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CHAPTER 19

REVOLVING FUND CONCEPTS (UNIQUE TO REVOLVING FUND, INCLUDING FINANCIAL MANAGEMENT, BASIC LAW, ETC.)

19-1. Purpose. The purpose of this chapter is to give a general overview of the concepts of the Revolving Fund including appropriate financial and cash management requirements.

19-2. Public Law Establishing the Revolving Fund.

a. The authority for establishment and operation of the Revolving Fund is contained in the Civil Functions Appropriation Act of 1954, Public Law 153, 83d Congress, 1st session, approved 27 July 1953, viz,

"For establishment of a revolving fund, to be available without fiscal year limitation, for expenses necessary for the maintenance and operation of the plant and equipment of the Corps of Engineers used in civil works functions, including acquisition of plant and equipment, maintenance, repair, and purchase, operation and maintenance of not to exceed four aircraft at any one time, temporary financing of services finally chargeable to appropriations for civil works functions and the furnishing of facilities and services for military functions of the Department of the Army and other Government agencies and private persons, as authorized by law, \$100: and in addition, the Secretary of the Army is authorized to provide capital for the fund by capitalizing the present inventories, plant, and equipment of the civil works functions of the Corps of Engineers. The fund shall be credited with reimbursements or advances for the cost of equipment, facilities, and services furnished, at rates which shall include charges for overhead and related expenses, depreciation of plant and equipment, and accrued leave: Provided, that on July 1, 1953: (1) the fund shall assume the assets, liabilities, and obligations of the Plant accounts, as carried on the records of the Corps of Engineers as of June 30, 1953, under appropriations for Maintenance and Improvement of Existing River and Harbor Works*, Flood Control, General* and 'Flood Control, Mississippi River and Tributaries*', and (2) there shall be transferred from said appropriations to the fund amounts equivalent to the unexpended cash balances of the Plant accounts on June 30, 1953: Provided further, that the total capital of said fund shall not exceed \$140,000,000." (33 USC 576)

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* NOTE: Currently, this corpus limitation does not apply. From the establishment of the Revolving Fund in 1953 until 1965, the authorized corpus was adequate to conduct the management of the Fund in a business-like manner. From 1966 until 1978 increases to the corpus were requested. Elimination of the corpus ceiling was requested and approved since the corpus ceiling was no longer functioning as the mechanism of primary control over operations of the Revolving Fund.

b. The Congressional intent of the law was to allow certain transactions to be initially financed by the Revolving Fund. The Hearing before the Subcommittee of Senate Committee on Appropriations, Eighty Third Congress is quoted below exactly as it appears in the record of hearings,

(1) "Transactions which will be reflected as expenditures of the Revolving Fund to be billed at cost to the other agencies, projects and appropriations, and which will be reflected as income of the Revolving Fund.

Financing of common inventories for civil works such as bulk materials and supplies.

Operation of common storehouses which serve more than one civil works project or appropriation.

Acquisition of construction and operating facilities and which are to serve more than one civil works project or appropriation, such as dredges, concrete mixing plants, shops and transportation equipment.

Operation and maintenance of such construction and operating facilities used for more than one civil works project or appropriation.

Financing of work or services performed for other governmental agencies, including military functions of the Corps, states, municipalities and individuals or corporations outside the Federal Government on a reimbursable basis, such as engineering and design work, and non-government dredging inspections.

Financing common services of the district office, such as transportation, utility operations, supervision and general expenses."

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* (2) "Transactions which are paid initially from the fund for only accounting expediency and which will be transferred as direct charges to applicable appropriations under the related object classes. The billings for these charges will not be reflected as revolving-fund income but will be recorded as offsets to the expenditures in the accounts of the revolving fund, the net result being zero.

These include primarily the initial payment of labor charges for personnel employed at civil-works project locations, which will be transferred to the applicable appropriation and will appear as 01 /personnel services* under the appropriations of the project at which the employees work."

(3) "The Revolving Fund will not be used to finance the cost of the following classes of expenditures:

(a) Temporary construction facilities built or acquired for the use of a single civil-works project, or for military activities.

(b) Equipment and facilities acquired for the use of a single project - that is, equipment which is to become a part of the project operating equipment.

(c) Contractors* payments and the purchase of equipment and supplies under specifications for a particular project, such as generators, turbines, to be installed in the project.

(d) Labor charges relating to personnel employed at military projects, or engaged exclusively in military-procurement activities.

(e) Financing of inventories exclusively for military activities.

(f) Acquisition, operation, and maintenance of construction and operating facilities exclusively for military activities."

That last part is mentioned here to show specifically that the revolving fund is for the civil-works functions and might incidentally furnish services to military activities under section 601 of the Economy Act.

c. Considering the above, it is apparent that Congress intended for the Revolving Fund to provide only common services. Contracts for E&D, or for construction on projects (whether

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* civil, military, or reimbursable work) will not be initially funded by the Revolving Fund.

d. As used in paragraph b(1) above, a project may be either an entire project authorization or any major subdivision thereof by location or a separate operable unit for which a separate group of feature cost accounts or separate operational records are maintained.

e. All plant, property and equipment purchased to serve more than one civil works project or multiple appropriations required for civil works activities will be acquired through the Revolving Fund Plant Replacement and Improvement Program (PRIP) (ER 1125-2-301). Plant, property and equipment expected to serve only one civil works project will be acquired with that project*s funds and not the PRIP.

19-3. Financial Management.

a. The Anti-Deficiency Act, 31 USC 1517 applies to the Revolving Fund when disbursements exceed cash (Funds with the Treasury). Although OMB Circular A-34, paragraph 86.6 states that incurring obligations in excess of apportioned budgetary resources is a violation of the Anti-deficiency Act, the paragraph is not applicable since OMB, with the Deputy Assistant Secretary of the Army*s (Civil Works) endorsement, granted the Corps an exemption from paragraph 41.1 which requires intragovernmental revolving funds to be apportioned. USACE commands must have HQUSACE (CERM-FP) approval prior to exceeding their Funds with Treasury. Once verbal approval has been obtained, an after-the-fact memorandum detailing the circumstances that resulted in the negative cash balance and the procedures adopted to preclude recurrence will be signed by the resource management officer and submitted to CERM-FP.

b. The Revolving Fund is operated entirely within its own resources rather than from annual appropriations, which makes it necessary that prompt reimbursement be obtained from the using appropriations or projects for services rendered in order that sufficient funds are available for continued operation. Successful financial management of the Revolving Fund therefore requires that accounts and operations be frequently reviewed to ensure that costs are currently and equitably absorbed by the customers and that a sufficient cash balance is maintained in each USACE command to permit prompt liquidation of obligations as they mature. The actions listed below will help ensure maximum utilization of limited Revolving Fund resources.

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(1) Analysis of accounts receivable monthly to ensure aggressive follow-up actions on delinquent accounts. Appropriate action to charge off uncollectible accounts to the activity or function for which the accounts receivable was established. (See paras 4-7 and 4-8.)

(2) Current distribution of Revolving Fund costs.

(3) Review of billing procedures to ensure that unbilled costs are not allowed to accumulate to an unwarranted degree. (See para 17-5.)

(4) Continual review and revision of operating account rates where necessary to maintain balances within the allowable nominal balance ranges.

(5) Sufficient credit balances be maintained in plant operating accounts to accomplish major repairs upon occurrence. Care should be exercised to ensure that the credit balances are not allowed to accumulate to an excessive degree. (See para 15-13.)

(6) Review of effective labor rates to ensure sufficient labor distribution to pay the payroll and to maintain a sufficient reserve for accrued leave. (See para 17-10 and chap 17, app B.)

(7) When work is performed for customers outside the Federal Government, cash advances are required. This requirement in OMB Circular A-34 results in not having to use Federal resources to provide the service, which reduces Federal borrowing. At the same time, this action increases the Revolving Fund current assets to meet the requirements of the work.

*(8) RESCINDED.

c. The cash generated by the application of depreciation and plant increment charges is the only constant source of funds available to HQUSACE to finance the annual Plant Replacement and Improvement Program (PRIP). Therefore, proper and effective management of PRIP funded assets is extremely important. In order to ensure an uninterrupted cash flow and timely recovery of the initial investment in PRIP funded capital assets, new acquisitions, additions and betterments should be transferred to

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plant-in-service no later than the beginning of the month following receipt or completion of the acquisition unless a delay is approved in advance by the HQUSACE PRIP Manager. Plant increment, depreciation, and insurance charges must begin on the first day of the month following the month in which the asset, addition or betterment is placed in service. One extremely important factor which could affect both depreciation and plant increment as well as the cash flow is the estimated service life of capital assets. The estimated service life must not be extended for the purpose of slowing depreciation repayments by projects to the Revolving Fund. It is important that depreciation be computed on all assets using realistic rather than extended life years of usefulness.

d. Due to the limited availability of cash with which to finance PRIP acquisitions, extreme care must be exercised to ensure that resources will be available prior to the procurement orders being signed for the acquisition of plant and equipment and that the procurements are within the monetary authorization received by the USACE command. What takes place is a conversion of liquid assets (Funds with Treasury) to a fixed asset, thereby decreasing the budgetary resources in the current working capital ratio. Guidelines are furnished in chapter 15, appendix B. *

e. Funds Control. The majority of Corps purchase requests are for in-house goods and services which cite the Revolving Fund. While Revolving Fund commitment and obligation actions are not formally recorded (entered) in the accounting system, Revolving Fund obligations are legally binding instruments which the Government must honor (pay) upon satisfactory completion of requirements. Therefore, one of the following two methods must be used to certify commitment/obligation documents citing the Revolving Fund.

(1) All documents presented for commitment/obligation certification will be reviewed as described. The certification (signature and date) is not based on specific funds available; but, is based on the Revolving Fund account cited being proper for the type of expense contemplated and within the USACE Command's current operating budget authority or approved Plant Replacement and Improvement Program authority. This also assumes

that the USACE Command is operating within sound cash management practices and Revolving Fund cash is/will be available for the disbursement.

(2) Option (1) above, is very labor intensive and time consuming. Therefore, when the commander determines that all fiscal and technical managers are well disciplined in proper Revolving Fund principles and operating budgets are functioning well, the F&A officer may issue an annual letter of certification which covers all commitment/obligation documents citing the Revolving Fund. Certifying officers must understand that this method places the review of propriety for potentially questionable items back on requisition approvers. If a question of propriety later arises, after the obligation has occurred or the goods or services have been delivered, then the District must match Prompt Payment Act provisions against the legality of disbursement action. This also places additional pressure on those individuals (usually in Budget and/or F&A) responsible for monitoring the operating budget and Revolving Fund cash position.

* f. Revolving Fund Internal Management Control Review Checklist. A copy of the checklist which is being incorporated into Army Management Plan is provided at appendix A. (See appendix A.) *

19-4. Accounting Policy.

a. Accounts established for the Revolving Fund provide for the recording and control of assets, liabilities, income, expenses, and the proprietary interest of the U. S. Government therein. The books of account are maintained on the accrual basis whereby the receipt of assets and income are recorded concurrently with the actual or constructive receipt thereof and liabilities and expenses are recorded as of the date incurred. Thus, at the end of any accounting period, the status of the financial affairs of the fund may be accurately determined from the books of account, and statements prepared to reflect financial condition, income and expense, and sources and application of funds. Since the Revolving Fund operates wholly from its own receipts, it is incumbent upon Commanders to ensure that costs incurred in operations are promptly and equitably converted to income and a sufficiently liquid working capital maintained at all times to meet current requirements.

* b. The account numbers, titles and descriptions prescribed within the Revolving Fund are to be strictly enforced at each level of command. Costs associated with functions must be captioned as described in this regulation. Costs must be incurred for only the specific purposes defined. Reports will be prepared and submitted as prescribed in this regulation. It is considered a breach of accounting and reporting principles to accumulate or transfer costs outside these descriptions. If a command encounters functions outside the descriptions provided, contact HQUSACE (CERM-FP) prior to making a decision to record costs in the Revolving Fund.

c. No Revolving Fund account or procedure can be used to avoid other limitations or prohibitions. If a function or procedure is inappropriate for the source appropriation then it is also inappropriate to be handled through the Revolving Fund. Examples would include (1) fiscal year end funds expiration cannot be avoided by advancing funds into the Revolving Fund and (2) funds cannot be merged or mixed within the Revolving Fund to augment appropriations.

19-5. Principles of Functional Grouping.

a. Purpose of Functional Grouping. Functional groupings are established for the various activities of Revolving Fund operations. The activities of the Revolving Fund are divided into four functional areas designated as Plant and Equipment Services, Warehousing Activities, Shop and Facility Services, and General Administrative Services. The account structure of the Revolving Fund provides for recording expenses and income applicable to each department (VW21.- through VW69.- series of cost accounts) and for developing data disclosing operating results for management purposes.

b. Plant and Equipment Services renders services involving principally the use of plant.

c. Warehousing Activities receives, stores, and issues common inventory items required for civil works activities and activities of the Revolving Fund.

d. Shop and Facility Services includes the operation of shops and yards, garages, laboratories, reproduction and printing facilities, operating expenses of division offices and the furnishing of services not provided for elsewhere.

e. General Administrative Services furnishes common services of an administrative nature.

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* 19-6. Concepts of Expense, Income, and Accrued Expenditures.

a. Operating Expenses of the Revolving Fund are those expenses incurred in the performance of work within the operating accounts of the Fund and represent the value of assets consumed or services rendered to the Fund. The net operating expenses of the Revolving Fund represent the difference between gross charges made to the accounts and transfers of cost to other accounts within the Revolving Fund (joint cost credits). The term "Joint Cost Credit" (intrafund income) as used in these instructions refers to the transfer of expenses from an operating account to other accounts within the Revolving Fund, as distinguished from income of the Revolving Fund in the form of sales to others. Joint cost credits may involve the transfer of operating expenses between Revolving Fund activities as well as capitalization of expenses, e.g., transfer of expense to asset accounts.

b. Cost of Goods Sold is the book value of warehouse stocks sold.

c. Income from Sales is the sales value of services and commodities sold.

(1) Services include plant usage; shop and yard, garage, laboratory, printing and reproduction services; other facilities and services; and general administrative services.

(2) Commodities represent warehouse stock sold to projects and others, including in the case of sales to projects, book cost and applied warehouse burden; and the total receipts in the case of other sales.

d. Application of Accrued Expenditures. Accrued expenditures of the Revolving Fund are included in financial statements of the United States Government in terms of object classes (see EP 37-2-1, para 5-22) and by application of these expenditures to (1) plant acquisition or retirement in progress, (2) warehouse stock purchases, (3) advances or prepayments to others, (4) deferred and undistributed items, (5) return of unused balances of advances received, (6) accrued leave (accrual of payrolls payable), (7) funded charges to reserves (insurance), (8) payrolls processed for other districts (by central payroll offices), and (9) operating expenses. Accrued expenditures relating to items chargeable directly to deferred and undistributed accounts (GL 325.2) are not identified except as working capital changes in these statements. Except for expenditures chargeable initially to deferred and undistributed

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- * items (GL 325.2), all accrued expenditures not applicable to accounts specifically provided for in the items mentioned in (a) through (i), will be applied to operating expenses utilizing account VW59.

19-7. General Classification of Accounts. The Chart C general ledger accounts for the Revolving Fund are divided into two general classes - balance sheet accounts and operating accounts.

a. Balance sheet accounts reflect the assets, liabilities, reserves, and proprietary interest of the U.S. Government.

(1) Current and Accrued Assets comprise cash, prepayments, amounts due from others, or other assets which will be converted into cash within a relatively short period of time in the normal course of operations. Included in this group are undisbursed balance of Funds with the Treasury, accounts receivable, stores, prepayments and advances to others, work in progress for others, and deferred and undistributed charges.

(2) Fixed Assets comprise the book cost of all assets, which are normally subject to depreciation accounting, and land owned. Included in this group are structures, equipment, plant acquisition in progress, plant retirement work in progress, and provision for depreciation of structures and equipment.

(3) Current and Accrued Liabilities comprise amounts owed to others and payable within a relatively short period of time. Included in this subgroup are accounts payable, unapplied advances from others for services and commodities, and other liabilities of a current nature.

(4) Operating Reserves comprise amounts set aside out of current earnings to provide for future casualty losses. Included in this subgroup is the insurance account.

(5) Proprietary Interest of the U. S. Government comprises the net worth accounts of the fund. Included in this subgroup are appropriations from the U.S. Treasury, other net assets transferred from projects upon establishment of the Revolving Fund, transfers of cost or property, funds returned to the U.S. Treasury, results from operations, and nonoperating income (or loss).

b. Operating accounts record current operating income, expenses, and cost of goods sold. The operating accounts are further subdivided as follows:

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- * (1) Sales, in which is recorded the income for services or commodities sold during the period.
- (2) Cost of Goods Sold, in which is recorded the prime cost of warehouse stock sold.
- (3) Operating Expenses, in which is recorded expenses incurred in the operation of the various activities and facilities of the Revolving Fund.

19-8. The Chart C General Ledger. The Chart C general ledger is the record in which all transactions of the Revolving Fund are summarized. Therefore, it is the main control point of the accounting system. Certain GLACs are control accounts and are supported by detail accounts called subsidiary accounts or records. The total balances in these accounts or records must equal the balances of the control accounts in the Chart C accounts. Subsidiary records consist of such records as detailed plant and property accounts, equipment accounts, operating accounts, or open document files.

19-9. Structure of Chart C. In order to simplify and standardize account procedures, a uniform account numbering system has been developed for use by all USACE commands with a Revolving Fund.

Balance Sheet Accounts

Fixed Assets

301.00 Plant, properties, and Equipment - Book Cost
 301.10 Land
 301.20 Structures and Equipment
302.00 Provision for Depreciation - Structures and Equipment
307.00 Plant Acquisition in Progress
308.00 Plant Retirement Work in Progress

Current and Accrued Assets

310.00 Funds With Treasury (Cash)
313.00 Accounts Receivable
315.00 Stores
 315.10 Warehouse Stocks
 315.20 Plant Inventories
316.00 Prepayments and Advances
 316.10 Prepayments to Other Government Agencies
 316.20 (Reserved)

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* Current and Accrued Assets (Continued)

316.30 Other Advances
316.40 (Reserved)

317.00 Work in Progress for Others
325.00 Deferred and Undistributed Items
325.10 Deferred Balances - Plant Operations
325.20 Other Deferred and Undistributed Items

Investment of the US Government

330.00 Provision for Plant Replacement
331.00 Appropriations From US Treasury
332.00 Other Net Assets Transferred From Projects Upon
Establishment of the Revolving Fund
333.00 Transfers of Cost or Property
333.10 Transfers - Other Government Agencies and
Appropriations
333.20 Transfers - Other Districts* Revolving Funds
334.00 Recoveries of Expenses From Project Funds for
Appropriation Transfers to Other Agencies
335.00 Funds Returned to the US Treasury (DR)
336.00 Capital Adjustments for Accrued Annual Leave (Long Term
Lease/Grants)
Liabilities - HQUSACE approval only
337.00 Results From Operations
338.00 Nonoperating Income or Loss

Current and Accrued Liabilities

341.00 Accounts Payable
343.00 Advances for Services and Commodities
344.00 (Reserved) (Lease Purchase Agreement - HQUSACE approval
only)
345.00 Accrued Leave

Operating Reserves

351.00 Insurance

Operating Accounts

401.00 Sales
401.10 Sales to Other Districts* Revolving Fund
401.20 Sales to Civil Works
401.30 Sales to Other Appropriations or Agencies
401.40 Sales - Non-Governmental

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* Operating Accounts (Continued)

414.00 Cost of Goods Sold
415.00 Operating Expenses

19-10. US Government Standard General Ledgers. The purpose of the US Government Standard General Ledger is to provide uniform chart of accounts and supporting transactions to be used to standardize federal agency accounting and to support the preparation of standard external reports. Beginning in October 1988 all federal agencies were required to submit reports based upon the Standard General Ledger. HQUSACE decided to program "cross-walks" from the existing Chart C General Ledgers to the new Standard General Ledgers. The new Corps of Engineers Financial Management System (CEFMS) will incorporate the Standard General Ledgers in the transactional updates. The Standard General Ledgers to be utilized by the Revolving Fund until the implementation of CEFMS are as follows:

1700 Fixed Assets. Net

1710 Land
1740 Other Structures and Facilities
1749 Accumulated Depreciation On Other Structures and
Facilities
1750 Equipment
1759 Accumulated Depreciation On Equipment
1720 Construction in Progress
1810 Assets Under Capital Lease
1819 Accumulated Depreciation On Assets Under Capital Lease

1000 Assets

1010 Fund Balance With Treasury

1310 Accounts Receivable

1310.1 Accounts Receivable Federal Government
1310.2 Accounts Receivable Public
1310.3 Work in Progress

1500 Inventories. Net

1510 Inventory For Agency Operations

1400 Advances and Prepayments

1410 Advances To Others

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* 1900 Other Assets, Net

- 1990.1 Other Assets
- 1990.2 Lease Purchase Agreements

2000 Liabilities

2100 Accrued Liabilities - Other

2110 Accounts Payable

- 2110.1 Accounts Payable Federal Government
- 2110.2 Accounts Payable Public

2190 Other Accrued Liabilities

2300 Unearned Revenue (Advances)

2310 Advances From Others

- 2310.1 Advances Federal Government
- 2310.2 Advances Public

2900 Other Liabilities

2990 Other Liabilities

- 2990.1 Other Liabilities - Reserve For Insurance
- 2990.2 Other Liabilities - Long Term Lease Liability

3000 Equity

3100 Appropriated Capital

3200 Invested Capital

3210 Capital Investments

- 3210.1 Provision For Plant Replacement
- 3210.2 Nonoperating Results
- 3210.3 Other Net Assets

3220 Transfers-In From Others Without Reimbursements

3230 Transfers-Out To Others Without Reimbursements

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* 3300 Results of Operations

3310 Cumulative Results of Operations
 3320 Net Results of Operations

19-11. Cross-Walk Standard General Ledger to Chart C General Ledger. The logic to produce the amount for each general ledger is as follows:

<u>STD GLAC</u>	<u>CHART C GLAC</u>	<u>Logic for extracting amounts by EAM Code (See EP 37-2-1, app B)</u>
1710	Combination	Amount in EAM 1690
1740	Combination	EAM 1291 plus 1591
1749	Combination	EAM 1391
1750	Combination	EAM 1292 thru 1297 + 1592 thru 1597
1759	302.00	Add 1392 thru 1397
1720	307.00	Add 1491 thru 1497
1810		Input by HQUSACE
1819		Input by HQUSACE
1010	310.00	EAM 1705 - 1706
1310		Header Only
1310.1	313.00	EAM 1805 - 1806 + 1905 -1906
1310.2	313.00	EAM 2105 - 2106
1310.3	313.00	EAM 2805 - 2806 + 2905 - 2906 + 3005 - 3006
1510	315.00	EAM 2205 -2206 + 2405 - 2406
1410	316.00	EAM 2505 - 2506 + 2605 - 2606 + 2705 -2706
1990.1	316.00	EAM 3405 - 3406
1990.2	316.00	EAM 4005
2110.1	341.00	EAM 4606 - 4605 + 4706 - 4705
2110.2	341.00	EAM 4806 - 4805
2310.1	343.00	EAM 5116 - 5115 + 5126 - 5125 + 5136 - 5135
2310.2	343.00	EAM 5146 - 51451
2190	345.00	EAM 5306 - 5305
2990.1	351.00	EAM 5606 - 5605
2990.2	336.00	If EROC code = "B2" use EAM 4206, else leave blank
3100	Combination	If EROC code = "AO" add EAM 3606 - 3605 - 4105 + 4106 - 4205, else add EAM 3606 - 4105 -3605 + 4106
2310.1	330.00	EAM 3506 - 3505
3210.2	338.00	EAM 4406 - 4405
3210.3	332.00	EAM 3706 - 3705
3220	333.00	EAM 3806 + 3906

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<u>STD</u>	<u>CHART C</u>	<u>Logic for extracting amounts by EAM Code</u>	
<u>GLAC</u>	<u>GLAC</u>	<u>(See EP 37-2-1. app B)</u>	
3230	333.00	EAM 3805 + 3905	
3310	337.00	EAM 4306 - 4305	
3320	Combination	EAM 5706 - 6305 - 6105	*