

## 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 or modified by Department of Energy (DOE) Acquisition Regulation (DEAR), “Advance Payments for Non-Commercial Items” (48 CFR 932.4) and “Contract Financing – Advance Payments” (48 CFR 970.3204). Disbursement methods and procedures are discussed in Chapter 6, “Cash.” Advances for work to be performed for others are covered in Chapter 13, “Reimbursable Work, Revenues, and Other Collections.”
- 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.
- 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. Specific guidance for recording advances associated with financial assistance instruments is provided in Chapter 14, Grants, Cooperative Agreements, and Technology Investment Agreements.

#### (1) Advances (1410XX).

- (a) Advances need to be monitored to accurately record costs or capitalize other assets as work is completed 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.

- (b) 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.
  - (c) Advances should be monitored on a continuous basis, but not less frequently than each calendar quarter. Cost reports or other reports required by Office of Management and Budget (OMB) Circular A-102, "Grants and Cooperative Agreements With State and Local Governments," and 2 CFR 215 (OMB Circular A-110), "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," which are discussed further in this chapter, may be reviewed to monitor advances for grant recipients. Cost reports shall be used to determine whether the recipient is using the advance in accordance with the terms of the agreement. Chapter 14 of the Accounting Handbook, "Grants, Cooperative Agreements, and Technology Investment Agreements," provides further requirements for managing advances 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.
  - (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: 2a, Advances to Other Federal Agencies and within the Department of Energy; 2b, Advances to Contractors and Financial Assistance Recipients; and 2c, Advances to Employees. In all cases, advance payments made under sections 2a and 2b 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."
- b. **Advances to Contractors and Financial Assistance Recipients.** This section prescribes procedures to be followed for cash advances involving DOE programs, including advances to State and local governments, educational institutions, international organizations, and other public or private institutions.
  - (1) **Amounts of Advances.** Payment offices will schedule advances in the manner stated under section 1c(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. Advances must not exceed 15 percent of the contract price for commercial items, as stipulated in 48 CFR 32.2. 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. 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. For instance, electronic funds transfer is not required if an office does not expect to make more than one payment to the same recipient within a one year period (i.e., the payment is non-recurring), and the cost of making the payment via electronic funds transfer exceeds the cost of making the payment by check.

- (b) DOE uses the Department of Treasury’s (Treasury) Automatic Standard Application for Payment (ASAP) system to make payments for grants, cooperative agreements, and technology investment agreements that provide for advance funding. ASAP provides grantee organizations a mechanism in which to draw federal funds from accounts pre-authorized by DOE.
- (c) Payments to most of DOE’s site/facility management contractors are made under a payments cleared financing arrangement. Under this arrangement, a financial institution servicing a site/facility management contractor will make a payment request against the ASAP 1031 account in the ASAP system when a contractor’s issued payments clear their institution. The ASAP system will credit the financial institution after the payment request is validated. The financial institution will then credit the account of the site/facility management contractor. ASAP 1031 payments are usually made the same day of the request.

**(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 will then reimburse the recipient organization by electronic funds transfer or by other acceptable payment methods, as described in 31 CFR 208.4. 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. 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) **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 same reports required to comply with Government Accountability Office (GAO) Standard G10, "Grants and Cooperative Agreements," OMB Circular A-102, and 2 CFR 215 (OMB Circular A-110) may be used for the review provided:
1. the field CFOs or equivalents are able to determine the difference, if any, between the total amount of funds advanced by electronic funds transfer, and disbursements related to the Federal programs; and
  2. the cash being advanced is provided in accordance with program disbursement needs.

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.** Federal funds should be promptly refunded to DOE when the funds advanced are in excess of immediate 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.

Excessive drawdowns occurring through a payments cleared financing arrangement as described under 2b(2)(c) of this chapter are not considered excessive federal funds for purposes of this section. Excessive drawdowns under a payments cleared financing arrangement occur when a financial institution makes a drawdown from the ASAP 1031 account for more funds than are needed to cover the net of the recipients and disbursements for the day in the contractor's account. The financial institution must return the excess balance to the Federal Reserve Bank in Richmond by 5:45 p.m. eastern time. If the financial institution is unable to return the excess by that time on the day of the occurrence, the excess should be used to offset the next day's drawdown, and any remaining excess should be returned to the Federal Reserve Bank in Richmond before 5:45 p.m.

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

*I.* Any interest income earned by a recipient organization on federal funds will be promptly refunded to DOE unless specifically prohibited by law. However, the following grant recipient organizations are allowed to retain a portion of interest for administrative expenses:

- a.* State and Local Governments – up to \$100 in interest per year; and
- b.* Institutions of Higher Education, Hospitals, Other Non-Profit Organizations, - up to \$250 in interest per year.

2. Field CFOs or equivalents must deposit the interest received in the appropriate receipt account maintained by FMS.
  3. 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.
- 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.
- (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. ([www.fms.treas.gov](http://www.fms.treas.gov))

- (2) **Amount of Advances.** 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. 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.