

## CHAPTER 7

### ADVANCES, PREPAID EXPENSES, AND OTHER ASSETS

#### 1. INTRODUCTION

**Purpose and Scope.** The Chapter discusses the accounting treatment and financial controls for advances, prepaid expenses, and other assets. This chapter should not be used as a reference for determining whether it is appropriate to make an advance payment or prepay expenses, but it does provide references to the appropriate criteria for making that determination.

This chapter supplements the Treasury Financial Manual Volume 1, Part 4A-2000 (1 TFM 4A-2000), Federal Acquisition Regulation (FAR) 48 Code of Federal Regulations (CFR) Parts 32.2 and 32.4, “Commercial Item Purchase Financing” and “Advance Payments for Non-Commercial Items,” respectively, as supplemented by Department of Energy (DOE) Acquisition Regulation (DEAR), “Advance Payments for Non-Commercial Items” (48 CFR 932.4).

**a. Applicability.** This chapter applies to all Departmental/field elements and site/facility management contractors as provided by law and/or contract and as implemented by the appropriate Contracting Officer (CO). Non-integrated contractors shall follow the applicable standards and procedures as specified in this handbook if provided in their contracts.

The provisions in this chapter do not apply to advances involving the following Departmental activities:

- (1) Payments Cleared Funding for Site/Facility Management Contractors and Other Major Contractors – As provided for in Chapter 6, “Cash” and stipulated for under the DEAR provision “Contract Financing – Advance Payments” (48 CFR 970.3204);
- (2) Advances Received for work to be performed for others covered in Chapter 13, “Reimbursable Work, Revenues, and Other Collections;” and
- (3) Payments associated with financial assistance instruments - As provided in Chapter 14, “Grants, Cooperative Agreements, and Technology Investment Agreements.”

**b. Materiality.** Field Chief Financial Officers (Field CFOs) or equivalents should record advances to others and prepayments which are \$25,000 or more as assets. It is at the discretion of each office to record advances and prepayments less than \$25,000 as assets or record them as expenses.



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cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization.

Advances shall be reviewed not less than each calendar quarter in accordance with the provisions of section 2.c.(4) of this chapter. Cost or financial reports required by the terms and condition of the contract or agreement shall be used to determine whether the recipient organization is using the advance as stipulated. Chapter 14, “Grants, Cooperative Agreements, and Technology Investment Agreements,” provides requirements for managing cash payments involving grants and cooperative agreements.

- b. Advances to Other Federal Agencies.** Advances can be made to other Federal agencies as provided for under the provisions of 31 U.S.C. 1535, “Agency Agreements.” Even though advance payments are permissible under 31 U.S.C. 1535, it is DOE policy not to make advances to other Federal agencies except when required by law or when provided in an interagency agreement. Advances to other Federal agencies can be made through the Intra-governmental Payment and Collection (IPAC) System. Additionally, Form 1080, “Voucher for Transfers Between Appropriation and/or Funds,” will be used in instances where payment to another Federal agency is required by Automated Clearing House transfer or check.
- c. Advances to Contractors and Other Financial Recipient Organizations.** This section prescribes procedures to be followed for cash advances involving DOE programs to contractors and other financial recipient organizations. FAR Part 32 prescribes policies and procedures for advances and other payment matters for CO’s. For example FAR Part 32.202 (48 CFR 32.202-4(a)(3)) provides responsibilities for security needed before an advance is provided. Also, FAR Part 32.106 (48 CFR 32.106) provides an order of preference when a contractor requests advance funding.

  - (1) Amounts of Advances.** Payment offices will schedule advances in the manner stated under section 2.a so the funds are available to the recipient organization only immediately before their disbursement by the organization. For example, if disbursements are made by the recipient organization on a monthly, biweekly, or any other fixed period, and the amounts involved so warrant, transfer of the funds should be similarly timed. For commercial items, before any performance of work on the contract, advances must not exceed 15 percent of the contract price. Please see FAR Part 32.202 (48 CFR 32.202) for this provision and other requirements which must be met before advances can be provided for commercial items. Commercial items are defined in FAR Part 2.101 (48 CFR 2.101).).

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- (2) **Advance Payment Methods.** The Debt Collection Improvement Act of 1996 mandates the use of electronic funds transfer for almost all Federal Government payments. However, advance payment by electronic funds transfer is not required if one of the waiver provisions in 31 CFR 208.4, “Waivers,” applies.
- (3) **Termination of Advance Funding.**
  - (a) When a recipient organization receiving cash advances has demonstrated an unwillingness or inability to establish procedures that will minimize the time elapsing between cash advances and the disbursement thereof, the CO, unless prohibited by the statute(s) governing the program(s), will terminate the advance funding. In this situation, the recipient organization will be required to finance its operations with its own working capital, and DOE will then reimburse the recipient organization by electronic funds transfer or by other acceptable payment methods, as described in the TFM Volume 1, Part 4A-2035. Such reimbursements will be processed expeditiously to minimize the time elapsing between disbursement by, and payment to, the recipient organization.
  - (b) If the recipient organization cannot meet the criteria for advance payments as provided for in Section 2.a, and the CO determines reimbursement is not feasible because the recipient organization lacks sufficient working capital, DOE may provide funds on a working capital advance basis. On this basis, the CO authorizes cash advances to the recipient organization to cover its estimated disbursement needs for an initial period of time, generally geared to the recipient organization’s disbursement cycle. The period of time is to be decided by the CO but normally should not exceed the recipient organization’s disbursement cycle. Thereafter, payments are made to the recipient organization for the amount of its actual cash disbursements. The Field CFO or equivalent in coordination with the CO shall manage and monitor working capital advances to ensure recipient organization compliance with cash management policies provided in Section 2.c.(4) of this chapter.
- (4) **Monitoring and Controlling Advances.** Field CFOs or equivalents on behalf of the COs are responsible for reviewing the recipient organization’s advances and implementing remedial measures in the event of excessive withdrawals of cash. COs should include

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provisions in the contractual language which require organizations to provide periodic progress reports to support this requirement. A successful program for monitoring advances involves a collaborative effort of the Field CFO or equivalent, program, and procurement officials.

- (a) **Review of Advances and Uncosted Balances.** Field CFOs or equivalents must review a recipient organization's use of funds advanced on a periodic basis, but not less than quarterly.

CFOs or equivalents must review the reports for agreement with DOE accounts, reasonableness of cash balances on hand, and the timing of payments. Accrued liabilities of the recipient organization should not be considered a basis for maintaining Federal funds unless payment of those debts is imminent. Field CFOs or equivalents also should inquire into any other matters that might warrant action to change the advances by electronic funds transfer. Any uncosted balances that will not be used in the future must be returned promptly to DOE (within 30 days per the requirements TFM Volume 1, Part 4A 2045.10).

- (b) **Disallowable Advances.** In accordance with the TFM Volume 1, Part 4A 2045.10, immediately upon determination that an expenditure of advance funds is disallowable in accordance with the contractual arrangement, Field CFOs or equivalents shall coordinate with the CO to notify the recipient organization and require the return of such funds promptly, and no more than 30 days from the date of the notification.

- (c) **Interest Earned on Federal Funds.**

1. Any interest income earned by a recipient organization on advances from federal funds will be promptly refunded to DOE unless specifically prohibited by law. The Field CFO or equivalent shall deposit applicable interest to Treasury Account 089 1435, "General Fund Proprietary Interest Collections, Not Otherwise Classified." The power marketing administrations shall deposit miscellaneous interest to the reclamation fund or the revolving funds as appropriate. In addition, interest

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earned on advances funded with the Nuclear Waste Fund (NWF) shall be returned to the NWF.

2. Additionally, in accordance with DEAR (10 CFR 932.407), “Interest,” recipient organizations are not subject to interest charges for unliquidated balances resulting from advances received for cost-reimbursement contracts for construction or engineering services involving non-commercial items.
3. Please see Chapter 14, “Grants, Cooperative Agreements, and Technology Investment Agreements” for special provisions on interest earned on financial assistance awards for revolving loan funds and for certain financial recipient organizations.

**d Advances to Employees.** Advances to employees may be made for tuition, books, and training fees. Additionally, advances may be provided in rare circumstances for authorized travel.

**(1) Advance Payment Methods for Employees.** Electronic funds transfer is the typical method to advance funds to employees. However, advance payment by electronic funds transfer is not required if one of the waiver provisions in 31 CFR 208.4 applies. In accordance with 31 U.S.C. 3321-3333, Federal agencies are required to eliminate the use of imprest funds. However, imprest funds may be used when a payment by electronic funds transfer is waived in accordance with the provisions of 31 CFR 208.4, “Waivers,” and one other waiver described in (a) through (e) applies:

- (a)** Payments involve national security interests, military operations, or national disasters;
- (b)** Payments are made in furtherance of a law enforcement action;
- (c)** The amount owed is less than \$25;
- (d)** The political, financial, or communication infrastructure of a foreign country does not support payment by a non-cash mechanism; or

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- (e) Payments are made in emergencies, or in mission critical circumstances, that are of such an unusual and compelling urgency the Government would otherwise be seriously injured unless the payment is made in cash.

Further information on Treasury's Policy Directive concerning imprest funds can be found on the internet at the Treasury web site. (<http://www.fms.treas.gov/imprest/regulations.html>)

- (2) **Amount of Advances.** In accordance with the TFM Volume 1, 4A-2045.10, advances shall be limited to the minimum amount necessary for immediate disbursement needs and shall be timed to be in accordance with actual immediate cash requirements of the employees.
- (3) **Monitoring and Controlling Advances.**

Strict controls shall be maintained over all advances. A delinquency notice must be issued promptly to the employee for outstanding advances. Collection action through payroll deduction shall be initiated 30 days after the delinquency notice has been issued. Administrative offsets for federal employees is discussed in DOE Order 533.1, "Collection from Current and Former Employees for Indebtedness to the United States."

Site/facility management contractors are accountable for ensuring that appropriate mechanisms exist to ensure repayment of advances provided to their employees, including repayment by offset against future pay.

### 3. PREPAID EXPENSES.

- a. **Prepayments.** Prepayments are expenditures to cover certain periodic expenses before those expenses are incurred. Typical prepaid expenses are rent paid to a lessor at the beginning of a rental period. Progress payments made to a contractor based on percentage of completion of the contract are not advances or prepayments.
- b. **Accounting.** Prepayments of \$25,000 or more are to be recorded as an asset and then expensed over the period to which they apply.

### 4. DEPOSITS.

Deposits are payments to vendors for returnable containers or security requirements by contract with such vendors as public utilities. Returnable

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containers include reels, drums, and other containers to hold materials and products while they are in transit, which can include materials sent to DOE by vendors or materials shipped by DOE to its customers. If it is known at the time of the receipt that containers in a particular shipment will not be returned (e.g., they will be used in a contaminated area; or the cost to ship them back to the supplier would exceed the amount of the deposit; or for some other acceptable reason), the deposit should not be recorded in the “Other Asset” SGL deposit account (see chart of SGL accounts for recording advances, prepayments and other assets, maintained by the CFO Office of Finance and Accounting). Rather, the full cost to be paid to the vendor for not returning the container should be recorded either as inventory; property, plant, and equipment; or as an expense item. Containers retained by DOE or its contractors for their own use should be recorded as inventory. However, the cost to DOE of special containers to hold or transport process materials should be recorded as property, plant, and equipment if the containers meet the criteria for retirement units stated in Chapter 10 of the *Financial Management Handbook*, “Property, Plant, and Equipment.” Containers will be recorded either as an expense or should be recorded as part of the materials they contain, if they are destroyed, or for any other reason than those stated in the preceding sentence, are not returned. A record of service and container deposits shall be maintained and monitored to ensure the ultimate return of the deposit.

5. **COLLATERAL FUNDS.** Collateral funds and deposits consist primarily of insurance collateral funds, employees benefit and annuity funds, pension funds, special contract funds, and excess premium payments. The establishment and maintenance of a collateral fund, including the income earned and any gain or loss resulting from the sale of securities forming part of the fund, shall be in accordance with the specific provisions of the contract between DOE and the contractor and the provisions of the insurance plan or other trust agreement requiring the establishment of such a fund. Income from a collateral fund is accounted for as revenue or other financing sources.