



Department of Defense INSTRUCTION

NUMBER 7420.12

March 10, 1977

Administrative Reissuance Incorporating Change 1, December 28, 1977

ASD(C)

SUBJECT: Billing, Collection and Accounting for Sales of Materiel from Supply System Stock

References: (a) through (j), see enclosure 1

1. REISSUANCE AND PURPOSE

This Instruction (a) reissues reference (a) to increase the dollar losses for adjustments from the General Services Administration (GSA) and prescribes new billing procedures for bulk petroleum, oil and lubricants (POL); and (b) establishes uniform policies to bill, collect and account for sales or purchases of materiel from stock fund or appropriation financed inventories, including transfers to the Military Assistance Grant Aid Program with certain modifications (see subsection 4.2.) and GSA sales to DoD. Reference (a) is hereby superseded and cancelled. Enclosure 2 summarizes the major changes.

2. APPLICABILITY

The provisions of this Instruction apply to the Military Departments and Defense Agencies (hereinafter referred to collectively as "DoD Components").

3. SCOPE

3.1. The automated billing system described in this Instruction (commonly referred to as the "Interfund Billing System (IBS)," normally encompasses all supply system sales and purchases of materiel, including perishable subsistence, bulk petroleum, oil, lubricants and into-plane aviation fuels issues.

3.2. The IBS is not mandatory for Military Assistance Grant Aid sales and where only limited materiel sales occur between DoD Activities. In these cases, it may be more expedient to process billings through use of Standard Form 1080, "Voucher for Transfer Between Appropriations and/or Funds," than to utilize the IBS.

3.3. The IBS does not apply to sales made to other Federal Government Agencies, State and local governments, non-appropriated fund activities, individuals and commercial firms. Such issues will be billed and collected by "check issue" procedures.

3.4. The provisions of this Instruction do not cover sales of major end items such as complete aircraft, ships, tanks, space vehicles and missiles, certain GSA stock fund sales and orders handled by Military Interdepartmental Purchase Requests (MIPR's) except for certain orders issued to GSA as outlined in 4.13.3.

4. POLICY

4.1. General. Operating procedures, including the standard mechanized instructions and formats, to bill, collect and account for sale of materiel from supply system stock are contained in DoD Manual 4000.25-7M (reference (c)).

4.2. Billing, Collection and Accounting Policies for DoD Sales

4.2.1. Reimbursable sales will be billed at the time the items are dropped from inventory pursuant to requisition edit (to determine supply availability) by a supply activity, except that billings for sales of:

4.2.1.1. Perishable subsistence, foreign military sales, and Military Assistance Grant Aid shipments will be based on constructive delivery as defined in "Glossary of Terms and Definitions," DoD Manual 4000.25-7M (reference (c)).

4.2.1.2. Bulk POL will be based on receipt notification provided that such notification has been received by the billing office within 15 days of the date of delivery as defined in "Glossary of Terms and Definitions," DoD Manual 4000.25-7M, otherwise, billing will be based on the quantity discharged from tankers or the quantity issued from inventory for delivery by other modes of shipment.

4.2.2. The accounting and finance officer servicing the supplying activity will effect automatic collection for sales of stock fund materiel, including loss

allowances and returns which will be processed in accordance with DoD Directive 7420.1 (reference (d)), and appropriation financed materiel which will be processed in accordance with DoD Directive 7200.7 (reference (e)) from funds of the ordering activity. In all instances, separate bills will be prepared for stock fund sales and for sales of appropriation financed materiel.

4.3. Principles of the Interfund Billing System (IBS)

4.3.1. The selling activity will credit the appropriation or fund which owns the materiel and/or finances the accessorial charges at the time of billing the ordering activity and charge the appropriations/funds of the ordering activity.

4.3.2. The billed offices will record the disbursements for charges billed in the month in which the bills are received. Billed offices must match line items billed to line items ordered by requisition number. When the charge is determined to be invalid by the billed office, it will be entered in a suspense account as stated in subsection 4.9. below. Billed offices will exert every effort to charge the correct account initially so that transactions entered in the suspense accounts will be held to a minimum.

4.3.3. Billing offices will report to their central accounts offices, as listed in Chapter 2 of DoD Manual 4000.25-7M (reference (c)), the amounts collected (credits) and amounts of charges made to the ordering activities' appropriations/funds as evidenced in the summary billing cards. The central accounts offices serving the selling' activities will report to the central accounts offices serving the purchasing activities the charges by appropriation/fund. The latter central accounts offices use these reports of "charges to their appropriations/funds" to monitor field activities to ensure that all charges have been recorded as disbursements or otherwise properly accounted for.

4.3.4. These transactions will be processed separately from the regular accounts of the accounting and finance offices (paragraph 4.11.2.).

4.4. Preparation of Bills. Bills will be prepared at least monthly and may be prepared more frequently when the amounts involved are significant or more frequent billing is necessary to maintain an adequate cash balance in a stock fund. The last monthly bill will be forwarded by the fifth workday of the following month. Collections for all interfund billings processed under these procedures will be credited to the accounts of the billing activity in the month the bills are prepared.

4.5. Accessorial Costs. Charges for accessorial costs for shipments of materiel will be applied in accordance with sections 3. and 5., DoD Instruction 7510.4 (reference (f)) and DoD Instruction 2140.1 (reference (g)).

4.6. Cancellation of Confirmed Requisitions. Cancellation of a confirmed special program requirement (SPR) requisition (items required to support special programs or projects of a nonrepetitive nature) will result in billing the customer ("billed to" activity) when a procurement order was processed which will result in receipt of materiel "in excess" of the authorized acquisition objective through the end of the budget year. The customer will be billed for costs in the case of contract termination or otherwise at inventory standard prices for the "excess" materiel. Supply activities will bill the customer promptly by use of Standard Form 1080. If billing is not accomplished within 90 days after cancellation of the requisition, the customer will be advised of potential or estimated charges.

4.7. Billing for Direct Deliveries of Materiel from Contractors in Lieu of Shipments from Stock. When an inventory manager is out of stock, does not carry an item or otherwise requests direct delivery of materiel from a vendor, the sale will be recorded and eligible for billing based on (a) notification of receipt of materiel by the customer, (b) notification of shipment by the vendor, (c) or payment to the vendor, whichever occurs first. However, for bulk POL sales (b) and (c) will not apply if the notification of receipt of materiel by the customer is received by the billing office within 15 days of the date of delivery as defined in "Glossary of Terms and Definitions," DoD Manual 4000.25-7M (reference (c)).

4.8. Billing Adjustments/Allowances

4.8.1. The ordering activity or consignee will request the billing activity to grant adjustments/allowances when appropriate. In the interest of economy, requests for billing adjustments allowances will not be made under the criteria described below. Losses or gains will be absorbed by the ordering activity:

4.8.1.1. Between DoD Activities. When the value is less than \$100 per line item.

4.8.1.2. Between DoD and *Other Than* DoD Activities. When the value is \$25 or less per line *item*.

4.8.2. In accordance with the above, billing offices will determine whether the request should be granted or denied and advise the customers. Billing offices will

reply to customer requests as promptly as possible, but not later than 60 days after receipt of the request for adjustment. This reply is advisory and will not be recorded in the accounting records of the billed office.

4.8.3. Customers may forward a followup request if a reply has not been received within 60 days after initial request for adjustment/allowance.

4.8.4. Billing offices will grant credit for each approved adjustment and include these in the next billing along with other charges and credits.

4.8.5. Instructions to process billing adjustment requests and responses are in Chapter 7 of DoD Manual 4000.25-7M (reference (c)).

4.9. Accounting and Reporting for Transactions in Suspense Accounts X1998 Unapplied Stock Fund Charges, X1997, Unapplied Appropriation Financed Materiel Charges, and F3885, Undistributed Intra-governmental Payments

4.9.1. These accounts have been established by the Treasury Department to provide billed offices with account symbols for recording charges subject to adjustment (other than shipping adjustments) or considered to be improper pending correct classification of the transaction. Amounts recorded in these accounts will be included in disbursements reported to the Treasury Department on "Statement of Interfund Transactions," DD Form 1400, or on an approved, automated listing in lieu thereof.

4.9.2. Transactions which clear these accounts by recording the charges to the correct appropriation or fund will be processed outside disbursing channels. These transactions will also be reported to the Treasury Department on "Statement of Interfund Transactions" (see subsection 4.11. below).

4.9.3. Each DoD Component will ensure that only transactions which cannot be charged against correct appropriations/funds or correctly classified will be entered in these accounts based on the following:

4.9.3.1. The line items on the billing should be matched with the line items requisitioned to ascertain the appropriation/fund to be charged. When items or quantities supplied and billed are different from the items or quantities requisitioned, the billed office will check with the ordering activity as consignee to see if substitute items or quantities have been supplied. (The supplying activity is responsible for advising of item substitutions or changes. See paragraph 4.12.3. below.)

4.9.3.2. Those unmatched transactions should be reviewed to make every effort to determine the proper charge.

4.9.4. Each Component will establish procedures governing the submission of full and timely reports to their central accounts office of transactions entered in the suspense accounts. These procedures will provide for maintenance of appropriate summary controls over these transactions. Balances in these accounts will be cleared as of September 30, each year. The offsetting charges will be distributed to the purchasing appropriations/funds on an estimated basis. This action will be treated as a fiscal year-end adjustment which will be reversed on October 1 of the subsequent fiscal year.

4.10. Maintenance of Billing Files. DoD Component billing offices will maintain history files for 1 year after the billing month for sales within the Department of Defense, GSA and to other Government Agencies. For billings supporting Foreign Military Sales, the files shall be maintained for 2 years (see DoD Instruction 2140.3, reference (b)).

4.11. Treasury Reporting

4.11.1. The billed office will summarize the reimbursements and disbursements processed under the provisions of this Instruction, including transactions processed through the suspense accounts, and furnish them to the office which prepares the Statements of Transactions and Accountability reports for the Treasury and OSD (Sec. 340 and 341, DoD Handbook 7220.9H, reference (i)).

4.11.2. Central accounts offices will submit to the Office of Secretary of Defense and the Treasury Department a monthly "Statement of Interfund Transactions" DD Form 1400, or approved automated listing, for appropriation financed materiel and stock fund materiel to reflect credits to the selling appropriation or fund and/or debits to the buying appropriation or fund.

4.12. Recording of Obligations by DoD Ordering Activities

4.12.1. Procedures for recording obligations for materiel issued from local stock fund inventories and procedures for recording obligations for materiel otherwise requisitioned on supply system stocks are in Section 221, DoD Handbook 7220.9H.

4.12.2. The requisitioning activity will enter the fund code to be charged on the requisition (DoD Manual 4140.17M, reference (j)).

4.12.3. The supplying activities will advise of item substitutions or changes in quantities immediately after the requisition edit to determine supply availability provided proper "M&S" codes are stated in the requisition (DOD Manual 4140.17M, reference (j)), and forward with the shipment a priced copy of the shipping document.

4.12.4. The requisitioning activity is responsible for administrative control of funds for obligations incurred. To preclude over obligation of funds the ordering activity will review quantity change and substitution notices received and notify their billing office. Where change of quantities or substitutions would result in an overobligation status, advise the supply activity billing office of requisitioned items to be cancelled or adjusted to avoid overobligation.

4.12.5. In cases where the ordering activity has not received quantity change or substitution notices in sufficient time to cancel or adjust the quantity to be shipped, the ordering activity will take up in its records those items or quantities for which funds are available. The ordering activity will notify the supplying activity and billing office as soon as possible of those items or quantities that cannot be taken up in their records, because such action would result in an overobligation of available funds. Disposition of this materiel will be arranged by mutual agreement between the ordering activity and the supplying activity. Billing adjustments will be made as appropriate.

4.12.6. Errors in billings which result in incorrect charges to appropriations or funds causing apparent overobligations or overexpenditures shall not be considered violations of the Anti-Deficiency Act (RS 3679). (See section 21003.B.3., DoD 7220.9H, reference (i)). These errors will be corrected as soon as possible.

4.13. Billing, Collection and Accounting for GSA Sales Simplified Intra-Governmental Billings and Collection System (SIBAC)

4.13.1. Billing and collection for sales of General Services Administration (GSA) materiel from stock or direct delivery, including accessorial or administrative costs for overseas supply support to DoD Components will generally conform with policies contained in this Instruction and supplemented by procedures in DoD Manual 4000.25-7M. Procedures for preparation and distribution of the monthly Statement of Intra-Governmental Transaction by GSA are contained in Chapter 2, DoD Manual 4000.25-7M. Sales of fuel (Washington, D.C. area), self-service stores, Federal specifications and consolidated purchases of automobiles, refrigerators, etc., will be billed and paid in accordance with Chapter 3, DoD Manual 4000.25-7M (reference (c)).

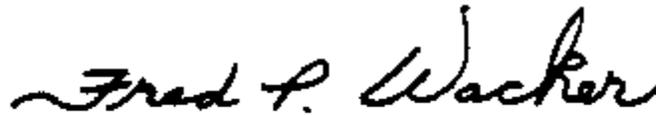
4.13.2. GSA billings are rendered only after there is evidence of actual delivery of materiel or receipt of evidence of shipment.

4.13.3. When a DoD Component orders materiel by hard copy, "Military Interdepartmental Purchase Request (MIPR)," the DoD Component may request direct citation of their funds on contracts awarded by GSA for direct delivery by the contractor. In this instance the contractor will bill the ordering DoD activity directly. As an alternative, when the ordering activity uses hard-copy orders (MIPR's) it may establish a separate MILSTRIP 4140.17M (reference (j)), billing address. If one of these alternatives is not used, MIPR's will be consolidated with interfund billings.

5. EFFECTIVE DATE AND IMPLEMENTATION

5.1. This Instruction is effective immediately.

5.2. Submit two copies of revisions to implementing instructions to the Assistant Secretary of Defense (Comptroller) within 180 days.



Fred P. Wacker
Assistant Secretary of Defense
(Comptroller)

Enclosures - 2

1. References
2. Summary of Changes

E1. ENCLOSURE 1

REFERENCES

- (a) DoD Instruction 7420.12, "Billing, Collection and Accounting for Sales of Materiel from Supply System Stock," June 4, 1973 (hereby cancelled)
- (b) DoD Instruction 2140.3, "Foreign Military Sales Billing Procedures," April 20, 1976
- (c) DoD Manual 4000.25-7M, "Military Standard Billing System (MILSBILLS), July 12, 1973, authorized by enclosure 7 to DoD Directive 4000.25, March 23, 1971
- (d) DoD Directive 7420.1, "Regulations Governing Stock Fund Operations," January 26, 1967
- (e) DoD Directive 7200.7, "Accounting and Pricing for Materiel Financed by Procurement Appropriations for Military Functions," December 16, 1964
- (f) DoD Instruction 7510.4, "Uniform Policy for Charging Accessorial and/or Administrative Costs Incident to Issues, Sales, and Transfer of Materials, Supplies and Equipment," April 7, 1967
- (g) DoD Instruction 2140.1, "Pricing of Sales of Defense Articles and Defense Services to Foreign Countries and International Organizations," March 9, 1977
- (h) Armed Services Procurement Regulations
- (i) DoD Handbook 7220.9H, "Accounting Guidance Handbook," August 1, 1972, authorized by DoD Instruction 7220.9H, July 12, 1971
- (j) DoD Operating Manual 4140.17M, "Military Standard Requisitioning and Issue Procedures (MILSTRIP)," August 1976, authorized by DoD Directive 4000.25, November 12, 1976

E2. ENCLOSURE 2

Summary of Major Changes

- Subparagraph 4.2.1.2. This is a new paragraph. It prescribes that bulk POL will normally be billed to the customer based on notice that the customer has received it. The customer will be billed for the amount received. Discrepancies between shipped and received quantities will be resolved outside of the billing system.
- Subsection 4.7. The last sentence has been added to conform to the change in paragraph 4.2.1.2. above.
- Paragraphs 4.8.1. and 4.8.2. These paragraphs were rewritten to simplify the instructions and to conform to the General Services Administration's requirements for adjustments.
- Paragraph 4.11.1. The requirement to submit a "flash" report to the U.S. Treasury was deleted.