

## VOLUME 11B, CHAPTER 15: “SUPPLY MANAGEMENT ACTIVITIES”

### SUMMARY OF MAJOR CHANGES

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

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

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue, and underlined font](#).

The previous version dated [March 2021](#) is archived.

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1.2.3, 4.1.4	Removed Title 10 United States Code Section 2306 (10 U.S.C. § 2306), “Kinds of contracts” which Congress repealed on January 01, 2021, and replaced with 10 U.S.C. § 3501, “Multiyear contracts: acquisition of property.”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

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## CHAPTER 15

SUPPLY MANAGEMENT ACTIVITIES

## 1.0 GENERAL

## 1.1 Purpose

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

## \*1.2 Authoritative Guidance

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

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

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

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

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

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

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

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

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

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

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

## 2.0 PRICING OF INVENTORY ITEMS

### 2.1 Budgeting

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

### 2.2 Standard Price

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

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

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

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

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

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

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

2.2.7.1. Materiel costs (without inflation) for losses and gains from incoming and outgoing shipments, physical inventory adjustments, inventory losses as a result of shrinkage, theft, deterioration, damage contamination, defective items if not reimbursed by supplier, obsolescence, and adjustments to reconcile internal records.

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

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

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

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

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

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

2.2.9.3. Unusual or nonrecurring losses, such as those due to armed hostilities, riot, or significant damage due to fire, flood, earthquake, storms, or other abnormal events, are not normal inventory losses and must not be included in the cost recovery element for inventory expenses. DWCF Activities must obtain approval from the OUSD(C), EFT/FMOA, to fund such losses.

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

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

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

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

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

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

2.2.12.3. Shipping and transportation costs, including costs for packing, crating, handling, transportation, and, where appropriate, port loading, and unloading. Items may be shipped from a stocking point (issues) or to a stocking point (returns).

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

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

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

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

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

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

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

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

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

### 2.3 Foreign Military and Private Party Sales

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

### 2.4 Lateral Redistribution of Stock

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

### \*2.5 Authorized Changes of Standard/Exchange Prices

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

2.5.1. Unit of issue changes;

2.5.2. First time buys; and

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

### 2.6 Discount Pricing

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

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

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



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

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

## 2.7 Pricing for Additional/Premium Service

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

2.7.1.1. Expedited delivery.

2.7.1.2. Delivery outside the CONUS based on destination.

2.7.1.3. Depot handling fees related to order issues only. The fee(s) includes a minimum charge for low priced orders, a standard charge for bin item issues, a standard charge for normal bulk item issues, and special charges for unusual bulk item issues, e.g., special handling and extraordinary quantities.

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

## \*2.8 Capital Investment Recovery

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

## 3.0 CONTRACT AUTHORITY FOR SUPPLY MANAGEMENT OPERATIONS

### 3.1 Background

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

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

## 3.2 Budgetary Resources

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

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

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

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

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

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

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

## 3.3 Contract Authority and Cash Management

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

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

## 4.0 MULTIPLE-YEAR CONTRACTS

### 4.1 Overview

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

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

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

\* 4.1.4. Under **10 U.S.C. § 3501**, the DoD is authorized to enter into multiple-year contracts containing cancellation clauses that may include both nonrecurring and recurring costs. This law specifies congressional reporting requirements based on cancellation ceilings. Further, annual DoD appropriations acts may limit the use of multiple-year contracts. OUSD(C), **EFT/FMOA**, must approve, prior to contract award, a single contract in excess of \$100 million or \$10 million in estimated termination liability. Each separate contract option must be **treated** as a single contract event, with the dollar amounts determining whether OUSD(C), **EFT/FMOA** approval is required.

### 4.2 Obligations

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

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

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

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

#### 4.3 Cost of Items

The cost of items procured by multiple-year contracts must be the amount paid for each item. If termination costs are incurred or if minimum guaranteed amounts are not met for items procured, the additional costs paid under the terms of the contract must be recorded as SMA materiel obligations.

#### 5.0 BUDGETARY ACCOUNTS

##### 5.1 Overview

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

##### 5.2 Allotments

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

##### 5.3 Budget Execution

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