

CHAPTER 7

ADVANCES, PREPAID EXPENSES, AND OTHER ASSETS

1. INTRODUCTION.

- a. Purpose.** This chapter supplements Volume 1 Part 6-2000 of the Treasury Financial Manual (1 TFM 6-2000), Federal Acquisition Regulation (FAR) 48 Code of Federal Regulations (CFR) Sections 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). The Chapter discusses the accounting treatment for advances and prepaid expenses and should not be used as a reference for determining whether it is appropriate to make an advance payment or prepay expenses. Criteria for determining whether an advance payment can or should be made are discussed the FAR sections referenced throughout the chapter.
- b. 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. Non-integrated contractors shall follow the applicable standards and procedures as specified in this handbook if provided in their contracts.

The provisions in 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 “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) Cash drawdowns associated with financial assistance instruments is provided in Chapter 14, “Grants, Cooperative Agreements, and Technology Investment Agreements.
- c. Managing and Accounting.** 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.

Chapter 7 Advances, Prepaid Expenses, and Other Assets**(1) Advances (1410XX)**

- (a)** In accordance with 31 U.S.C. 3324, a payment under a contract to provide a service or deliver an article for the United States Government may not be more than the value of the service already provided or the article already delivered. An advance of public money may only be made if it is authorized under the provisions of 31 U.S.C. 3324(b), such as through a specific appropriation or other law. The provisions of 31 USC 3324 do not apply to cash drawdowns with grants, cooperative agreements, and Technology Investment Agreements provided in Chapter 14.
- (b)** Advances need to be monitored to accurately record costs or capitalize other assets as work is completed or services are received. These amounts are debited as assets until the related expenses have been incurred, contract terms are met, or goods or services are received. Based on the work completed or services received, the advance account is credited, and the appropriate expense or asset account is debited. If adequate information is not available, estimate the work completed. Based on the estimate, the appropriate expense or asset account is debited and accounts payable is credited. When the cost information is received, accounts payable for the estimated amount previously recorded is debited and the advance account for actual work completed is credited. Any differences between the estimate and the actual work completed should be adjusted to the appropriate expense or asset account.
- (c)** Each advance shall be limited to the minimum amount necessary for immediate disbursement needs and will be timed to be in accordance with the actual immediate cash requirements of the recipient in carrying out an approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient for direct program costs and the proportionate share of any allowable indirect costs.
- (d)** Advances should be monitored on a continuous basis, but not less frequently than each calendar quarter. Cost or financial reports required by the terms and condition of the contract or agreement shall be used to determine whether

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the recipient is using the advance as stipulated. Chapter 14, “Grants, Cooperative Agreements, and Technology Investment Agreements,” provides requirements for managing cash drawdowns involving grants and cooperative agreements. Any unused advance balance must be returned to DOE.

- (2) **Prepayments (1450XX).** Prepayments shall be expensed over the period to which they apply. *Prepayments as opposed to advances* are payments made by an office to cover certain periodic expenses before those expenses are incurred. Typical prepaid expenses are rents paid to a lessor at the beginning of a rental period.
 - (3) **Collateral Funds (1990XX).** Income from a collateral fund is accounted for as revenue or other financing sources.
 - (4) **Service and Container Deposits (1990XX).** A record of service and container deposits shall be maintained and monitored to ensure the ultimate return of the deposit.
2. **ADVANCES.** An advance is a payment made in contemplation of the future performance of services, receipt of goods or other assets, or incurrence of expenses. These amounts are recorded as assets until the related expenses have been incurred, contract terms are met, or goods or services are received. Requirements for advances are categorized as follows: 2.a., Advances to Other Federal Agencies and within the Department of Energy; 2.b., Advances to Contractors and Other Financial Recipients; and 2.c., Advances to Employees. In all cases, advance payments made under sections 2.a. and 2.b. of this chapter must be authorized by the cognizant contracting officer.
 - a. **Advances to Other Federal Agencies and within the Department of Energy.** Advances can be made to other Federal agencies, and within DOE 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 and to other offices within DOE 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. Advances within DOE will be made in accordance with the provisions of Chapter 12, “Inter-Entity Transactions.”

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- b. Advances to Contractors and Other Financial Recipients.** This section prescribes procedures to be followed for cash advances involving DOE programs to contractors and other financial recipients. FAR 32 prescribes policies and procedures for advances and other payment matters for contracting officers. For example FAR 32.02-4(a)(3) provides responsibilities for security needed before an advance is provided. Also, FAR 32.106 provides in 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 1.c.(1)(b) so the funds are available to the recipient organization only immediately prior to 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, prior to any performance of work on the contract, advances must not exceed 15 percent of the contract price. Please see 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 as any item, other than real property, that is of a type customarily used by the general public or by non-governmental entities for purposes other than government use and has been sold, leased, or licensed to the general public; or has been offered for sale, lease, or license to the general public. . Further definition of a commercial item can be found in 48 CFR 2.101.
- (2) Advance Payment Methods.**
- (a)** 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 contracting officer, 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

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will then reimburse the recipient organization by electronic funds transfer or by other acceptable payment methods, as described in Treasury Financial Manual Volume I, Part 6, 2070.10 (I TFM 6-2070.10). Such reimbursements will be processed expeditiously to minimize the time elapsing between disbursement by, and payment to, the recipient organization.

- (b) If the contracting officer determines reimbursement is not feasible because the recipient lacks sufficient working capital, DOE may provide funds on a working capital advance basis in accordance with I TFM 6-2070.2. On this basis, the contracting officer authorizes cash advances to the recipient to cover its estimated disbursement needs for an initial period of time, generally geared to the recipient's disbursement cycle. The period of time is to be decided by the contracting officer but normally should not exceed 30 days. Thereafter, payments are made to the recipient organization for the amount of its actual cash disbursements.
- (4) **Monitoring and Controlling Advances.** Field CFOs or equivalents are responsible for reviewing the recipient organization's advances and implementing remedial measures in the event of excessive withdrawals of cash. Contracting officers should include 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.** Periodically, but not less frequently than quarterly, field CFOs or equivalents must review a recipient organization's use of funds advanced.

The field CFOs or equivalents must review the reports for agreement with DOE accounts, reasonableness of cash balances on hand, and the timing of payments. Field CFOs or equivalents should also inquire into any other matters that might warrant action to change the advances by electronic funds transfer, etc. Any uncosted balances that will not be used in the future must be returned promptly to DOE.

- (b) **Excessive Federal Funds.** In accordance with I TFM 6-2075.30, federal funds should be promptly refunded to DOE when the funds advanced are in excess of immediate

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disbursement needs. The only exceptions to the requirement for prompt refunding are when the funds involved will be disbursed by the recipient organization within seven calendar days, or are less than \$10,000 and will be disbursed within 30 calendar days. These exceptions to the requirement for prompt refunding should not be construed as approval by Treasury for a recipient organization to maintain excessive funds; they are applicable only to excessive amounts of funds erroneously drawn.

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

1. Any interest income earned by a recipient organization on 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 89 1435, "General Fund Proprietary Interest Collections, Not Otherwise Classified." in accordance with I TFM 6-2075.30b. The power marketing administrations shall deposit miscellaneous interest to the reclamation fund or the revolving funds as appropriate. In addition, interest earned on advances funded with the Nuclear Waste Fund (NWF) shall be returned to the NWF.
2. Additionally, in accordance with DEAR 932.407, "Interest," recipient organizations are not subject to interest charges for un-liquidated 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.

- c. **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.

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- (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):
- (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
 - (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 are made by cash.

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

- (2) **Amount of Advances.** In accordance with I TFM 6-2025, 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. All site/facility management contractor employees receiving an advance from DOE funds should sign a release statement allowing the government/contractor to offset advances against the employee’s pay. 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.

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Administrative offsets are covered in Chapter 8, “Receivables,” and DOE Order 533.1, “Collection from Current and Former Employees for Indebtedness to the United States.”

3. PREPAID EXPENSES.

- a. Prepayments.** Prepayments are expenditures to cover certain period 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 should be 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 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 deposit account. 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, “Property, Plant, and Equipment.” Containers should 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.