

**FINANCIAL MANAGEMENT REQUIREMENTS**

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**WORKING CAPITAL FUND POLICY AND REQUIREMENTS**

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**CHAPTER 1. NASA WORKING CAPITAL FUND GENERAL POLICIES AND REQUIREMENTS**

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**CHAPTER 1. NASA WORKING CAPITAL FUND POLICIES AND REQUIREMENTS**1.1 OVERVIEW.

1.1.1 The National Aeronautics and Space Administration (NASA) Working Capital Fund (WCF) was established to satisfy recurring agency-wide NASA requirements through use of a business like buyer and seller approach. In some instances, the "customers" contract with NASA "provider" organizations that have expertise in the required good or service and operate under financial management principles. Unlike profit-oriented commercial businesses, the WCF financial goal is to break even. WCF selling prices established in the budget are stabilized or fixed during execution to protect customers from unforeseen fluctuations that could impact on their ability to execute the programs.

1.1.2 The basic tenet of the WCF structure is to create a customer-provider relationship between those requesting a good or service (customer) and the WCF business entity (provider). This relationship is designed to make WCF managers and decision-makers at all levels more concerned with the costs of goods and services. Prior to the establishment of a business entity under the NASA WCF, a charter, which sets forth the mission and responsibilities of the business entity shall be prepared and submitted to the NASA Chief Financial Officer (CFO) for approval.

1.2 POLICY.

1.2.1 NASA WCF Mission. NASA's WCF Mission Statement is "to establish a revolving fund that promotes economy, efficiency, and accountability with fully reimbursed rates by focusing on streamlining operations, extending resources, measuring performance, and improving customer satisfaction."

1.2.2 Criteria For Nasa Working Capital Fund Candidates. In order for a NASA agency-wide program or function to be considered for inclusion in the NASA WCF it must meet all of the following conditions:

- A. It must possess the capability to produce one or more goods or services on a recurring and relatively predictable basis that are needed by NASA, other Federal Government entities, and/or non-Government customers.
- B. Operation of the program or function as a NASA WCF business area will result in better quality goods/services and/or result in decreased costs to the Federal Government.
- C. The demand for the goods or services to be provided by the program or function must come from multiple customers within NASA and/or other Federal Government entities. A WCF business entity shall not be dependent upon a single customer for its existence. (Customers may be a U.S. State, Territory, or possession or political subdivision thereof; other

public or private agencies; or any person, firm, association, corporation, or educational institution.)

- D. The entity must have the capability to charge prices or rates that approximate the full costs of the provided goods and services. (Annual stabilized prices and rates may be higher or lower than the expected full costs in the execution year in order to recover losses or return gains incurred in a prior year. Additionally, stabilized prices and rates may be increased to accumulate funds for capital [i.e., investment] purchases.)

1.2.3 Application and Selection of Business Entities. The NASA WCF consists of business entities that are chartered (i.e., approved by the NASA CFO) and that are managed by program/function managers located within NASA. To become a WCF business entity, the entity must apply for approval by preparing a business case as described in Appendix A of this Volume. A Headquarters office or Center may propose a business function for inclusion in the NASA WCF by submitting a business case to the NASA CFO. Also, the NASA CFO may request that a business case be prepared for a specific business function by the cognizant functional office. Under either event, an application for designation as a NASA WCF business entity shall be prepared in the form of a complete business case as specified in Appendix A to this Volume.

1.2.4 Charters. The NASA business entities to be financed through the NASA WCF shall be chartered under the NASA WCF to achieve the objectives contained in Section 1.6 of this Chapter. A proposed charter shall be submitted along with the business case by the Program/Function Manager through NASA Center Director or Center CFO for final approval by the NASA CFO. Before charter preparation, actions shall be taken to ensure that the proposed business entity meets the criteria listed in Section 1.2.2 of this Chapter. After charter approval, the chartered WCF business entity shall review it annually to assure it remains current. Changes, if needed, to maintain its currency shall be prepared and submitted to the NASA CFO for approval.

### 1.3 AUTHORITIES AND REFERENCES.

#### 1.3.1 External Authorities.

- A. Title 42, U.S.C. § 2459i is the codification of the law that established the NASA Working Capital Fund in 2003.
- B. Title 31 U.S.C. § 3512(c)(1) requires Federal agencies to establish internal accounting and administrative controls adequate to ensure expenditures comply with law, assets are safeguarded, and revenues and expenditures are recorded and accounted for so that reliable financial and statistical reports can be prepared.
- C. Title 31 U.S.C. § 3512. The statute requires all Federal financial management systems comply with Federal financial management system

requirements. These include the Statements of Federal Financial Accounting Standards (SFFAS), and the United States Standard General Ledger (USSGL) in order to provide uniform, reliable, and more useful financial information.

- D. Office of Management and Budget (OMB) Circular No. A-127, Financial Management Systems. The purpose of this circular is to establish policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems.
- E. Department of Treasury, Financial Manual, Supplement No. 2, U.S. Standard General Ledger (USSGL), Part 1, Fiscal Year 2008 Reporting T/L S2 08-03

#### 1.4 ROLES AND RESPONSIBILITIES.

1.4.1 WCF Corporate Board. The responsibilities of the WCF Corporate Board are described here in the context of a single corporate board. However, the NASA CFO may elect to establish separate boards to oversee the operations of individual WCF business entities. In those cases, the individual boards shall have the same responsibilities, although limited in scope to their respective business entity, as listed below.

- A. Responsibilities. The mission of the NASA WCF Corporate Board is to work collaboratively to review and recommend WCF policies and procedures for consideration and acceptance by the NASA CFO. The Board shall meet on a periodic basis, generally quarterly and perform the functions listed below:
  1. Comment upon proposed and current NASA WCF policies and their impact on NASA.
  2. Review business entities for inclusion or exclusion in the NASA WCF.
  3. Review and recommend changes to a NASA WCF business entity's charter.
  4. Evaluate performance of individual business entities and the impact of that performance on the WCF cash balance, and on operating and capital investment goals.
  5. Establish sub-groups as needed to address issues and concerns of Board members or others not directly represented on the Board.
  6. Provide feedback on WCF rate adjustments and other relevant issues that arise through the year that impact the WCF or its customers.
- B. Composition. The NASA Deputy Chief Financial Officer (DCFO) shall select Board members and act as chair. The Board members shall

consist of one representative or their designated alternate from the following organizations:

1. NASA Agency OCFO, Director, Financial Management Division.
2. NASA Agency Comptroller.
3. NASA Centers CFOs – total of three Centers represented.
4. Customer Representation.
5. Other representatives as deemed necessary by the NASA CFO.

1.4.2 The NASA CFO or Designee shall:

- A. Establish Agency policy on NASA WCF operations.
- B. Provide oversight on all financial management activities relative to the operations of the NASA WCF.
- C. Authorize or approve the NASA WCF charters of specific business entities to be included in the NASA WCF, as well as, the terms under which such business entities shall operate.
- D. Rescind the NASA WCF Charters of specific business entities that no longer meet NASA WCF criteria or that may be operated more efficiently under other financing.

1.4.3 The NASA Comptroller shall:

- A. Advise the NASA CFO on WCF budgetary issues.
- B. Review and approve operating and capital budgets and monitor execution of the budget and analyze the results thereof.
- C. Provide WCF operations oversight through budget execution reviews of reimbursements and outlays.

1.4.4 NASA Officials in Charge of Headquarters Offices and The Directors of NASA Centers or Their Designees Who Have Business Entities Financed Under The NASA WCF shall:

- A. As appropriate, recommend organizations or functions under their control be transferred to the WCF.
- B. Assign responsibility and authority to designated officials for management and operation of NASA WCF business entities.
- C. Assure that NASA WCF business entities operate within approved funding limitations.

- D. Recommend rescission of charters of existing NASA WCF business entities when they no longer meet NASA WCF criteria or that may be operated more efficiently under other financing.

1.4.5 The Management of a NASA WCF Business Entity shall:

- A. Comply with and recommend changes to this and other governing regulations.
- B. Develop business entity specific WCF implementation policies and procedures.
- C. Identify to higher management any impediments to achievement of the business entity's planned performance and cost goals.
- D. Identify and justify to higher management those investments that will produce future improvements in effectiveness and efficiency.
- E. Initiate change, as needed, to the charter of the WCF business entity as well as annual charter renewals.
- F. Measure performance in quantitative and qualitative terms as deemed useful and as prescribed by the NASA CFO.
- G. Continually ensure that processes, procedures, policies, etc. will improve customer satisfaction through increased quality, decreased cost, quicker delivery, etc.
- H. Prepare a business case to support any proposal to add a new line of business to the entity's operations.

1.5 DEFINITIONS.

- 1.5.1 Rates. The prices customers are charged for specific items of supply or services on new orders received and accepted during a specific fiscal year. WCF rates are calculated to recoup all costs associated with the operating and capital budgets including all labor and non-labor, direct, indirect, and general and administrative overhead costs.
- 1.5.2 Business Entity. A NASA WCF authorized program/function that provides goods or products (i.e. supplies, materials, equipment) or services (i.e. contract administration, test services) on a reimbursable basis to other organizations within NASA; to other agencies or instrumentalities of the United States; to any State, Territory, or possession or political subdivision thereof; to other public or private agencies; or to any person, firm, association, corporation, or educational institution on a reimbursable basis.
- 1.5.3 Capital. (1) Those goods whose purpose is to generate income. (2) The net difference between assets and liabilities.

- 1.5.4 Capital Expenditure. The amount used during a particular period to acquire or improve assets such as property, plant or equipment.
- 1.5.5 Capital Investment. The reinvestment in the infrastructure of business entities.
- 1.5.6 Capitalized Costs. To record and carry forward into one or more future periods any expenditure, the benefits from which will then be realized. Generally, notwithstanding the period of an expenditure or outlay, that would result in classifying the costs as an asset with costs recognized over future periods.
- 1.5.7 Capitalize. Record capital outlays as additions to asset accounts, not as expenses; or convert a lease obligation to an asset/liability form of expression called a capital lease, (i.e., to record a leased asset as an owned asset and the lease obligation as borrowed funds).
- 1.5.8 Cash Corpus. An amount of cash provided to start up a working capital fund. These funds are used to cover expenses until customer advances or collections for goods and services provided are received.
- 1.5.9 Charter. Formal document prepared by the Program Manager and approved by the NASA CFO to establish a business entity. The charter delineates the Program Manager's responsibility, authority, and major functions; describes relationships with other organizations that use and/or support the program and identifies the goods/products that will be provided or the services that will be performed. The charter also describes and authorizes unique management requirements of that business entity.
- 1.5.10 Costs. The monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service. Depending on the nature of the transaction, cost may be charged to operations immediately, (i.e., recognized as an expense of the period, or to an asset account for recognition as an expense of subsequent periods).
- 1.5.11 Expenses. Outflows or other using up of assets or incurrences of liabilities (or a combination of both) during a period from providing goods, rendering services, or carrying out other activities related to an entity's programs and missions, the benefits from which do not extend beyond the present operating period.
- 1.5.12 Overhead. Costs associated with providing and maintaining a working environment. For example: renting the building, heating and lighting the work area, supervision costs and maintenance of the facilities. Includes indirect labor and indirect material.
- 1.5.13 Rate Change. The WCF rate change is the percentage change of the stabilized rate or price between fiscal years. As an example, the budget year rate is determined by dividing the approved Direct Labor Hour rate proposed

for the budget year by the stabilized Direct Labor Hour rate in effect for the current execution year. That value, expressed as a percentage (plus or minus from a base of one), is the composite price change rate customers will use in their appropriated funds submissions.

- 1.5.14 Revenue. Revenue is an inflow of resources that the Government demands, earns, or receives by donation. Revenue can include inflows of resources from selling goods and providing services to customer. The term “revenue” does not encompass all financing sources of Government reporting entities, such as most of the appropriations they receive.
- 1.5.15 Revolving Funds. A fund established by the Congress that conducts continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. Intragovernmental revolving funds conduct business-like operations mainly within and between Government agencies. A WCF is an intragovernmental revolving fund.
- 1.5.16 Working Capital Fund. A revolving fund that operates as an accounting entity in which the assets are capitalized and in which all income is derived from the operations of its activities. The fund is available to finance continuing operations without fiscal year limitations.

## 1.6 OBJECTIVES OF THE NASA WCF.

- 1.6.1 The NASA WCF is designed to:
- A. Provide a more effective means for controlling the costs of goods and services produced or furnished by NASA WCF business entities, and a more effective means for financing, budgeting, and accounting for the costs thereof.
  - B. Create and recognize contractual relationships between NASA WCF business entities and those activities that budget for and order the end goods or services.
  - C. Provide managers of NASA WCF business entities the financial authority and flexibility required to procure and effectively use manpower, materials, and other resources.
  - D. Encourage more cross servicing within NASA and among the Federal departments and agencies, with the aim of obtaining more economical use of facilities.
  - E. Facilitate budgeting for and reporting of the costs of end products. This will underline the cost consequences of choosing between alternatives.
- 1.6.2 Specific objectives include the following:

- A. Furnish managers of NASA WCF business entities with modern management tools comparable to those utilized by efficient private enterprises engaged in similar types of activities.
- B. Improve cost estimating and cost control through comparison of estimates and actual costs.
- C. Obtain alert, forward-looking financial planning at NASA WCF business entities by making them financially dependent on reimbursements received for goods and services furnished in fulfilling orders from customers.
- D. Encourage producers of goods and services to coordinate labor forces and inventories with workload, budgeting, and cost control.
- E. Instill in the officials of ordering activities a greater sense of responsibility and self-restraint in balancing the cost of specific goods and services to be ordered against the benefits and advantages of their procurement, especially in the light of alternative or competing demands.
- F. Place ordering agencies in the position of critically evaluating purchase prices (that is, costs of performing business entities) as well as quality and timely delivery of goods and services ordered.
- G. Enable ordering agencies to budget and account on an “end-product” basis (the same as when buying from commercial contractors), thereby simplifying budget planning, budget presentations, budgetary control, and accounting procedures for both producers and ordering agencies.
- H. Establish whenever feasible, standard prices or stabilized rates and unit prices for goods and services furnished by NASA WCF business entities, thus enabling ordering Agencies to more confidently plan and budget.
- I. Encourage ordering agencies’ management to improve program planning and scheduling in response to producers’ efforts to plan and negotiate for orders as far in advance as feasible.
- J. Provide flexibility within budget cycles to respond to changes in supply and demand.

1.7 BUSINESS CASE DEVELOPMENT FOR NASA WORKING CAPITAL FUND CANDIDATES.

- 1.7.1 Use of the NASA WCF presents organizations with the ability to finance operations in a manner more consistent with commercial best practices. It allows more flexibility in operational planning, procurement, and customer relationship management. However, before a business function’s funding source is converted from appropriated to working capital funds, NASA must ensure business viability and prepare for the transition to the WCF by preparing a comprehensive business case. In completing the business case,

it is helpful to think of the candidate organization as a private company (one whose financial goal is to break even over time rather than make a profit) seeking investment funding. The business case should provide sufficient information to allow a third party to decide whether or not to invest funds in the venture. In general the business case:

- A. Describes and quantifies both the risks and benefits associated with transitioning to the NASA WCF.
- B. Provides the NASA WCF managers with sufficient information to make an appropriate decision on whether the candidate should ultimately be included in the WCF.

1.7.2 Appendix A of this Volume is a set of instructions for preparing a business case for proposed WCF business entities and lines of business. The requirement for documenting the business case as described in Appendix A applies to all proposals for new WCF business entities, as well as, the addition of new lines of business within existing WCF business entities.

## 1.8 CAPITALIZATION OF THE NASA WCF.

1.8.1 Transfers of Inventory and Property. The NASA FY 2003 appropriation language states, the capital of the fund consist of "... the reasonable value of stocks of supplies, equipment, and other assets and inventories on order that the Administrator transfers to the fund..." Any transferred capital equipment will be valued at book value (original cost less accumulated depreciation). Inventories will be valued at original cost.

1.8.2 Appropriation. NASA did not receive a cash corpus to begin initial operations. However, NASA may request an appropriation of funds (to account 80X4546) in its Working Capital Fund activity's President's budget submission to Congress to supplement its resources when the level of anticipated cash available is estimated to be insufficient at any time throughout the year of budget execution for the WCF activity to remain solvent and to be able to pay for its operating and capital budget requirements.