may find it a good idea not to totally obligate all available funds.
- * Given that ISSAs are essentially contracts between hosts and tenants, financial managers should take special care to spell out in as much detail as possible the responsibilities of the parties involved and to anticipate all contingencies to be covered by the agreement.
- * To improve the control and accountability of reimbursable funds, financial managers should ensure

that periodic reconciliation procedures (i.e., matching obligations with expenditures and conducting the necessary research to resolve discrepancies) are strictly enforced.

B. CONCLUSION

The objective of this thesis was to develop a comprehensive, entry-level financial management guide to assist field-level activities in managing reimbursable funds.

The author hopes that the management guide will enable financial managers with minimal experience in handling the complexities of reimbursable accounting to improve control and accountability of reimbursable orders.

Given the fluid nature of rules, regulations, and procedures in Navy financial management, the researcher recommends that this guide be reviewed and updated on an annual basis.

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