

VOLUME 5, CHAPTER 6: “PHYSICAL LOSSES OF FUNDS, ERRONEOUS PAYMENTS, AND OVERAGES”

SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue, and underlined font](#).

The previous version dated [February 2023](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated hyperlinks and formatting to comply with current administrative instructions.	Revision
Figure 6-1	Incorporated process map for physical losses of funds from the archived version of Chapter 6 (February 2021).	Addition
Figure 6-2	Incorporated process map for erroneous payments from the archived version of Chapter 6 (February 2021).	Addition
Table 6-2	Incorporated table of standardized questions for loss of funds investigations from the archived version of Chapter 6 (February 2021).	Addition

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CHAPTER 6

PHYSICAL LOSSES OF FUNDS, ERRONEOUS PAYMENTS, AND OVERAGES

1.0 GENERAL

1.1 Overview

An accountable official is a member of the U.S. Armed Forces or a DoD civilian employee who is responsible for or has custody of government funds. Accountable officials include those defined in Chapter 5, section 3.0 as certifying officers and departmental accountable officials (DAO); and in Chapter 2 as disbursing officers (DOs), deputy DOs (DDOs), cashiers, imprest fund cashiers, change fund custodians, paying agents, and collection agents. Accountable officials are personally liable for the physical loss or improper payment of the funds for which they are accountable, unless granted relief. The decision by the Secretary of Defense to grant or deny relief is binding. The Secretary of Defense has delegated authority to the Director of the Defense Finance and Accounting Service (DFAS) to make the required determinations to grant or deny relief on all requests for relief of liability. The Director of DFAS has re-delegated this authority to the Director of Strategy, Policy and Requirements (DFAS-ZP).

1.2 Purpose

This chapter provides guidance for the accountability, investigation, request for relief of liability, and funding for removal of physical losses. The chapter also provides guidance on granting or denying relief of liability, and an overview on overages of public funds. Additionally, the chapter provides the definition of physical losses, and the criteria for minor and major losses. Lastly, the chapter defines and provides examples of erroneous payments (illegal, incorrect, and improper), to include the discovery, investigation, loss of funds (LoF) process, and settlement of erroneous payments.

1.3 Authoritative Guidance

All accountable officials are subject to the pecuniary liability standard under Title 31 of the United States Code (U.S.C.). Except for the DAO, the basic legal liability of an accountable official arises automatically by virtue of the loss, regardless of fault or negligence on the official's part. Relief is a separate process that considers the lack of fault or negligence by the accountable official to the extent authorized by the following:

1.3.1. Title 31, U.S.C., section 3527 ([31 U.S.C. § 3527](#)), which provides general authority to relieve accountable officials and agents from liability due to physical losses;

1.3.2. [Title 31 U.S.C. § 3528](#), which provides general authority to relieve certifying officials from liability due to erroneous payments; and/or

1.3.3. [Title 10 U.S.C. § 2773a](#), which provides general authority to establish pecuniary liability for DAOs.

2.0 DEFINITIONS

2.1 Physical LoF

A physical LoF can be minor or major. A minor loss is a physical loss of less than \$750 and without evidence of theft or fraud within the disbursing office. A major loss must meet at least one of the following criteria:

2.1.1. Equal to or greater than \$750;

2.1.2. Any LoF resulting from theft, regardless of the dollar amount; or

2.1.3. Any loss, regardless of the dollar amount, where there is evidence of fraud within the disbursing office (i.e. embezzlement or fraudulent acts by disbursing personnel, whether acting alone or in collusion with others). See Table 6-1 for examples of physical LoF.

2.2 Erroneous Payments

2.2.1. Erroneous payments include:

2.2.1.1. Any payment that should not have been made or that was made and results in an incorrect overpayment under statutory, contractual, administrative, or other legally applicable requirements; or

2.2.1.2. Any payment to an ineligible recipient or service, duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts.

NOTE: This definition applies to accountable official liability. Improper payments under the [Improper Payments Information Act](#) differ in that they include both underpayments and overpayments. See Volume 4, Chapter 14, [section 2.0](#).

2.2.2. Examples of erroneous payments that require an investigation include:

2.2.2.1. Any payment in which the debt is delinquent for 180 days, or the loss cannot be fully recovered within the 2-year period from the time the erroneous payment was made, such as:

2.2.2.1.1. Overpayment to a payee;

2.2.2.1.2. Payment to the wrong payee;

2.2.2.1.3. Overdrafts of issued U.S. [Department of Treasury \(Treasury\)](#) check; or

2.2.2.1.4. Negotiation of original and replacement Treasury checks;

2.2.2.2. Any payment based on fraudulent, forged, or altered documents prepared or presented by officials who were not under the direct cognizance or control of the DO; or

2.2.2.3. Payment in violation of a regulation.

2.2.3. Examples of erroneous payments that do not require an investigation include:

2.2.3.1. An erroneous payment that is not delinquent for 180 days, and can be recovered within the 2-year period from the time the erroneous payment was made;

2.2.3.2. An erroneous payment that is collectible through offset of military pay, civilian pay, retired pay, or contract debt;

2.2.3.3. A valid payment made in accordance with appropriate documentation, which through no fault of the certifying officer, becomes an overpayment, e.g.:

2.2.3.3.1. A member paid a reenlistment bonus and does not complete terms of the contract;

2.2.3.3.2. A deceased retiree who is overpaid because death notification was not provided; or

2.2.3.3.3. An overpayment on a travel advance;

2.2.3.4. A payment made based on documentation from an individual and certified to be true and correct (e.g., a payment made to the wrong bank account because the individual provided incorrect information); or

2.2.3.5. Any payment made based on vouchers not examined under an approved statistical sampling plan.

3.0 DISCOVERY OF PHYSICAL LOSS OR ERRONEOUS PAYMENT

Any person who believes that an official entrusted with public funds is misusing those funds, or who suspects an occurrence of a fraudulent erroneous payment, must notify the Commander having jurisdiction over the alleged offender within 24 hours of discovery. A physical LoF does not initially impact the DO's Cash Treasury Account Symbol (TAS). The LoF is maintained as part of the DO's accountability and does not affect that balance until recovery, recoupment, or relief of liability is granted. Sections 4.0 and 5.0 provide guidance on the responsibilities and actions required to process physical losses and erroneous payments. See [Figures 6-1 and 6-2 for overviews of processing physical LoF and erroneous payments, respectively.](#)

4.0 PHYSICAL LOSSES

4.1 Responsibilities

4.1.1. DO. Upon notification of a possible loss, the DO must:

4.1.1.1. Verify that all transactions on the DoD [\(DD\) Form 2657](#), Daily Statement of Accountability, and [DD 2665](#), Daily Agent Accountability Summary, posted correctly;

4.1.1.2. Verify the accuracy of all totals from the date of the last balancing of the DD 2657 and the DD 2665 for each DDO, agent, or cashier;

4.1.1.3. Verify by actual count that the total of all cash and documents held as cash by the DO and all DDOs, agents, and cashiers [agree](#) with the amount shown as on hand on the DD 2657 and DD 2665;

4.1.1.4. Report the loss in writing to the Commander if the loss is not resolved within 24 hours of discovery and is a major physical loss as defined in paragraph 2.1; and

4.1.1.5. Request the Commander to direct an immediate audit of all disbursing assets by a Cash Verification Team, as prescribed in Appendix A, to confirm that a loss has occurred.

4.1.2. Commander. Upon notification of a possible loss, the Commander must request the Cash Verification Team conduct an audit of the DO's account. If the discrepancy is not resolved and qualifies as a major [LoF](#) as described in paragraph 2.1, report the loss to the DFAS [LoF](#) Team within 24 hours. Send the report via email to the Disbursing Policy mailbox at dfas.indianapolis-in.zpf.mbx.disbursingdebtmanagementpolicy@mail.mil, or by mail to the [LoF](#) Team, DFAS Accounting and Finance Policy Division, DFAS Indianapolis (DFAS-ZPTC), Location 220V, 8899 E. 56th Street, Indianapolis, IN 46249. When the Commander is in command of the DDO, agent, or cashier, a copy of the report must be provided to the DO. The report must include:

4.1.2.1. The specific type of loss (physical loss, erroneous payment, or fraudulent payment);

4.1.2.2. All known circumstances surrounding the alleged [LoF](#);

4.1.2.3. The authorized amount of the imprest fund (if the loss occurred in the imprest fund);

4.1.2.4. The date the irregularity occurred and/or was discovered;

4.1.2.5. The dollar amount of the loss;

4.1.2.6. The identity of the accountable official(s) by name, rank/grade, and accountable position (such as DO, DDO, agent, or cashier);

4.1.2.7. The date of the investigation or when it will convene;

4.1.2.8. The contact information of the Investigating Officer (IO); including name, email address, and [telephone number](#);

4.1.2.9. The completion date of the investigation or, if applicable, the estimated completion date; and

4.1.2.10. The status of any recovery action in progress or contemplated.

4.2 Accounting for Physical [LoF](#)

4.2.1. [Recording a Physical LoF](#)

4.2.1.1. [Record All Physical Losses](#). All physical losses, major or minor, discovered in the DO's account, including those incurred by deputies, agents, cashiers, imprest fund cashiers, and change fund custodians, must be recorded on the DD 2657 by using an Optional Form [\(OF\) 1017-G, Journal Voucher](#) to document the repositioning or movement of money from one line to another. For example, if a cash count reveals U.S. currency on hand is short \$100, prepare an OF 1017-G to document the loss. Continue to show all losses on the DD 2657 and the Standard Form [\(SF\) 1219, Statement of Accountability](#), until the loss is recovered, recouped, or until relief of liability is granted.

NOTE: Foreign currency loss must be converted and recorded in U.S. Dollar equivalent ([USDE](#)) using the exchange rate at the time that the loss occurred.

4.2.1.2. [Cumulative Record of Physical Losses](#)

4.2.1.2.1. Support the loss entered on the DD 2657 by annotating it on the [DD 2667, Subsidiary Accountability Record](#). If more than one physical loss occurs during a single business day, use a separate line on the same form to account for each loss individually.

4.2.1.2.2. Complete the DD 2667.

4.2.1.2.3. Maintain separate DD 2667s for different DOs.

4.2.1.2.4. Maintain the DD 2667 on file as a subsidiary record supporting the DD 2657.

4.2.1.2.5. Forward the DD 2667 to [the LoF Team](#) within 5 calendar days after the end of each month. Send by email to the Disbursing Policy mailbox at dfas.indianapolis-in.zpf.mbx.disbursingdebtmanagementpolicy@mail.mil or by mail to [the LoF Team, DFAS Accounting and Finance Policy Division, DFAS Indianapolis \(DFAS-ZPTC\), Location 220V, 8899 E. 56th Street, Indianapolis, IN 46249](#).

4.2.1.3. Agent Losses. Physical losses of funds incurred by DDOs, disbursing agents, cashiers, paying agents, collection agents, imprest fund cashiers, or change fund custodians are physical losses within the official agent's accountability documents. It is important to notify the DO of all physical losses as soon as possible. The DO then must reduce the DD 2657 for that particular agent. The DO must also record the loss on the cumulative DD 2667.

4.2.1.4. Change Fund or Imprest Fund Loss. The DO must record the amount of the loss on the DD 2667 and DD 2657.

4.2.1.5. Counterfeit Currency Loss. The DO must record the amount of the loss on the DD 2667 and DD 2657.

4.3 Investigation

An investigation is required for all physical LoF unless the loss is recouped, recovered, or paid back.

4.3.1. Purpose of Investigation. The purpose of the investigation is to review and document all facts leading up to and connecting with the loss, to include the:

4.3.1.1. Amount, date, time, and place of the loss;

4.3.1.2. Identification of accountable officials and others involved (name and rank);

4.3.1.3. Authenticity of documentary evidence and oral testimony;

4.3.1.4. Functional capacity of the accountable official incurring the loss and the physical location of this official, such as disbursing office and/or functional area;

4.3.1.5. Cause of loss; and

4.3.1.6. Adequacy of internal controls in place and effectively implemented.

4.3.2. Type of Loss. The type of loss determines the type of investigation required.

4.3.2.1. Minor Physical Losses

4.3.2.1.1. \$300 or Less (No Fraud). The DO or DDO (if the DO is not co-located with the DDO) will conduct the investigation and complete the written investigatory report. If the loss is attributable to the DO, the primary DDO will conduct the investigation along with the written investigatory report. Under no circumstances will the official incurring the loss prepare their own written investigatory report. In all cases, the written investigatory report must be completed and submitted to the DFAS LoF Team within 30 days from discovery of the loss.

4.3.2.1.2. Over \$300 (No Fraud). The Commander must appoint an IO to conduct the investigation and complete the written investigatory report. The appointed official must be someone other than the DO or disbursing office personnel (e.g., a member of the Cash Verification Team). Furthermore, the appointed IO must have knowledge of disbursing office operations, especially knowledge of the required internal controls, pertinent laws, and applicable directives. In all cases, the written investigatory report must be completed and submitted [through the Commander to the DFAS LoF Team](#) within 30 days from discovery of the loss.

4.3.2.2. Major Physical Losses. An IO must be appointed to conduct a formal investigation when there is a major physical loss.

4.3.2.2.1. Appointment Authority. The following individuals have the authority to appoint an IO:

4.3.2.2.1.1. The Commander of the DO who incurred the loss;

4.3.2.2.1.2. For DFAS sites, the Director of the DO who incurred the loss;

4.3.2.2.1.3. When the accountable official and the DO are not in the same location, the Commander over the accountable official will appoint the IO. For example, the Commander of a disbursing agent located in Afghanistan would appoint an IO when the agent incurs a loss [if](#) the DO is located in Indianapolis; or

4.3.2.2.1.4. When the Commander is not authorized to convene an investigation, the Commander must request an investigation through the chain of command.

4.3.2.2.2. Appointment/Order of IO. The Commander must provide a copy of the official appointment notification to [the DFAS LoF Team](#) within 5 days of appointment. The Commander must include the following in the appointment order:

4.3.2.2.2.1. Name of the IO, telephone number, and email address;

4.3.2.2.2.2. Incident or occurrence that requires an investigation;

4.3.2.2.2.3. Citation of Volume 5, [Chapter 6](#) and any authorizing DoD Component regulation as the authority for the investigation;

4.3.2.2.2.4. The approximate time allowed for the investigation (the investigation must be completed and submitted to [the DFAS LoF Team](#) within 90 days from discovery of the loss); and

4.3.2.2.2.5. Instruction to include a copy of the appointment/order in the report of investigation (ROI) as an exhibit.

4.3.2.2.3. Individuals Authorized to be IO(s). Individuals authorized to be IO(s) include a commissioned officer (O-3 or above) or civilian employee who is senior in rank/grade to the person(s) under investigation and:

4.3.2.2.3.1. Does not have a vested interest in the outcome of the investigation;

4.3.2.2.3.2. Is not in the chain of command of the DO or accountable officials involved in the irregularity;

4.3.2.2.3.3. Is familiar with investigative techniques; and

4.3.2.2.3.4. Has knowledge of financial accounting controls and pertinent laws and directives. Only use Comptroller personnel when there is no feasible alternative to appoint an IO from another organizational element.

NOTE: The comptroller, staff judge advocate, or DFAS Office of General Counsel (DFAS-HG) must provide technical guidance to IOs who do not have extensive backgrounds in investigative or financial matters.

4.3.2.2.4. Guidance for IOs

4.3.2.2.4.1. Develop all information and documentation in connection with the loss so that higher authority may take proper action. This includes information regarding the procedures followed by all officials involved in the loss, as well as safeguards and controls instituted for the entire period in which the loss occurred.

4.3.2.2.4.2. Before interviewing the accountable official(s) for the first time, ensure that each official receives and reviews this chapter, [particularly the authoritative guidance in paragraph 1.3](#), and Chapter 5, section 7.0 regarding liabilities and responsibilities of accountable officials.

4.3.2.2.4.3. Obtain statements from [the](#) accountable official(s) and others involved with the loss. The IO may summarize or report the testimony verbatim. Whenever possible, ensure the witness reviews, attests, and signs the transcript or summary of testimony. If sworn testimony is not obtainable, the IO must submit a statement giving the substance of the interview and the reason for absence of attestation.

4.3.2.2.4.4. If the IO recommends denial of relief to the DO or any other accountable official(s) who are pecuniarily liable for the loss, provide a copy of the report to [those](#) officials.

4.3.2.2.4.5. Gather all records, documents, correspondence, photographs, and sworn affidavits relating to the loss. The IO may use evidence developed in investigations already conducted concerning the loss by other agencies (e.g., Federal Bureau of Investigation, U.S. Secret Service, or local authorities).

4.3.2.2.4.6. Make a determined effort to resolve or clarify all apparent discrepancies or contradictions in the evidence.

4.3.2.2.4.7. Report every 30 days on the status of the investigation. Send the report through the Commander to [the DFAS LoF Team](#).

4.3.2.2.4.8. When extraordinary circumstances require an extension to complete the ROI, the IO may request an extension from the Commander. The Commander must notify [the DFAS LoF Team](#) of any authorized extensions.

4.3.2.2.5. Preparation of the ROI. The ROI must include the following elements.

4.3.2.2.5.1. Facts: The IO must gather all the facts of the loss:

4.3.2.2.5.1.1. Identities of all accountable officials who are pecuniarily liable for the loss, the amount that each person is responsible for, and their involvement in the loss;

4.3.2.2.5.1.2. If any of the accountable officials involved in the loss are not physically located in the disbursing office, describe the structure of the chain of command of the activity in which the official was performing their disbursing functions. In addition, describe the financial services supplied by that official for the activity they serve;

4.3.2.2.5.1.3. Circumstances leading to and surrounding the loss, including the efforts undertaken to discover the cause of a loss that remains unexplained;

4.3.2.2.5.1.4. Description of the internal controls prescribed to prevent losses of the type experienced, and the steps taken to implement those controls;

4.3.2.2.5.1.5. Other relevant information that would aid in understanding how the loss occurred and in evaluating whether relief is appropriate for the accountable officials involved;

4.3.2.2.5.1.6. Documentary evidence (such as statements, transcripts, correspondence, affidavits, investigative reports completed by other agencies, records, and photographs) as exhibits to the ROI; and/or

4.3.2.2.5.1.7. Information regarding collection activity and any possible offset relating to the loss.

4.3.2.2.5.2. Findings. The IO must make the following findings:

4.3.2.2.5.2.1. Whether there was a loss to the U.S. Government and the amount of the loss;

4.3.2.2.5.2.2. Whether the loss occurred through the fault or negligence of the accountable official;

4.3.2.2.5.2.3. Whether negligence, fraud, or theft was the proximate cause of the loss by an individual other than the accountable official(s);

4.3.2.2.5.2.4. The name of the official(s) involved and when the loss occurred; and

4.3.2.2.5.2.5. Whether the accountable official(s) was carrying out official duties when the loss or deficiency occurred.

NOTE: The IO must make any other findings considered necessary and appropriate. It is essential that all findings, especially those indicated in subparagraph 4.3.2.2.5.2, have supporting documentation. When applicable, reference the tab or page number of the supporting documentation after each related finding.

4.3.2.2.5.3. Recommendations. Based on the information gathered, the IO must make a recommendation on:

4.3.2.2.5.3.1. Whether the accountable official(s) should be relieved of pecuniary liability for the loss (separate recommendations are required for each accountable official);

4.3.2.2.5.3.2. Whether other person(s) should be held pecuniarily liable for the loss, in whole or in part;

4.3.2.2.5.3.3. Whether any corrective action is needed to improve controls or procedures; and/or

4.3.2.2.5.3.4. Any other recommendations that are appropriate considering the existing facts, circumstances, and conditions of the case.

4.3.2.2.5.4. Submission of ROI

4.3.2.2.5.4.1. Timeframe. Unless granted an extension, the IO must submit the ROI through the Commander (who appointed the IO) to the DFAS LoF Team within 90 days after discovering the loss.

4.3.2.2.5.4.2. Commander's Actions. Upon receiving the ROI from the IO, the Commander must:

4.3.2.2.5.4.2.1. Immediately review the ROI for compliance with requirements as indicated in subparagraph 4.3.2.2.5;

4.3.2.2.5.4.2.2. Determine if the ROI is complete, and if not, return it to the IO explaining the discrepancies and request further documentation or information. Notify [the DFAS LoF Team](#) if the ROI cannot be completed and submitted within 90 days from discovery of the loss;

4.3.2.2.5.4.2.3. Consider all the facts, findings, and recommendations;

4.3.2.2.5.4.2.4. Make additional findings and recommendations pertinent to the investigation;

4.3.2.2.5.4.2.5. Determine if sufficient evidence exists to support a recommendation for relief from liability or recommend denial of relief referencing all evidence supporting the denial recommendation for each accountable official involved;

4.3.2.2.5.4.2.6. Forward a copy of the ROI and all attachments to [the DFAS LoF Team](#), unless the investigation is on hold for fraudulent or wrongful conduct (see note below subparagraph 4.3.2.2.5.4.2.10);

4.3.2.2.5.4.2.7. Forward a copy of the ROI to the Commander of the base, station, activity, ship, or unit where the accountable official(s) is located. For Army Financial Management Detachments, send a copy to the Financial Management Support Unit. It is the commander's discretion whether to use the ROI for disciplinary or administrative actions;

4.3.2.2.5.4.2.8. Keep a copy of the ROI;

4.3.2.2.5.4.2.9. Submit any documentation and/or information requested by [the DFAS LoF Team](#); and

4.3.2.2.5.4.2.10. Forward any documentation and/or information to [the DFAS LoF Team](#) that becomes available after the ROI has been forwarded.

NOTE: If there is evidence of fraudulent or wrongful conduct, and the matter is under investigation by authorized law enforcement personnel, the investigative entities may request the Commander to withhold the report until completion of their investigation. If so, the Commander must continue to follow-up on the status of their investigation and advise [the DFAS LoF Team](#) of the status every 30 days. It is acceptable to add copies of the investigative reports as exhibits before forwarding the report through the chain of command to DFAS.

4.3.3. [DFAS LoF Team \(DFAS-ZPTC\)](#):

4.3.3.1. Review the ROI upon receipt;

4.3.3.2. If the ROI lacks sufficient information, or in the absence of compliance with the provisions for the findings and recommendations, [the DFAS LoF Team](#) may return the report for further investigation and fulfillment of the provisions as indicated in subparagraph 4.3.2.2.5; and

4.3.3.3. Forward the final decision to the appropriate individuals, and in those cases where individual(s) are held liable, inform them of their right to submit a rebuttal.

4.4 Funding for Removal of Physical Losses

In all cases, the ideal method for resolving a loss is recovery of the loss from the beneficiary. For example, 1) recovery of missing cash from the finder, or 2) collection from the accountable official.

4.4.1. Appropriated funds must be made available to remove the deficiency from the DO's SF 1219 if the losses are not recovered. This includes instances when relief of liability has been denied and recoupment cannot be made from the accountable official or when relief of liability is granted to the accountable official.

4.4.1.1. DFAS Employee. If the accountable official responsible for the [LoF](#) was a DFAS employee or a military member assigned to DFAS when the loss occurred, DFAS must identify the necessary appropriation and funding to resolve the loss.

4.4.1.2. Other DoD Component Employees. If the accountable official responsible for the [LoF](#) was a military member or employee of another DoD Component when the loss occurred, that DoD Component must identify the necessary appropriation and funding to resolve the loss.

4.4.2. The DO must clear the [LoF](#) from the DD 2667 and DD 2657 (based on the instructions given by DFAS).

5.0 ERRONEOUS PAYMENTS (ILLEGAL, INCORRECT, AND IMPROPER)

5.1 Responsibilities

5.1.1. Fraudulent or Suspected Fraudulent Erroneous Payments

5.1.1.1. Commander. Upon notification of a fraudulent or suspected fraudulent erroneous payment, the commander must:

5.1.1.1.1. Notify [the DFAS LoF Team](#) within 24 hours of notification, through the chain of command, per subparagraph 4.1.2;

5.1.1.1.2. Appoint an IO to conduct a formal investigation. See subparagraph 4.3.2.2.2; and

5.1.1.1.3. Ensure the investigation is completed and forwarded to [the DFAS LoF Team](#) within 90 days from the appointment of the IO.

5.1.1.2. DO. Upon notification of a fraudulent or suspected fraudulent erroneous payment, the DO must:

5.1.1.2.1. Determine if the erroneous payment occurred due to fraudulent actions of accountable officials under the direct cognizance or control of the DO, and prepare a [DD Form 1131](#), Cash Collection Voucher, transferring the amount of the fraudulent payment back into the appropriation from which the payment disbursed. The collection transaction is reported to Treasury via the Classification Transactions and Accountability (CTA), which will feed the Central Accounting Reporting System daily account statement showing an increase to [the DO Cash TAS](#) and an increase to the program TAS on the collection voucher. In addition, increase [the DD 2657](#) if the loss is a predecessor loss. Record the loss on the DD 2667 as prescribed in subparagraph 4.2.1.2 if the erroneous payment occurred due to fraudulent actions of accountable officials under the direct cognizance or control of the DO;

5.1.1.2.2. Determine if the erroneous payment occurred due to fraudulent actions of individuals who were not under the direct cognizance or control of the DO; the payment(s) must remain charged to the appropriation originally charged.

5.1.2. Erroneous Payments – No Fraud

5.1.2.1. Certifying Officer: Upon notification of an erroneous payment, the certifying officer must:

5.1.2.1.1. Review the erroneous payment voucher and the supporting documentation;

5.1.2.1.2. Ensure collection action is taken against the recipient of the payment, as prescribed in Volume 16. This may require submission of the debt to the DO or other responsible area; and

5.1.2.1.3. Notify the Commander if the recipient of the erroneous payment does not voluntarily repay the amount owed and:

5.1.2.1.3.1. The debt is delinquent for 180 days; or

5.1.2.1.3.2. The full amount of the loss is not recovered within the 2-year period, which is calculated from the time the erroneous payment was made.

5.1.2.2. DO's Responsibilities

5.1.2.2.1. The DO does not need to take any action if the erroneous payment was properly certified.

5.1.2.2.2. If the erroneous payment was not properly certified:

5.1.2.2.2.1. Report the loss to the Commander; and

5.1.2.2.2.2. Ensure collection action was taken against the recipient of the payment, as prescribed in Volume 16. This may require submission of the debt to another responsible area. If the erroneous payment is recouped from the recipient, collect the proceeds into the appropriation originally charged, unless the appropriation is canceled. If the appropriation is canceled, refer to Volume 4, Chapter 3, subparagraph 3.3.3 for disposition of the collection.

5.1.2.3. Commander: Upon notification of an erroneous payment, the commander must:

5.1.2.3.1. Determine whether a formal or an informal investigation is required;

5.1.2.3.2. Appoint an IO to conduct the appropriate investigation; and

5.1.2.3.3. Ensure the investigation is completed and submitted to [the DFAS LoF Team](#).

5.2 Investigation of Erroneous Payments

5.2.1. Formal Investigation Policy

5.2.1.1. Formal investigations are required when:

5.2.1.1.1. Fraud is suspected on the part of the payee, disbursing office personnel, certifying officer, or any other accountable official; or

5.2.1.1.2. The Commander determines it to be necessary.

NOTE: Formal investigations for erroneous payments must follow the guidance outlined in paragraph 4.3.

5.2.1.2. The investigation must be submitted to [the DFAS LoF Team](#) through the Commander who appointed the IO within 90 days from the appointment of the IO.

5.2.2. Informal Investigation Policy

5.2.2.1. The IO must prepare investigatory comments.

5.2.2.2. The investigation must be submitted to [the DFAS LoF Team](#) within 60 days from the Commander's notification of the erroneous payment.

5.3 Completion of Erroneous Payments Process

When feasible, all actions required to reach a determination of liability for a LoF due to an erroneous payment should be completed within 3 years after the date the SF 1219 is certified.

5.4 Settlement of Erroneous Payments

Generally, the DO will not carry an erroneous payment as a LoF on the SF 1219, since an appropriation was charged when the payment was disbursed. However, there are exceptions to this general rule. For example, an exception occurs when Treasury applies check-issue overdrafts against a disbursing station symbol number, or if an accountable official under the direct cognizance or control of the DO made a fraudulent payment.

5.4.1. If the erroneous payment is recovered from the recipient, the appropriation initially charged is credited the amount recouped or collected unless the appropriation is canceled. Refer to Volume 4, Chapter 3, subparagraph 3.3.3 for disposition of the collection of canceled appropriation.

5.4.2. If the erroneous payment cannot be recovered from the recipient and relief of liability has been denied, the loss must be collected from the DO, certifying officer, and/or accountable official(s) involved. Credit the proceeds from the collection to the appropriation originally charged unless the appropriation is canceled. For disposition of the collection of a canceled appropriation, refer to Volume 4, Chapter 3, subparagraph 3.3.3.

5.4.3. The amount of the erroneous payment must remain charged to the appropriation that the payment originated from when:

5.4.3.1. Relief of liability is granted; or

5.4.3.2. Recovery attempts from the recipient are unsuccessful.

5.4.4. If an adjustment to the appropriation account to which the payment was charged is necessary, the amount of the erroneous payment must be charged as stated in 31 U.S.C. § 3527(d)(1).

5.5 Document Retention

The following documents and information are retained to ensure proper response to audits conducted by the Government Accountability Office:

5.5.1. Detailed statement of facts of the case, including the type of irregularity, date, amount, names, and positions of the accountable official(s) involved;

5.5.2. Reference to pertinent supporting documents, such as pay records, contracts, and vouchers;

5.5.3. Description of how the irregularity occurred and how it affected the accountable official's account;

5.5.4. Adequate description of procedural deficiencies, if known, that caused the irregularity and the corrective action taken or to be taken; and/or

5.5.5. Information on any recoupment already made or being considered.

NOTE: See subparagraph 4.1.2 for contact information for [the DFAS LoF Team](#).

6.0 REQUEST FOR RELIEF

6.1 Request for Relief

Requests for relief must be in the form of a memorandum and submitted within 30 days after the investigation is completed. A copy of the IO's report must be included as an attachment to the request for relief. Erroneous payments paid through the Treasury Direct Disbursing process follow the same process as erroneous payments paid through a DoD disbursing office. Accountable officials must submit their request for relief as follows.

6.1.1. DOs. Submit the request for relief through the Commander or DFAS site director to [the DFAS LoF Team](#).

6.1.2. DOs Settling Accounts of Former DOs. Submit the request for relief on behalf of a former DO to [the DFAS LoF Team](#).

6.1.3. DDOs, Disbursing Agents, Cashiers, Certifiers. Submit requests for relief through the DO responsible for the account to [the DFAS LoF Team](#).

6.2 Evidence Required for Granting Relief

6.2.1. Burden of Proof. An accountable official is strictly liable for any erroneous payment or physical [LoF](#) placed in the official's care, subject to relief of liability. Accordingly, if the Government can establish that a loss has occurred, strict liability applies to the accountable official involved with the loss. The accountable official bears the burden of proving that it is more likely than not that the official:

6.2.1.1. Was not negligent; or

6.2.1.2. The official's fault or negligence [was](#) not the proximate cause of the loss.

6.2.2. Information Required. Generally, the findings of related court of inquiry, investigation, court-martial, or other proceedings (including endorsements) will provide the information required for the loss. When such information is not available, the following information must be supplied and considered in the request for relief and/or the forwarding endorsements. Failure to include all the information required could contribute to an unfavorable consideration of a request for relief. Include the following items:

6.2.2.1. The specific duty assignment of the accountable official when the loss occurred;

6.2.2.2. A statement showing when, how, and who discovered the loss;

6.2.2.3. A description of any actions taken to verify the loss and establish how the loss occurred;

6.2.2.4. A statement including the date of the last cash count and balancing prior to discovery of the loss;

6.2.2.5. A copy of the appropriate standard operating procedures in effect at the time the loss occurred. If no written procedures are available, provide a statement to explain the known and utilized procedures at the time the loss occurred;

6.2.2.6. A statement indicating pertinent regulations and instructions were followed or, if not followed, an explanation and justification for any omissions and deviations;

6.2.2.7. A statement regarding the official's past involvement in any prior losses, if applicable;

6.2.2.8. A statement indicating whether the loss was caused by theft or some other criminal act; and

6.2.2.9. A description of the manner in which the DO is carrying the loss in their account, and the identity of that DO.

6.2.3. Forwarding Endorsements. Each addressee in the requestor's chain of command (including the DO) must provide a forwarding endorsement that must include a specific opinion as to whether the loss occurred while the accountable official was in the line of duty and regarding fault or negligence. A specific recommendation regarding granting or denying relief is required, as a part of the forwarding endorsement.

6.3 Statutory Standards for Relief of a Physical Loss

The general authority to relieve accountable officials from liability is stipulated in 31 U.S.C. § 3527. Relief of liability may be granted when:

6.3.1. The Secretary of Defense determines that the official was carrying out official duties when the loss occurred;

6.3.2. The loss or deficiency was not the result of an illegal or incorrect payment; and

6.3.3. The loss or deficiency was not the result of fault or negligence by the official.

6.4 Statutory Standards for Relief of an Erroneous Payment

The general authority to relieve accountable officials from liability is stipulated in 31 U.S.C. § 3527(b)(1)(B), which incorporates by reference 31 U.S.C. § 3528(b)(1), as follows.

6.4.1. DO

6.4.1.1. The payment was not the result of bad faith or lack of reasonable care; and

6.4.1.2. The disbursing officials and the agency have made diligent collection efforts.

6.4.2. Certifying Officer

6.4.2.1. The certification was based on official records and the certifying officer did not know, and by reasonable diligence and inquiry could not have discovered, the correct information; or

6.4.2.2. The obligation was incurred in good faith, no law specifically prohibited the payment, the U.S. Government received value for the payment, and diligent collection efforts were made to recover the payment.

6.4.3. DAO. Pecuniary liability under this subsection will apply in the same manner and to the same extent as applies to an official accountable under 31 U.S.C., subtitle III.

7.0 DECISIONS ON LIABILITY

7.1 Relief Granted

If granted relief, [the DFAS LoF Team](#) will provide a memorandum with instructions for removing the deficiency or authority to leave the payment charged to the original appropriation.

7.2 Relief Denied

If denied relief, [the DFAS LoF Team](#) will advise the accountable official(s) of the decision and of their right to submit a rebuttal. The rebuttal must be submitted to [the DFAS LoF Team](#) within 30 days from the date of notification of the adverse determination. Based on the additional information received, [the team](#) will make a recommendation to the Director, [Strategy, Policy and Requirements](#), through the [DFAS Office of General Counsel](#), whether to affirm or reverse the previous decision.

7.2.1. If the decision is reversed, the accountable official(s) will be advised accordingly, and the DO will be provided instructions for removal of the [LoF](#) or authority to leave the payment charged to the original appropriation.

7.2.2. If the decision stands, the Commander and/or DO will be advised to take immediate collection action against the accountable official(s). Cash recouped from a loss and retained for future operating use does not impact the DO Cash TAS balance. Volume 16 provides guidance for completing collection of irregularities.\

8.0 OVERAGES OF PUBLIC FUNDS

8.1 Overview

Overages are funds held in an amount greater than the amount shown to be on hand by the daily accountability records of the DO.

8.2 Recording Overages of Funds

Do not offset an overage of funds against a physical LoF unless the relation between the two is obvious (e.g., foreign currency on hand is short and U.S. currency on hand is over by equal USDE amounts). Do not offset overages against shortages if the shortage and overage occur on different business days. An overage of funds must be collected into the DO's accountability and reported by CTA transactions to Treasury's Budget Clearing Account (Suspense), F3875, citing the collection Business Event Type Code (BETC) along with the DO Cash TAS/BETC. If the proper location of the overage cannot be determined, the overage must be transferred to Treasury's Forfeiture of Unclaimed Money and Property, R1060, utilizing a CTA transaction. Track overages by recording each occurrence on a separate DD 2667, maintained specifically for overages.

NOTE: The DD 2667 is a stand-alone document for tracking overages. Start a new DD 2667 for overages at the beginning of each quarter.

8.3 Preparation of the DD 2667 as a Record of Overages of Funds

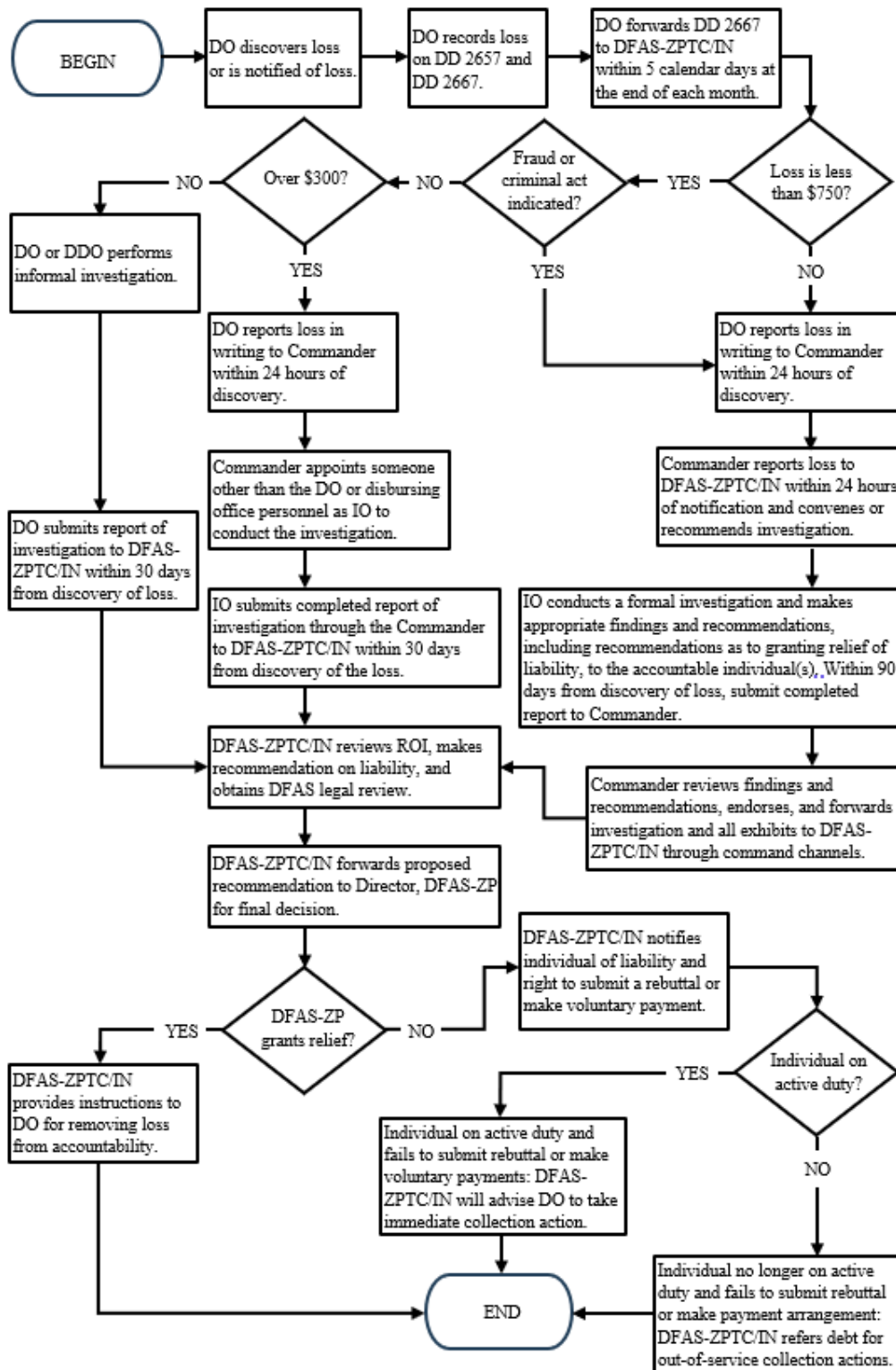
List each overage occurring each day on the DD 2667.

8.4 Reporting Overages of Funds

Overages of funds that are \$750 or more must be reported to the Commander. However, unless there is an indication of fraud or other criminal act, there is no requirement to report or investigate as in losses of funds. A copy of the DD 2667 must be retained with the original voucher transferring the funds to the R1060 account.

*Figure 6-1. Processing Physical Losses of Funds

PROCESSING LOSSES OF FUNDS DUE TO PHYSICAL LOSS



*Figure 6-2. Processing Erroneous Payments

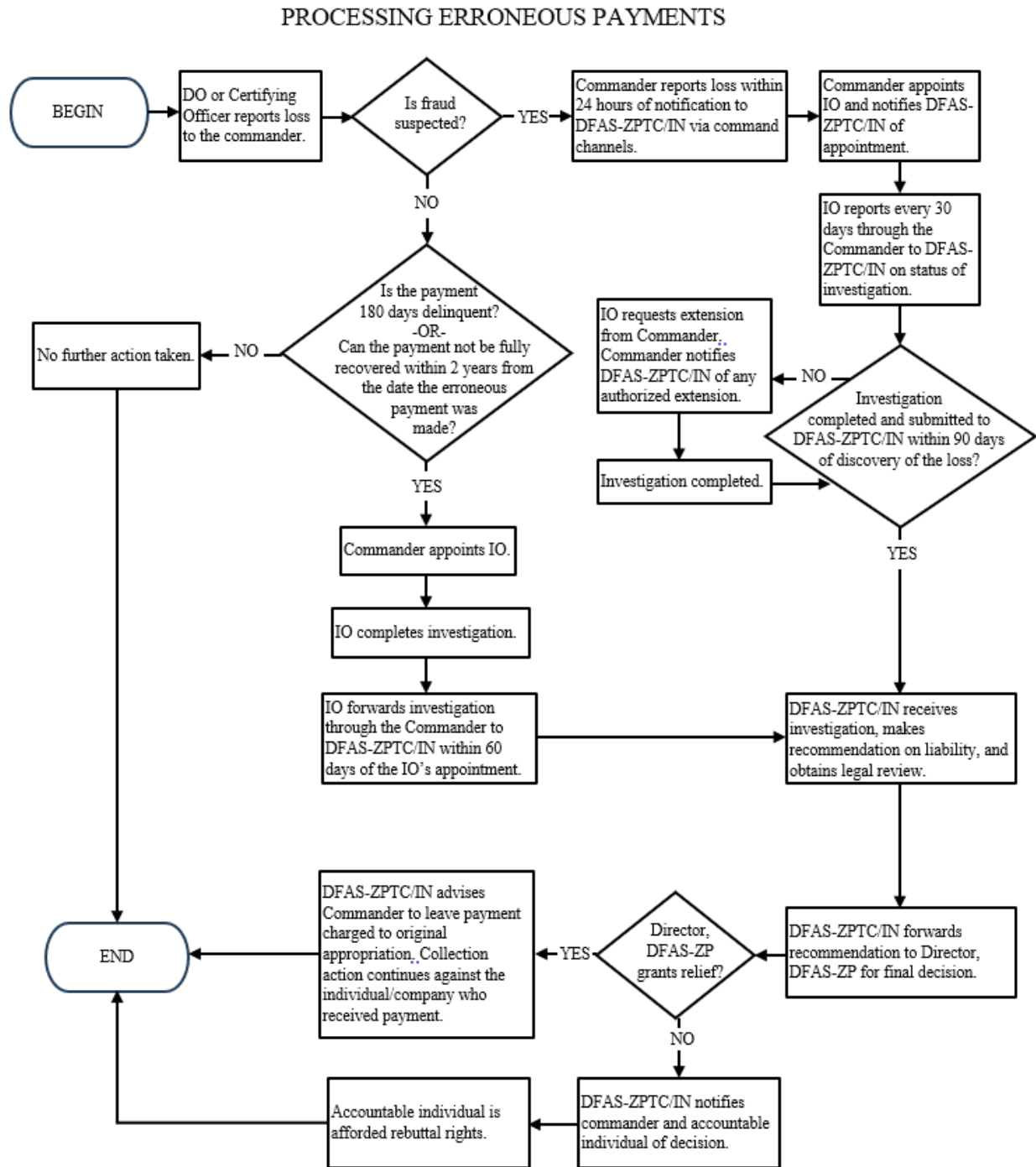


Table 6-1. Examples of Physical Losses of Funds

TYPES OF LOSSES	EXPLANATION
Public Funds	Loss of cash.
Limited Depository Account (LDA)	A loss can occur when the LDA is unreconciled, reported incorrectly, or subjected to a fraudulent transaction.
Records	Loss of records such as debit vouchers or deposit tickets.
Original Vouchers	Copies of the original voucher and retained supporting documents may be stamped as a certified copy of the original voucher if the original voucher is lost. However, the absence of a signature acknowledging receipt of a cash payment may negate the validity of the certified copy. The same is true when a payee denies receipt of a cash payment and there is no original voucher with the payee's signature to provide proof of payment.
Documentation Supporting Debit Vouchers	A physical loss can occur if open debit items cannot be reconciled because of the loss of supporting documentation.
Shipment of Cash	Shipments of cash that are lost can result in the liability of the accountable official(s) if they failed to ship cash as prescribed in Chapter 3, section 5.0 .
Unexplained Losses	No explanation – money is missing.
Negotiable Instruments	A physical loss can result when a negotiable instrument and all copies held in the disbursing office are lost.
Bank Failure	DO's funds held in a bank; e.g., an LDA, and the bank closed because of failure.
Counterfeit Currency	Currency in the DO's possession determined to be counterfeit.
Change Fund	Cash shortage that is not whole from sales receipts.
Imprest Fund	Shortage of funds advanced to imprest fund cashier.
Fraud within Disbursing	A loss resulting from fraudulent actions of disbursing personnel acting alone or in collusion with others.
Robbery, Burglary	A LoF from a robbery/burglary.

*Table 6-2. Standardized Questions for Investigations

Question	Cashier Loss	Counterfeit Currency Loss	Agent Officer Loss	Fraud Loss	Imprest Fund Cashier and Change Fund Custodian Loss
Have the DO and other person potentially liable for the loss been afforded all the rights and privileges of parties in interest?	X	X	X	X	X
Has the IO obtained testimony from every person who has relevant information regarding the circumstances?	X	X	X	X	X
Has the IO thoroughly questioned each witness?	X	X	X	X	X
Are there inconsistencies among the testimonies of different witnesses?	X	X	X		X
Did the IO conduct a thorough investigation to discover the full extent of the loss?	X	X	X	X	X
Has the IO considered other investigations conducted regarding the loss? (NOTE: Do not consider lie detector test results.)	X		X	X	X
If fraud is involved, were the methods to defraud the U.S. Government clearly described?				X	
Is the cause of the loss clearly established?	X	X	X	X	X
Was a thorough search of the physical area made for missing cash or vouchers?	X		X		X
Did the IO review the transactions made during the day of the loss thoroughly, in an effort to determine the cause of the shortage?	X		X		X
Were any individuals contacted in an effort to determine if an overpayment had been made and could be recovered?	X		X		X
Were individuals who made collections contacted to determine if they found a compensating overage in their accounts?	X		X		X
Was all cash-on-hand counted to make sure there was no compensating overage?	X		X		X
What was the number of transactions handled by the cashier/agent during the period in which the loss occurred?	X		X		X
Did distracting influences exist or were working conditions poor?	X	X	X		X
Was the cashier/agent working under pressure because of the heavy volume of business?	X	X	X		X
Was the cashier/agent handling new currency that has a tendency to stick together?	X		X		X
Was the cashier/agent experienced or inexperienced?	X		X		X
What procedures and internal controls has the DO established to safeguard funds and preclude fraudulent activity?	X		X	X	X
What facilities were available to protect cash for which the cashier/agent was accountable, such as a cash drawer with key lock or a separate safe?	X		X		X
What procedures did the DO, deputy DO, and/or disbursing agent follow in making daily settlements with the cashier?	X				
Has the DO supplied instructions in detecting counterfeit money for those personnel in the office that handle money?		X			
What written SOPs has the DO supplied for guidance?	X	X	X		
Are the SOPs adequate?	X		X		
Did the accountable official follow the applicable procedures on the day of the loss?	X	X	X	X	X

Table 6-2. Standardized Questions for Investigations (Continued)

Question	Cashier Loss	Counterfeit Currency Loss	Agent Officer Loss	Fraud Loss	Imprest Fund Cashier and Change Fund Custodian Loss
Has the DO issued any oral instructions?	X	X	X		
Was the cashier's cage or safe accessible to persons other than the cashier/agent?	X		X		
Did theft occur?	X		X		X
Does the exhibit show the appointment of the official; i.e., cashier, DDO, agent?	X		X		X
Was the cashier/agent functioning under the direct cognizance/control of the DO?	X		X		
When, and by whom, was the receipt of counterfeit currency detected?		X			
Was an effort made to determine the source of the counterfeit note(s)?		X			
Does the volume of transactions handled by the cashier/agent preclude a careful inspection of every piece of currency?		X			
Do exhibits show the amount the DO entrusted to the cashier/agent, the signature of the cashier/agent in receipt of funds, the turn-in made by the cashier/agent, and the amount of the shortage or a statement of the cashier's/agent's account?	X		X		
If the loss involves funds in the hands of a cashier/agent, has the DO inspected and supervised the cashier/agent office, or arranged for such inspections?	X		X		
Under what functional capacity was the accountable individual acting with regards to the DO?				X	
What is the accountable official's immediate chain of command within the activity for which they provide disbursing services?				X	
Has all possible collection action been taken?				X	
In the case of military personnel, is collection action occurring in the field or by the supporting DFAS site in cases where personnel have been separated from the Service?				X	
In the case of civilian employees, has the individual involved authorized application of pay to offset the shortage?				X	
Have steps been taken to secure application of final pay to settle the indebtedness?				X	
If the amount of the indebtedness was determined, was a request made to Office of Personnel Management for offset against the Civil Service Retirement and Disability Fund?				X	