

**SUMMARY OF MAJOR CHANGES TO
VOLUME 10, CHAPTER 1
“FINANCIAL CONTROL OF VENDOR AND CONTRACT
PAYMENTS”**

Substantive revisions are denoted by a ★ preceding the section or paragraph with the substantive change or revision.

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
010101	Deletes references to the Military Department and Defense Agency financial management regulations and desk procedures. Describes the subject coverage within Volume 10, Chapter 1.	Revision
010102	Indicates the <u>Department of Defense Financial Management Regulation “DoDFMR”</u> locations of related policy and procedures.	Revision
010103	Revises and relocates procedural requirements on matching for the purpose of entitlement to paragraph 010201. Adds policy on creating and maintaining a proper internal accounting control environment and operating procedures, the 5 CFR 1315.39(a) & (b) requirement for interest penalty monitoring and annual quality control validations, and the financial and nonfinancial feeder systems compliance process. Relocates control policy on electronically transmitted data from former subparagraph 010304.B. and included a cross-reference to the new Chapter 21.	New
010104	Adds policy on paying and accounting office documentation requirements based on the Federal Acquisition Regulation (FAR) 4.803, Volume 1, Chapter 9 of the “DoDFMR,” and on making all documentation available for internal review and audit. Relocates information on classified contracts from former paragraph 010205.	New
010105	Adds policy on the use of electronic funds transfers, to include the FAR and Defense Federal Acquisition Regulation Supplement (DFARS) references and contract clauses. Adds a reference to the DFARS Central Contract Registration guidance and notes the contractor responsibility for data maintenance.	New

010106	Edits and expands policy on obligations to more fully address the subject of prevalidation, to include the specific requirement for prevalidation of Non-Mechanization of Contract Administration Services (Non-MOCAS) and MOCAS payments. Former subparagraph B. through E. contents on payment distribution will be relocated to the new Volume 10, Chapter 9 .	Revision
010107	Adds general type descriptions and policy on the nature and use of financing payments and a cross-reference to the new Volume 10, Chapter 9 .	New
010108	Adds policy and FAR and DFARS references on invoice payments, including required invoice and progress payment request content per 5 CFR 1315.9(b).	New
010109	Adds policy on acceptance and receipt, including the five-day acceptance report forwarding requirement in 5 CFR 1315.4(e).	New
010201	Adds procedures for executing the payment function.	New
010202	Adds general procedures for CCR registration and EFT payments. Includes actions the DFAS was directed to take for noncompliant contracts/invoices, effective February 1, 2000, per the USD(C) memorandum of December 30, 1999.	New
010203	Adds information on contract clauses that may impose limitations on entitlement to financing or invoice payments.	New

CHAPTER 1

FINANCIAL CONTROL OF VENDOR AND CONTRACT PAYMENTS★0101 GENERAL

010101. The obligation of the Department of Defense (DoD) to pay for goods, services, and transportation is determined by terms and conditions in accepted purchase orders, contracts, and unilateral and bilateral modifications thereto. This volume prescribes the policy and standard procedures necessary to ensure vendor or contractor entitlement to requested financing payments and payments for materials and services delivered to the government, and to ensure timely disbursements and debt collections from vendors or contractors. It prescribes the policy and standard procedures for determining entitlement to other payment types, preparing payment vouchers, and keeping contract, disbursement (entitlement), and accounting records complete, consistent, and accurate.

010102. Related policy and standards for recording obligations, resolving unmatched disbursements and negative unliquidated obligations, and budgetary accounting entries, respectively, are in [Volume 3, Chapters 8, 11, and 15](#), of this Regulation. Policy and procedures on accounting for payables are in [Volume 4, Chapter 9](#), of this Regulation. Policy and procedures regarding disbursement vouchers and accountable and certifying officials, respectively, are in [Volume 5, Chapters 11 and 33](#), of this Regulation. Antideficiency Act violations are addressed in [Volume 14, Chapter 2](#), of this Regulation.

010103. Internal Controls. The DoD policy is to make payments and collections that are timely and accurate. Managers with responsibilities for determining entitlement and authorizing and executing payments and collections shall:

A. Create, document, and maintain an organizational structure that appropriately segregates assigned duties, emphasizes adherence to policies and procedures, and employs sound internal accounting and system access controls.

B. Implement finance and accounting systems that comply with the federal financial management systems requirements, keep disbursement (entitlement), and accounting records accurate and in balance from contract execution through closeout, and monitor the causes of late payments and interest penalties incurred. The complete listing of functional requirements for payment management systems is in the Defense Finance and Accounting Service document titled, "A Guide to Federal Requirements for Financial Management Systems." Efforts to develop or modify a critical financial management system (see [Volume 1, Chapter 3](#), of this Regulation) shall be subject to the financial and feeder systems compliance process.

C. Validate cash management and payment performance quality and effectiveness on an annual basis.

D. Employ systems that ensure the authenticity of data that are electronically transmitted, including the electronic signature. Such controls shall provide reasonable assurance

that deliberate or inadvertent manipulation, modification, or loss of data during transmission is detected (see [Chapter 21](#) of this volume).

010104. Documentation and Review

A. Complete, consistent, and accurate purchase order and contract files and related disbursement (entitlement) and accounting records are necessary to reduce the potential for Antideficiency Act violations and minimize the number and dollar value of problem disbursements. Paying and accounting office contract files shall include the information specified in paragraph 4.803(c) of the Federal Acquisition Regulation (FAR). The use of accounting classification citations and reference numbers (ACRNs) shall be limited, as described in paragraph 204.7103-1(a)(4) of the Defense Federal Acquisition Regulation Supplement (DFARS). Documents accumulated in compliance with the procedures in this chapter shall be retained in accordance with the financial record retention requirements in [Volume 1, Chapter 9](#), of this Regulation and, upon request, be made available for internal review and audit.

B. When a basic contract is classified with a very restrictive and limited need to know, the disbursing office may receive a copy containing the minimum data required for payment. These contracts are sufficient support on which to base payments. Disbursing offices shall ensure that classified information is appropriately safeguarded. Each payment document shall be processed as if it relates to a “normal” payment and, before a payment is made, all prescribed documentation necessary for payment shall be delivered to the disbursing office.

010105. Electronic Funds Transfer (EFT). The contract financing and delivery payments discussed in this chapter shall be made by EFT, that is ordering, instructing, or authorizing a financial institution to credit a payment to a vendor or contractor account without the use of a check or similar paper document, unless one of the exceptions in FAR 32.1103 applies. The contract clauses applicable to domestic (FAR 52.232-33 and 34) and nondomestic EFT payments are discussed in FAR 32.1106. The DoD Central Contractor Registration (CCR) database shall be used as the EFT information source for domestic payments, except as provided in DFARS 204.7302. Contractors shall be responsible for keeping all CCR information current. Late payment interest shall not apply until the receipt of correct EFT information. Notwithstanding CCR information, no EFT payment shall be paid to a party other than the vendor or contractor unless a properly executed assignment of claims document is on file (see FAR Subpart 32.8, DFARS Subpart 232.8, and DFARS 32.1105). Procedures are in Annex 1 of this chapter.

010106. Prevalidation

A. Obligations (and any required adjustments thereof) are established and recorded for the amounts of orders placed and contracts awarded that will require payment in the current or some future accounting period, as prescribed in [Volume 3, Chapters 8 and 15](#), of this Regulation. Liabilities for payment, including accounts payable, are established as prescribed in [Volume 4, Chapters 8 and 9](#), of this Regulation. Prevalidation is the process of matching the planned disbursement with a recorded obligation before the financing or invoice payment is made. The requirement is to determine before the payment is made that the undisbursed balance

of each applicable obligation is sufficient to cover the amount of the planned disbursement, as well as all previously scheduled disbursements. The process is intended to minimize the occurrence of problem disbursements and Antideficiency Act violations. Established thresholds for the prevalidation of vendor and contract payments are as follows.

B. Non-Mechanization of Contract Administration Services (non-MOCAS) Payments. Prevalidation applies to all non-MOCAS payments.

C. MOCAS Payments. Prevalidation is being phased in for MOCAS payments, to avoid significant payment delays. The prevalidation threshold applied to MOCAS contract payments is \$25,000.

010107. Financing Payments. The Department may, at its option through contract clause, authorize interim payments prior to acceptance (see paragraph 010109, below) of commercial and noncommercial goods and services to obtain lower prices or achieve other benefits. Such arrangements are referred to as financing payments and may be in the form of advance payments, commercial interim payments, progress payments based on costs, performance based payments, or interim payments on cost-type contracts. (NOTE: Progress payments based on stage or percentage-of-completion are recognized and accounted for as invoice payments.) Notwithstanding the provision of financing payments, the Department is under no obligation to pay for a good or service until there is delivery and acceptance. Any interim overpayment shall be repaid upon demand. With the exception of interim payments on cost-type contracts, financing payments are recouped (liquidated) through offsets against subsequent invoice payments. With the exception of interim payments on cost-type contracts for services paid more than 30 days after receipt of a proper invoice (a legislative exception), financing payments are not subject to late payment interest. Additional policy and guidance on financing payments and recoupments is in [Chapter 9](#) of this volume.

010108. Invoice Payments. Purchase order or contract terms and conditions specify the payment due date(s), acceptance period following delivery to inspect and/or test goods or evaluate services provided (see DFARS 232.905(1)), entitlement to milestone or other partial payments, and entitlement to interest penalties when the payment is late. Vendor and contractor delivery and partial delivery payment requests are submitted by invoice, when required by the contract. Invoice payments include progress payments under construction contracts (i.e., payments made on the basis of stage or percentage of completion). Under certain conditions, a delivery ticket or receiving report (e.g., DD Form 250) may serve as an invoice. Invoices are written or electronically submitted documents that must include the information specified in part 1315.9(b) of title 5 of the Code of Federal Regulations (5 CFR 1315.9(b)), FAR Subparts 32.9 and 32.11, and related contract clauses (e.g., FAR 52.232-25, 26, and 27). Invoices shall be submitted to the designated billing office specified in the order or contract. An invoice that does not include all information specified in the contract shall be returned, with a statement of reasons as to why it is not a proper invoice.

A. The following correct information constitutes a proper invoice and shall be included for payment.

1. Vendor name
2. Contact name, title, and telephone number
3. Contract number or other delivery authorization
4. Vendor invoice number, account number, or other agreed to identifying number and date
5. Item description, contract line item number (when required), quantity of goods or services rendered, unit of measure, unit price(s), and total amount billed
6. Shipping number and date, bill of lading number and weight if shipped on a government bill of lading
7. Payment terms, to include any prompt payment discount offered
8. Taxpayer identification number, when not otherwise provided to the Department
9. Banking information required for electronic funds transfer, when not otherwise provided to the Department.

B. A request for progress payments under a construction contract must meet the following requirements.

1. An itemization of the amounts requested related to the various elements of work specified in the contract
2. A listing of the amount included for work performed by each subcontractor under the contract
3. A listing of the total amount for each subcontract under the contract
4. A listing of the amounts previously paid to each subcontractor under the contract
5. Any additional supporting data in the form required by the contracting officer.

010109. Acceptance and Receipt. Acceptance is acknowledgment that supplies or services conform to applicable quality and quantity requirements, and may take place before, at time of, or after delivery. The organization(s) responsible for acceptance shall be specified in the contract. Acceptance ordinarily is evidenced by execution of an acceptance certification on an inspection or receiving report form or commercial shipping document or packing list. The

receiving report shall be prepared at the time of delivery or completion of services and include the information specified in 5 CFR 1315.9(c) and FAR 32.905(f). Acceptance reports shall be forwarded to the designated agency office by the fifth working day after acceptance. The following correct information is required on a receiving report or delivery ticket.

- A. Vendor name
- B.. Contract number or other delivery authorization
- C. Item description, unit of measure, and quantity received
- D. Date of receipt and date of acceptance
- E. Printed name, title, telephone number, mailing address, and signature (or electronic alternative) of the accepting or approving official.

★0102 PROCEDURES

010201. The procedures followed in executing the payment function shall ensure that:

- A. Progress payment requests and invoices are processed in sequential order.
- B. No payment is made without evidence of a liability and a determination of entitlement. The nature and extent of procedures vary for financing and invoice payments. Entitlement to financing payments shall be determined by contract terms and conditions, including any required approvals by contracting officers, contract administrators, or contract auditors. Entitlement to invoice payments shall include, as applicable, additional determinations such as proof of receipt and acceptance, receipt of a proper invoice, and verification of all computations. The Fast Pay procedure allows payment prior to verification that supplies have been received and accepted, under the limited conditions listed in FAR 13.402 and DFARS 213.402. Since payment is made based on the contractor's certification, disbursing offices shall ensure the performance of post payment audits. The audits shall confirm acceptance and receipt and include matching with payment documents. Prevalidation shall be performed immediately before the time of payment in accordance with paragraph 010106, above. Additional payment related procedures follow.
- C. During prevalidation, required obligation adjustments shall be effected prior to payment when a quantity variance that is authorized in the contract (or other circumstances identified) results in an undisbursed balance of an applicable obligation that is insufficient to cover that obligation's share of the planned disbursement and all previously scheduled disbursements.
- D. Late invoice payments involving expired or canceled funds are handled in accordance with the requirements in [Volume 3, Chapter 10](#), of this Regulation.

E. Purchase discounts are calculated in accordance with the policy and procedures in [Volume 10, Chapter 2](#), of this Regulation.

F. Payment timing and late payment interest are established in accordance with the cash management and late payment interest policy and procedures in [Volume 10, Chapter 3](#), of this Regulation.

G. Payment instructions are obtained when required by the FAR or DFARS, and payment distributions are handled in accordance with the policy and procedures in [Volume 10, Chapter 9](#), and [Volume 15, Chapter 4](#), of this Regulation.

H. Electronic Signature is used to approve vouchers processed through an automated system. A DoD-approved public key infrastructure digital signature shall be employed. This will ensure that the certifying officer's electronic signature is:

1. Unique to the certifying officer
2. Capable of verification, and that the associated data has not been altered since transformation and is free from repudiation
3. Under the sole control of the certifying officer.

010202. Registration and Payment

A. Under 31 U.S.C. 3332, as implemented by 31 CFR 208 and FAR 32.11, federal payments after January 1, 1999, shall be made by EFT unless the waiver provisions at FAR 32.1103 apply.

B. Under DFARS 204.7302, a contractor shall be registered in the CCR database prior to contract award (lack of registration in the CCR database makes an offeror ineligible for award per DFARS 252.204-7004(b)(4)). Through DFARS solicitation/contract clause 252.204-7004(b)(1), the contractor acknowledges that a prospective awardee must be registered in the CCR database prior to, during performance, and through final payment of any contract (except awards to foreign vendors for work to be performed outside the United States).

C. Contracts are considered grandfathered that were issued prior to July 26, 1996, without CCR database registration and EFT clauses. In that situation, EFT enrollment is voluntary and payment cannot be withheld.

D. Contracts resulting from solicitations or transportation tenders issued on or after July 26, 1996, without CCR database registration and EFT clauses shall be modified to incorporate those clauses by operation of law. The contractor is responsible for providing CCR database registration and EFT information.

E. The contractor shall be notified when EFT information is not provided under the mandatory contract clauses.

1. The notice shall indicate exercise of the government's mandate to pay via EFT. Further, the notice shall indicate that the government will return vouchers and invoices and withhold payment until correct EFT information is entered into the CCR database (FAR contract clause 52.232-33) or until received by the designated office (FAR contract clause 52.232-34).

2. The DFAS shall charge the DoD Component an additional amount for each notification to a contractor. The amount to be charged will be equal to the amount charged for processing a payment for a contract.

F. The DFAS shall take the following actions when a contract that is not exempt (see FAR 32.1103 and DFARS 204.7302) does not include the clauses providing for CCR database registration and payment by EFT.

1. Return the contract to the contracting office and advise that the contract does not comply with CCR and EFT requirements. Request that the contract be modified to include the appropriate CCR database registration and EFT clauses. A copy of the request shall be sent to the contractor.

2. Charge the DoD Component an additional amount for each contract that is returned as a result of not containing the appropriate CCR database registration and EFT clauses. The amount to be charged will be equal to the amount charged for processing a payment for a contract.

3. Notify the DoD Component's senior acquisition official and senior financial manager if a particular contracting office repeatedly fails to comply with the mandatory EFT and CCR contracting requirements. Request that appropriate clauses be inserted in all existing and future contracts.

4. Notify the contractor of applicable CCR database registration and EFT requirements and request voluntary compliance. Send a copy of the notice/request to the applicable contracting office.

5. Pay the contractor and notify the applicable contracting office if the contractor is unwilling to comply with CCR database registration and EFT requirements, or threatens or initiates litigation. Request the contracting office to insert the appropriate clauses in existing and future contracts.

6. Charge the DoD Component involved an additional amount for each payment made by means other than EFT, if the contract does not include the clause specifying payment by EFT and the contractor voluntarily does not comply. The amount to be charged shall be equal to the amount charged for processing a payment for a contract.

7. Charge the DoD Component involved an additional amount for each payment where the contractor is not registered in the CCR in accordance with DoD policy,

if the contract does not require registration and the contractor voluntarily does not comply. The amount to be charged will be equal to the amount charged for processing a payment for a contract.

010203. Payment Limitations. The following contract clauses, when applicable, may impose limitations on entitlement to financing or invoice payments.

A. Limitation on Undefinitized Contracting Actions. In accordance with FAR 16.603-4, letter contracts shall include FAR contract clause 52.216-24. Thereunder, the maximum amount of the government's obligation is the amount specified in the clause. Initially, that amount shall not exceed 50 percent of the estimated cost of the definitive contract but, in most circumstances, the percentage may be increased to 75 percent if the contractor submits a qualifying proposal before 50 percent of the not-to-exceed price has been obligated (see DFARS 217.7404-4 and related contract clause 252.217-7027).

B. Limitation of Cost or Funds. The basic requirements for contract funding are described in FAR 32.700. No officer or employee of the government may create or authorize an obligation in excess of the funds available or in advance of appropriations. The contracting officer expressly shall condition contracts on the availability of funds. Fully funded, facilities, and incrementally funded cost-type contracts may include FAR contract clauses 52.232.20, 21, or 22. Thereunder, the government's obligation to the contractor (and the contractor's obligation to perform) is generally limited to the funds allotted to the contract.

C. Limitation on Withholding of Payments. In accordance with FAR 32.111(c), noncommercial supply, research and development, service, time and materials or labor hour contracts that include two or more terms that authorized temporary withholding of amounts otherwise payable shall include FAR contract clause 52.232-9. Thereunder, the total amount that may be withheld at any one time shall not exceed the amount that may be withheld under any one clause or contract schedule term. This limitation does not apply to withholding under any clause related to employee wages, the recovery of overpayments, withholdings not provided for in the contract, or to any withholding for which the contracting officer determines the limitation would not be appropriate.

D. Limitation of Government's Obligation. In accordance with DFARS 232.705-70, incrementally funded fixed-price contracts (one or more incrementally funded contract line items) shall include DFARS contract clause 252.232-7007. Thereunder, the government's obligation to the contractor for the incrementally funded CLIN(s) (and the contractor's obligation to perform) generally is limited to the funds allotted. The contract clause requires the contractor to notify the contracting officer 90 days prior to the date when the work will reach 85 percent of the amount then allotted.