

**VOLUME 3, CHAPTER 8: “STANDARDS FOR RECORDING AND REVIEWING
COMMITMENTS AND OBLIGATIONS”**

SUMMARY OF MAJOR CHANGES

All changes are 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 **September, 2009** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Policy Memo	The Deputy Chief Financial Officer’s policy memorandum, “Accounting Policy Update for Triannual Review of Obligations and Unfilled Orders,” dated February 28, 2013 was incorporated into the chapter and cancelled.	Cancellation
All	Revised format to be consistent with the Department of Defense (DoD) Financial Management Regulation (FMR) Revision Standard Operating Procedures (SOP) dated June 2015.	Revision
080101	Revised the purpose paragraph to include the Triannual Review of commitments, obligations, accounts payable, unfilled customer orders and accounts receivable.	Revision
080102	Added an Authoritative Guidance paragraph in accordance with the DoD FMR Revision SOP dated June 2015.	Addition
080203	Added requirement that commitments must cite a Standard Line of Accounts (SLOA) and use transactions outlined in United States Standard General Ledger Standard Financial Information Structure (SFIS) Transaction Library.	Addition
080204	Added paragraph to require a pre-award funds validation between the contract writing and accounting systems.	Addition
080301	Defined actions that would incur obligations per Office of Management and Budget Circular A-11 Section 20.5.	Addition
080302	Added reference to requirement that obligations may be recorded only when supported by documented evidence. Added references and hyperlinks to relevant United States Code, Defense Federal Acquisition Regulation Supplement and Federal Acquisition Regulation.	Addition

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
080303.A	Added requirement that obligations must cite a SLOA and utilize transactions resident in the SFIS Transaction Library.	Addition
080304	Added requirement to provide contract obligating documents electronically.	Addition
080304.B.2	Revised description of non-severable contracts.	Revision
080304.B.3.b	Added training authorized by Title 10 United States Code Section 2249c for the training of foreign officials.	Addition
0804	Added guidance for obligations of Judgment Funds, including administrative oversight roles and responsibilities.	Addition
080613	Added requirement to determine if transaction made in foreign currencies may cause potential Antideficiency Act violations due to fluctuations in exchange rates.	Addition
081303.D	Added language to address situations where contract awards are determined to be invalid as a result of a bid protest and the contract is terminated for convenience.	Addition
081311	Deleted paragraph on simultaneous undelivered orders and delivered order obligations, unpaid.	Deletion
0814	Revised requirements for documentation and notification for recording previously unrecorded obligations.	Revision
081403.C	Added requirement for Defense Finance and Accounting Service (DFAS) to notify the Funds Holder of any obligations recorded by DFAS and for the Funds Holder to approve those obligations.	Addition
081403.D	Added language to identify the problems created by over- or under-recording obligated amounts.	Addition
081404	Added requirement to use expired funding for obligations incurred in prior periods.	Addition
0815	Added description of internal control responsibilities of Funds Holders and Department Level Management.	Addition
081504	Added requirement to segregate the duty of recording obligations and from all other entitlement transaction recording duties.	Addition
0816	Revised policies and procedures, process timeline, documentation requirements, internal control responsibilities, and deobligation procedures concerning the Triannual Review of commitments, obligations, unfilled customer orders, and accounts receivable. (Formerly Section 0804)	Revision

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CHAPTER 8

STANDARDS FOR RECORDING AND REVIEWING COMMITMENTS AND OBLIGATIONS

0801 GENERAL

*080101. Purpose

This chapter sets forth the basis for determining the amount and accounting period in which commitments and obligations **must** be recorded under various circumstances. Departmental standards for recording transactions in the execution level budgetary accounts are in Chapter 15. **This chapter also provides guidelines for the Triannual Review of commitments, obligations, accounts payable, unfilled customer orders and accounts receivable.** Priorities for researching and correcting disbursement transactions are in Chapter 11.

*080102. Authoritative Guidance

This chapter is based on regulatory and statutory requirements cited throughout the chapter. The primary regulatory source is the Office of Management and Budget (**OMB Circular A-11**). The primary statutory sources include Titles 10 and 31 of the United States Code, and the Code of Federal Regulation (CFR) **Title 48, Chapter 1** “Federal Acquisition Regulation” (**FAR**).

0802 COMMITMENTS

080201. Definition

The term “commitment” is defined in Chapter 15. The amount to be recorded as a commitment is the estimated procurement cost set forth in the commitment document. The date the commitment document is signed by an authorized official determines the accounting period in which the commitment is to be recorded in the general ledger. Officials may commit funds only to acquire goods, supplies, and services that meet the bona fide needs of the period for which Congress appropriated funds, or to replace stock used during that period. See subparagraph 080304.A for further bona fide need concepts that apply to commitments.

*080202. Recording of Commitments

All business events and financial events resulting in a commitment must cite a Standard Line of Accounting (SLOA) in accordance with Volume 1, Chapter 4, and must be recorded in the general ledger in accounting with the United States Standard General Ledger (USSGL) Standard Financial Information Structure (**SFIS**) Transaction Library in Volume 1, Chapter 7.

080203. Special Provisions for Determining the Amounts of Commitments

A. Contingent Liabilities Remaining under Outstanding Contracts. There are contingent liabilities for price or quantity increases or other variables that cannot be recorded as valid obligations in the cases of:

1. Outstanding fixed price contracts containing escalation, price redetermination, or incentive clauses;
2. Contracts authorizing variations in quantities to be delivered; and
3. Contracts where allowable interest may become payable by the United States (U.S.) Government on contractor claims supported by written appeals pursuant to the "Disputes" clause contained in the contract (see subparagraph 080402.D).

B. Recording Contingent Liabilities Remaining under Outstanding Contracts. Amounts to cover these contingent liabilities should be carried as outstanding commitments pending determination of actual obligations. The amounts of such contingent liabilities, however, need not be recorded at the maximum or ceiling prices under the contracts. Rather, amounts should be committed that are estimated conservatively to be sufficient to cover the additional obligations that probably will materialize, based upon judgment and experience. In determining the amount to be committed, allowances may be made for the possibility of downward price revisions and quantity under runs. Each contingent liability, [as referenced in Statement of Federal Financial Accounting Standards \(SFFAS\) 5, "Accounting for Liabilities of the Federal Government," paragraphs 38 and 39](#), must be supported by sufficient detail to support an audit.

C. Letter Contracts and Letters of Intent. When accepted, a letter contract or letter of intent [must](#) be recorded as an obligation, but only in the amount of the maximum liability stated. The maximum liability amount may be required by other regulations to be limited to the costs that the contractor may incur pending execution of a definitive contract. In that case, the estimated amount of the definitive contract, over and above the obligation recorded under the letter contract or letter of intent, [must](#) be carried as an outstanding commitment, pending execution of the definitive contract. If the letter stipulates that awarding of the definitive contract is dependent upon a congressional appropriation, then no funds are available to commit and no commitment may be recorded.

D. Open End Contracts and Option Agreements. An authorization to incur an obligation under an open end contract or option agreement (when neither the items nor quantities are specified, but are to be the subject of subsequent orders) must be recorded as a commitment only when the amount estimated is reasonably firm. The existence of a specific dollar amount in the procurement directive or request does not make the dollar amount reasonably firm. Rather, the required quantities and the quality specification must have been determined by competent authorized personnel so that reasonable prices may be estimated. An example is a planning

estimate for spare parts. While it is known that an initial complement of spare parts will be acquired, the specification and quantity still must be determined. Experienced personnel can estimate an amount useful in planning, but this amount is not reasonably firm. The amount is recordable as a memorandum “initiation” (see Chapter 15), but not as a commitment.

E. Contract Amendments or Engineering Changes. An authorization to execute engineering change orders during the course of performance of a contract may be recorded as a commitment upon the basis of a stated cost limitation even though the scope and amount of such changes are not yet defined and require specific approval of the person authorizing the procurement (or another designee) before the execution of the change orders. In such circumstances, however, it may be necessary to revise the authorization (and the recorded commitment) in light of subsequent events, including change orders actually placed.

F. Intragovernmental Requisitions and Orders. Intragovernmental requisitions and orders (such as the [Department of Defense \(DD\) Form 448](#), Military Interdepartmental Purchase Request (MIPR)), must be considered as commitments until validly obligated under the guidelines in section 0808.

G. Multiyear Contracts. Contingent liabilities for multiyear contracts that provide for cancellation charges, when it is necessary for the government to cancel the contract for reasons other than contractor liability, are not recorded as commitments. Any such cancellation charge must be recorded as an obligation when it becomes necessary to cancel the contract and the contractor is so notified.

H. Commercial Purchase Cards. Commitments must be established in advance in amounts no less than the periodic purchase limits authorized for commercial purchase cards. Commitments are used by an activity to ensure positive funds control and limit expenditures to funds available for the purchase card program. Separate commitments must be established when the line of accounting is different. Advance reservations of funds are used in conjunction with purchases made using purchase cards. Advance reservations of funds are established by the resource manager (or equivalent), in conjunction with the assigned Purchase Card Program agency program coordinator and must be considered when setting office and cardholder purchase limits. The use of advance reservations of funds will ensure positive funds control precluding expenditures from exceeding obligations. Refer to [OMB Circular A-123 Appendix B](#) and the [Department of Defense \(DoD\) Government Charge Card Guidebook](#) for additional guidance on purchase cards.

I. Imprest Funds. [Imprest funds must be recorded](#) as a commitment before funds are advanced to the imprest fund cashier.

*080204. [Validating Commitments](#)

[When drafting contracts, procurement officials may modify the description of deliverable goods and services or contract line item structure used on a funded purchase request. However, if these changes are substantial, there is a risk that the goods and services procured under the contract no longer align with the purpose for which funds were committed and](#)

certified by the Authorizing Official as available and suitable for the purpose set forth in the purchase request's information. To mitigate this risk, Authorizing Officials shall conduct an automated pre-award validation with the contract issuing organization. This check shall validate that committed funds remain available and suitable for the draft award's intended purpose. This check shall also ensure that the data in the accounting and procurement systems are sufficiently aligned so as to facilitate line item traceability between commitments and obligations and to facilitate payment. This transaction shall be performed via the Global Exchange system using system agnostic data standards.

0803 OBLIGATIONS

*080301. Definition

An obligation is a legally binding agreement or action that will result in outlays, immediately or in the future. When authorized agency personnel place an order, sign a contract, award a grant, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another, the agency incurs and obligation. It is a violation of the Antideficiency Act (Title 31, United States Code (U.S.C.), section 1341(a) (31 U.S.C. § 1341(a)) to involve the Federal Government in a contract or obligation for payment of money before an appropriation is made, unless authorized by law. Funds that are not legally obligated before their period of availability expires are no longer available for new obligations. The period of availability applies to the obligation of funds, not the liquidation of the obligation by disbursement of payment (expenditure). Chapter 10 prescribes policy related to adjustments to obligations or expenditures chargeable to expired and cancelled accounts. Provisions of Chapter 15 and Volume 14, Chapter 1 require that funds be allotted to DoD Component activities before the activities incur obligations. Also, obligations may not be made in excess of apportionments or formal subdivisions of funds. The recording of obligations related to unmatched disbursements and negative unliquidated obligations is specified in Chapter 11. Unless otherwise specified, primary responsibility for recording obligations remains with the DoD Components. The guidance for recording obligations by the accounting office, when it does not have the primary responsibility for such recording, is contained section 0814.

*080302. Obligation Responsibilities

31 U.S.C. § 1501, "Documentary Evidence Requirement for Government Obligations," directs that amounts shall be recorded as obligations only when supported by documented evidence. The office that incurs an obligation shall provide, within six calendar days of the date the obligation is incurred, a copy of the obligating document(s), via electronic mail, fax, or other documented means, to the office responsible for recording the obligation. The office that is responsible for recording the obligation shall record the obligation in the official accounting records within 3 calendar days of receipt of such documentation, information, or data. Timely and accurate recording of obligations facilitates the disbursing officer's (DO) ability to verify fund availability before authorizing a payment (a process called prevalidation) and, consequently, promptly pay the associated invoice.

080303. Recording Obligations

* A. All business events and financial events resulting in an obligation must cite a SLOA in accordance with Volume 1, Chapter 4, and must be recorded in the general ledger in accounting with the SFIS Transaction Library in Volume 1, Chapter 7.

B. When recording obligations under this section, utilize the following principles:

1. Documented Evidence. An amount **must** be recorded as an obligation only when supported by documentary evidence of the transaction. A verbal order or agreement **must** be reduced to writing before the obligation may be recorded. When the amount is not known or cannot be ascertained feasibly at the time that it is to be recorded, the best estimate **must** be used. The best estimate should be **documented to include the relevant inputs, assumptions and calculations**. Evidence of the analysis **must** be retained to support the transaction in accordance with Volume 1, Chapter 9.

2. Ten Day Rule. Obligations **must** be recorded in the official accounting records at the time a legal obligation is incurred, **i.e., contract is let**. In no instance **must** obligations be recorded any later than ten calendar days following the day that an obligation is incurred (to include obligations incurred when invoices are overpaid or duplicate payments are made). Notwithstanding the ten day rule, **all** obligations (per fund citation or accounting line on the obligation document) **must** be recorded and included in the official accounting records in the same month in which the obligation is incurred. If an obligation is not recorded within the specified timeframe, the guidance in section 0814 **must** be followed.

*080304. Recording Contract Obligations

The office that generates an obligating document, in the form of a contract award, order, or modification, **must** provide official evidence of the obligating documents, and other supporting documents, via electronic format as defined in the Defense Federal Acquisition Regulation Supplement (**DFARS**) and Procedures, Guidance, and Information (**PGI 204.201**) and in accordance with the SFIS data elements required in Volume 1, Chapter 4, to the office responsible for recording the obligation. The office that is responsible for recording the obligation shall receive the data electronically, in the same formats identified in DFARS, PGI 204.201, and in accordance with the SFIS data elements required in Volume 1, Chapter 4 and the posting logic requirements in Volume 1, Chapter 7. If this transaction fails to take place automatically, the accounting records shall be updated manually, based on the official obligating document in the Electronic Document Access System, within three business days. If the contract contains errors, omissions or deficiencies that prevent posting a Contract Deficiency Report should be created to document the deficiency and request corrective action in accordance with DFARS, PGI 204.270-2.

A. Contracts or Orders for Goods, Supplies, or Services to Meet Bona Fide Need. DoD Components **must** determine that the goods, supplies, or services required under contracts entered into, or orders placed obligating an annual or multiple year appropriation, are

intended to meet a bona fide need of the period for which funds were appropriated. Such determinations **must** consider estimated current consumption; the requirements that may be foreseen for future years based upon the procurement lead time; authorized stock levels; and authorized mobilization reserves. If, however, a provision of law makes such appropriations available for payments under contracts for specified services for periods beyond the period for which the appropriation otherwise is available, the contract for such services extending into the ensuing period (e.g., fiscal year) may be charged to the appropriation current at the time that the contract is signed. Obligate funds for each option period after funds become available. Obligations must be consistent with all normal limitations on the obligation of appropriated funds, e.g., bona fide needs rule, period of availability, and type of funds.

1. Execution Requirements Under Contracts or Orders. Contracts entered into or orders placed for goods, supplies, or services **must** be executed only with bona fide intent that the contractor (or other performing activity) **must** commence work and perform the contract without unnecessary delay.

2. Execution of Standard Commercial Items. For standard commercial items readily available from other sources, the bona fide needs rule cannot be satisfied based on the delivery, production or manufacturing lead time exception to the bona fide needs rule if the materials were obtainable by another source before funds expired. See Volume 11A, Chapter 2 and Volume 11A, Chapter 18.

3. Delivery Withhold. If the contractor is directed to withhold delivery until after the lead time, then there is not a bona fide need for the item in the current fiscal year and funds for the next fiscal year must be used.

B. Service Contracts. Service contracts may be either severable or non-severable. Services are generally chargeable to the appropriation current at the time the services are rendered. The contract is thereby, established in a manner that defines the contractors level of responsibility to provide a specified level of effort for a stated period. The determination to charge the appropriation current on the date the contract is let, or to charge the funds current at the time services are rendered, depends upon whether the services are “severable” or “entire.” A contract which is considered entire is charged to the fiscal year current when it was let, even though performance may extend into the next fiscal year. Service contracts that are considered severable must be charged to the fiscal year in which the services are rendered and may not cross fiscal years, absent statutory authority. There is no precise formula or rule that determines whether a contract is severable or entire. Each case must be determined by the terms and circumstances involved. Non-severable services may occur at a contract line item level as defined in DFARS 204.7101.

1. Severable Services. A contract is severable when the related services are continuing and recurring in nature and the scope of the work to be performed is defined in the general terms of the contract. Service contracts can be for either a single undertaking or end item (entire) or for performance with compensation fixed in proportion to the amount of service performed. Absent statutory authority, the term of a severable service contract that is funded by annual appropriations will not extend beyond the end of the **fiscal year** current

at the time the contract is awarded except when authorized by law. Option years are treated as new contracts therefore, when the severable service contract has renewal options, obligate funds for the basic period and any penalty charges for failure to exercise options. Refer to [10 U.S.C. § 2410a](#) for statutory authority permitting full obligation of severable service contracts that begin in one fiscal year and end in the next, provided the contract period does not exceed one year. The contract period for performance of severable services must begin during the fund's period of availability and may not exceed the fund's period of availability, absent statutory authority.

* 2. Non-Severable Services. A service contract is non-severable or entire if performance of the service results in a single or unified outcome, product, or report that cannot be subdivided. The performance period of a fixed price non-severable services contract may cross fiscal years, but must be fully funded in the initial fiscal year unless contract funding requirements exist set forth at [DFARS 232.703-1\(1\)\(ii\)](#). Unless the period of performance is entirely within a single fiscal year or within the charged account's period of availability if funded using a multiyear appropriation, non-severable services contracts may not be funded on an incremental basis unless Congress has authorized incremental funding. These type contracts must be funded entirely with appropriations available for new obligations at the time the contract is awarded or options exercised.

3. Training Contracts

a. Single Training Courses Not Covered by Statute. Unless covered by statute, training contracts for single training courses are considered a single undertaking (entire). Record the obligation at the time the contract is executed for the full amount of the contract. In general, the training represents a single undertaking where benefit of the training is received when the employee has completed the training in full. Training contracts must be obligated in full within the fiscal year that funding is current at the time the contract is executed even though the course extends into the next fiscal year. Training courses that begin on or after October 1 may constitute a bona fide need of the prior year if the need for training is an immediate need in the prior year and if the commencement of the course in the next fiscal year is beyond the agency's control. The time between award of the contract for the training and performance of the training should not be excessive.

* b. Bona Fide Needs Rule Exception for Special Training Courses Covered by Statute. Under [10 U.S.C. § 2249c](#), DoD appropriated funds may be used to pay costs associated with the education and training of foreign military officers, ministry of defense officials, or security officials at military or civilian educational institutions, regional centers, conferences, seminars, or other training programs conducted under the Regional Defense Combating Terrorism Fellowship Program (CTFP). Appropriated funds available for training under the CTFP may be obligated for education and training programs that begin in one fiscal year but end in the next fiscal year. Provided that obligations are incurred before an annual appropriation expires, individual severable elements of a particular CTFP program may commence in the next fiscal year. Thus, for a particular CTFP program that already is underway, expiring funds may be obligated in September for tuition for a course that will not commence until January.

080305. Recording Maintenance and Repair Projects Obligations

Current fiscal year appropriations may be obligated for those maintenance and repair contracts awarded near the end of the fiscal year, even though contractor performance may not begin until the following fiscal year. The contract **must** satisfy a bona fide need that exists in the fiscal year of the appropriation to be charged. In addition, contracts awarded near the end of the fiscal year **must** contain a specific requirement that work begin before January 1 of the following calendar year. Guidelines for the administrative contracting officer to use in determining the commencement of work are as follows:

A. Physical Onsite Evidence. A visual inspection of the work site discloses significant work has been accomplished, or contractor employees actually are engaged in work performance, (no further verification is necessary).

B. Documentary Evidence. If physical onsite evidence of performance does not exist, and to prevent unwarranted default proceedings, the contractor may be requested to produce documentary evidence that cost has been incurred or material has been ordered to allow performance of the contract.

C. Contractor Default. In the event of contractor default and termination for default of the contract, **the appropriation charged for the original contract remains available for obligation for a “replacement” contract if certain conditions exist.**

1. The contract **must** satisfy the following general criteria to be considered a replacement contract, as opposed to a new contract:

a. The replacement contract **must** be made without undue delay after termination of the original contract.

b. Its purpose **must** be to fulfill a bona fide need that has continued from the original contract.

c. The replacement contract **must** be awarded on the same basis and be substantially similar to the original contract in its scope and size.

2. Reprocurement or completion costs, liquidated damages, and performance bond money recovered from the contractor as refunds may also be retained and applied to the replacement contract’s specific appropriation. Amounts recovered that exceed the actual costs of the replacement contract must be deposited as miscellaneous receipts. See Chapter 10 **for policy guidance concerning obligation of expired funds for replacement contracts and obligation adjustments for contract changes.**

080306. Determining Scope of Work Changes

A. Responsibilities for Making Determinations. The contracting officer is primarily responsible for determining whether a change is within the scope of a contract. In making such a determination, the contracting officer **must** be guided by appropriate provisions of the FAR, the DFARS, legal principles applicable to scope changes, and the provisions of this Regulation. In cases where no clear cut determination can be made by the contracting officer, the cognizant counsel **must** provide appropriate guidance and determinations concerning the scope of a contract.

B. Standards for Making Determinations. Statutes and DoD policies for the use of appropriations limit the period of availability to fund new obligations. Unobligated balances, however, which have expired for the purpose of new obligations, are available to fund within scope cost growth or increases in costs arising from claims arising out of the original obligation. This paragraph sets standards for determining if cost growth or a price increase is within scope. The baseline scope of a contract is all work that is contracted for prior to the expiration of funds. This includes changes incorporated by modification, provided that they are within the scope of the contract.

C. Increases in Quantities. Changes in the quantity of the major items called for by a contract generally are not authorized under the “Changes” clause. Therefore, a change that increases the number of end items ordered on a contract is a change in the scope of the contract and would have to be funded from funds available at the time the change is made. For example, if the original contract provided for delivery of 50 items and a modification was issued to provide for the delivery of 70 items, the additional 20 items would represent a change in the scope of the contract. Thereafter, cost growth, or claims arising out of the delivery of the first 50 items, would be funded from the appropriation available at the time of the order of those items, and those arising out of the additional 20 items would be funded from the appropriation charged for those items. The foregoing applies in general; however, changes in the quantity of subsidiary items under a contract, such as spare parts, generally are considered to be within the scope of a contract unless they are so significant that they alter the basic contractual undertaking.

D. Increases in Required Levels of Service Performance. Any modification of a service contract that changes its scope by requiring additional deliverable services is a change in the scope of the contract. Such changes **must** be funded by appropriations available at the time that the change is made. For example, modification of a contract for accounting and audit services to a government agency is made to add a requirement for onsite technical assistance and training to grantees of the agency on financial management systems. Such a modification would be beyond the scope of the original contract, and would have to be funded from funds available at the time the additional requirement was added to the original contract. See Chapter 10 for additional policy for determining whether a contract modification involves a change in scope that must be recorded as a new obligation for additional work, or is a within scope contract change as covered by [31 U.S.C. § 1553](#) that is recordable as an adjustment to the original obligation. An increase in the number of people needed to complete the original contract, or to their level of expertise, would be a within scope cost growth change that could be funded as part of the original contract.

1. A modification of a contract to provide research and development for a new weapons system that is designed to meet a specified area of threat, and reach given levels of performance could be beyond the scope of the original contract. If, however, the “Changes” clause specifically authorizes unilateral changes within the scope of the contract (e.g., in specifications, drawings, and designs pertaining to the contract), then, the mere fact that there may be a change in the specifications regarding levels of performance or specifications regarding threats does not, thereby, automatically result in a change in scope. An increase in the number of people assigned to the project, or increased costs due to travel increases would be cost growth that would be within scope and could be funded as part of the original contract.

2. A modification of a cost type level of effort contract for a specified number of hours to be worked by personnel with a specific level of experience and training which calls for a change in the specified number of hours to be worked or the level of experience and training could be a change in the scope of the original contract. An increase, however, in direct or indirect rates under the contract would be cost growth that would be within scope and could be funded as part of the original contract.

E. Claims. Claims arising out of an original undertaking, or resulting from a within scope change, would be funded from the appropriation available at the time of the original undertaking. Claims arising out of a change in scope to the original contract would be funded from the appropriation available and charged for the change in scope.

080307. Due Diligence

Funds holders are responsible for ensuring that funds appropriated or allotted to them are used consistently with the intent for which the funds were provided. Fundamental to being a [Funds Holder](#) is practicing sound fiscal management that [complies](#) with OMB and the DoD Financial Management Regulation ([FMR](#)) requirements. Funds holders should exercise due diligence in committing, obligating, decommitting, and deobligating funds appropriated by Congress for the DoD mission. Attaining due diligence is contingent on the effective integration and synchronization of the mission stakeholders including [Funds Holders](#), accounting, program management, and acquisition/logistics into a collaborative effort. Due diligence consists of implementing prescribed business practices and oversight of the documents for which they are responsible. Due diligence is the development and maintenance of documentation that includes contract, invoice, disbursement, task monitor notes, correspondence, and all supporting information available to determine compliance with the provisions. The following is a checklist to follow for due diligence compliance:

- A. Internal control systems are adequate.
- B. Information is reliable and valid.
- C. Applicable laws, regulations, and policies are followed.
- D. Resources are safeguarded and managed economically and efficiently.

- E. Desired program results are achieved.
- F. Operations are effective and efficient.

G. **Funds Holders**, contracting officers and program managers should collaborate in reviewing commitments and obligations to determine if they are still valid, if goods and services are outstanding and if the funding level is sufficient to support the bona fide need. Refer to section 0816 for the Triannual Review requirements.

*0804 RECORDING JUDGMENT FUND OBLIGATIONS

080401. Legal Authority

The Judgment Fund is available for court judgments and Justice Department compromise settlements of actual or imminent litigation against the government. Judgment Fund awards and settlement may be funded on a non-reimbursable basis for various types of litigation identified in [31 U.S.C. § 1304](#), “Judgments, Awards, and Compromise Settlements.” Section 1304 and the Contract Disputes Act of 1978, at [41 U.S.C. § 7108](#), “Payment of Claims,” provide that awards and settlements involving appropriated fund contracts are payable from the Judgment Fund, subject to reimbursement from agency appropriations. The Fund also is available for awards and settlements involving discriminatory conduct by an Agency (e.g., a DoD Component) under statutes identified in the Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002,” commonly known as the “No FEAR Act,” [5 U.S.C. § 2301, Note](#).

080402. Reimbursement of Contract Dispute Act Judgments

Under 31 U.S.C. § 1304, and 41 U.S.C. § 7108, litigation and settlements subject to the Contract Dispute Act (CDA) of 1978 are paid promptly by the U.S. Department of the Treasury (Treasury) from the permanent, Judgment appropriation “Judgment Fund.” After such payment, the DoD Component is required to reimburse the Judgment Fund.

A. The affected DoD Components first must determine what appropriation(s) originally funded the portion of the contract that led to the claim and subsequent judgment.

B. Second, the Judgment Fund must be reimbursed with funds available for the same purpose that was current at the time of the judgment provided by 41 U.S.C. § 7108. Expired appropriations that were current at the time of the judgment should be used to reimburse the Judgment Fund. If insufficient unobligated balances exist in the expired appropriation or the account has closed, use authority of [31 U.S.C. § 1553](#) to charge the current appropriation available for the same purpose or obtain a special supplemental appropriation from Congress. If more than one appropriation is involved in the monetary judgment, then the reimbursement is prorated against those appropriations. Any proration between or among appropriations must be based on the nature of the claim and the basis of the monetary judgment in the particular case. Record obligations against current funds at the time the awards are made by the deciding official or by the court. [See Chapter 10 for requirements, restrictions, and limitations related to recording amounts against expired and closed accounts.](#)

C. Within 15 business days after paid claim confirmation, the Treasury Judgment Fund Branch sends a letter to the responsible DoD Components point of contact requesting reimbursement. Within 30 days of receipt of notice for reimbursement, the responsible DoD Component must repay [Treasury Bureau of Fiscal Service \(BFS\)](#) or contact [BFS](#) to make payment arrangements. Should the impacted DoD Component fail to respond within 60 business days of the first demand letter and second demand letters, BFS will send a letter to the Office of the Under Secretary of Defense(Comptroller)/Chief Financial Officer (OUSD(C)/CFO). The letter is sent quarterly to the OUSD(C)/CFO along with a statement summarizing the outstanding CDA amounts due to the Treasury. Component quarterly balances are posted at the following website:

<http://www.treasurydirect.gov/govt/reports/tma/contractdisputes.html>.

D. Reimbursement to the Department of the Treasury is not an antecedent liability of the original contract. Therefore, reimbursements **must** not be charged back to the original fiscal year appropriation that funded the contract, unless the original appropriation was still current at the time of the judgment. Further, the existence of the legal requirement to reimburse the Judgment Fund does not give rise to a violation of the Antideficiency Act. [See Volume 14, Chapter 2 for detailed policy on violations of the Antideficiency Act](#)

E. In all official accounting and reporting systems, a separate and unique Sub-Activity Group (SAG) or P-1/R-1 designator **must** be assigned for the recording and reporting of such reimbursements. This SAG or P-1/R-1 designator **must** be identified as a separate line on the Appropriation Status by Fiscal Year Program and Subaccounts (DD Comp (M) 1002). This new line of accounting is to be called “Judgment Fund Reimbursement.” Funds must be reprogrammed into this new line from existing **allotted** funds within the appropriation. These reprogrammed funds are not subject to normal reprogramming rules with respect to the increase, but **must** conform to reprogramming guidance governing delegated authority for program reductions.

F. Upon identification of funds to be charged and completion of any reprogramming actions, the documented package **must** be forwarded to the Defense Finance and Accounting Service (DFAS) site that has accounting responsibility for the designated fund accounts to process the payment. Ordinarily, a miscellaneous obligation document **must** be used to obligate the designated fund accounts. If, however, programming actions have reserved funds, the DFAS may be authorized to process the payment as an obligate-expend transaction. The DFAS can process the transfer of funds for the payment to the Treasury’s Judgment Fund, using the Intragovernmental Payment and Collection (IPAC) system.

G. Approval authority is required from the cognizant Assistant Secretary of the Military Department (Financial Management and Comptroller) or Defense Agency Comptroller for all Judgment Fund Reimbursements to the Treasury in excess of \$1,000,000.00.

080403. Reimbursement of No FEAR ACT Judgments

As provided for in 5 CFR 724, Subpart A, DoD Components must reimburse the Judgment Fund for all judgments resulting from antidiscrimination and No FEAR claims covered under authority of 5 U.S.C. § 2301, note. Reimbursements under the No FEAR Act include reimbursements for payments of judgments, awards, or settlements with respect to discrimination and whistleblower protection cases.

A. In processing No FEAR Act judgments, within 15 business days after the Treasury makes a payment from the Judgment Fund, it will issue a written notification (electronically or by other means) concurrently to the USD(C), CFO and/or Deputy CFO, the responsible DoD Component's reimbursement point of contact, and the DoD Component's Chief Counsel, with copy of the demand notice provided to DFAS.

B. Upon receiving a Judgment Fund notice from BFS, the responsible DoD Component **must** reimburse the Judgment Fund within 45 business days using the appropriation, fund, or other account available for operating expenses of the DoD Component to which the No Fear Act judgment or discriminatory matter stemmed. If payment cannot be made within 45 business days, the DoD Component **must** contact the BFS directly to make arrangements for payment for the Judgment Fund.

C. The DoD Component's quarterly balances are posted at the following website: <http://www.treasurydirect.gov/govt/reports/tma/nofear.htm>. If a DoD Component fails to reimburse the Judgment Fund within the required 45 day period or establish a payment plan with BFS, a posting will be made annually by BFS to its public website denoting the DoD Components that are delinquent.

080404. Administrative Oversight Roles and Responsibilities for Judgment Fund

A. The Office of the Under Secretary of Defense Comptroller, Program and Budget (PB) must:

1. Coordinate and resolve any issues that arise regarding DoD Components ability to identify funding sources to reimburse Judgment Fund. This may require, but is not limited to, assisting DoD Components in identifying available appropriations and/or unobligated balances available to reimburse the Judgment Fund when necessary, advising on availability of current or expired funds for such reimbursements, or coordinating actions to facilitate initiation of reprogramming requests.

2. Coordinate judgment fund actions (as needed) with the DoD Office of General Counsel (Fiscal) to obtain legal advice concerning matters related to the Judgment Fund.

B. DFAS must:

1. Provide DoD-wide oversight and guidance on the accounting and reporting processes related to the Judgment Fund to include reporting and responding to accounts payable issues related to outstanding Judgment Fund liabilities payable, as needed.

2. Prepare accounts payable reports or other schedules denoting outstanding Judgment Fund balances and/or delinquencies and convey these balances to DoD Components (Customers).

3. Reconcile, consolidate, and accurately report financial statement data on Judgment Fund liabilities in the DoD/Agency-wide financial statements and respond to general inquiries relative to Judgment Fund liabilities reported.

4. Write consolidated notes supporting financial statements to include documenting and/or reporting of Judgment Fund liabilities and ensure that these notes are accurately presented in the Agency Financial Report.

0805 RECORDING COMMERCIAL PURCHASE CARD OBLIGATIONS

Record obligations for Commercial Purchase Cards in the amounts placed for orders for goods or services.

0806 RECORDING OBLIGATIONS FOR PROCUREMENT CONTRACTS AND ORDERS

080601. Firm Fixed Price Contract

When the contract is executed, an obligation **must** be recorded for the total amount stated in the contract.

080602. Fixed Price Contract with an Escalation, Price Redetermination, or an Incentive Provision

When the contract is awarded, an obligation **must** be recorded for the amount of the target or billing price stated in the contract, even though the contract may contain a ceiling price in a larger amount. Subsequently, a target or billing price should be adjusted (upward or downward) to a “best cost estimate” whenever it is determined that, and documentary evidence supports, the actual cost of the contract will differ materially from the original target or ceiling price stated in the contract.

080603. Cost Reimbursement and Time and Material Contracts

Cost reimbursement and time and material contracts include: cost, cost sharing, cost plus fixed fee, cost plus incentive fee, cost plus award fee, time and material, and labor hour contracts. When the contract is executed, an obligation **must** be recorded. The amount of the obligation is the total estimated payment provided by the contract’s funded ceiling, including the

fixed fee in the case of a cost plus fixed fee contract, the target fee in the case of a cost plus incentive fee contract, or the base fee in the case of a cost plus award fee contract. The amount recorded **must** be increased or decreased by amounts provided by contract amendments, or a unilateral revision of an award fee estimate made by the contracting office. Any fee awarded in excess of the target fee in a cost plus incentive fee contract **must** be recorded as an obligation at the time the determination to award the larger fee is provided to the contractor. The amount of the obligation established for a cost plus award fee contract **must** be adjusted at the time the actual or final fee award amount is determined (see [DFARS 216.405-2](#)). If the contract is incrementally funded, the amount obligated **must** always be the funded increments.

080604. Indefinite Delivery Type Contracts

Where the quantity required under a contract is indefinite, the ultimate amount of obligation is determined by subsequent orders; the amount of any required minimum order specified in the contract, however, **must** be recorded as an obligation upon execution of the contract. For contracts that require the contractor to perform unilaterally placed orders above the required minimum, record an obligation in the amount of the order price or ceiling at the time the order is placed. An order in excess of the required minimum that has to be negotiated or accepted by the contractor under terms of the contract **must** be recorded as an obligation upon contractor's acceptance of the order in the amount of the agreed price or ceiling. In the case of orders for services where a contractor cannot undertake performance without direction from an authorized Government official, order amounts may be consolidated periodically (at least monthly) into a list of orders placed with the contractor identifying the estimated dollar amount of each. On definite quantity contracts, obligate the full amount of the definite quantity at the time of contract award.

080605. Contract Authorizing Variations in Quantities to be Delivered

When the contract is executed, an obligation **must** be recorded for the price of the quantity specified for delivery, exclusive of the permitted variation. The amount recorded may be increased or decreased to reflect the quantity actually delivered and accepted.

080606. Multiyear Procurement Contract

An obligation for a multiyear procurement contract **must** be recorded in the amount of the price of the quantities specified for delivery under the requirement for the first program year, and the amount **must** be identified with that program year. Unless the contract is funded fully at inception, each time the contractor is notified that funds are available to cover another program year requirement; an obligation **must** be identified with that program year and recorded in the amount of the price of the quantities specified for delivery. If the contract is canceled, an obligation **must** normally be charged to the program year current at the time of cancellation to cover the government's liability under the terms of the contract.

080607. Letter Contract or a Letter of Intent

A. When the offer and acceptance are sufficiently specific and definitive to show the purpose and scope of the final contract to be executed, a letter contract or a letter of intent and any amendments to them accepted in writing by the contractor is documentary evidence to support the recording of an obligation. The obligation **must** be recorded in the amount stated as the maximum liability under the letter or amendment.

B. The maximum liability may be a limitation on the amount of obligations that may be incurred pending execution of a definitive contract. In this case, the estimated amount of the definitive contract, over and above the obligation recorded under the letter of intent, **must** be carried as a commitment, pending execution of the definitive contract, unless the letter of intent provides that awarding of the definitive contract is dependent upon congressional appropriation action.

C. Commitments cannot be carried past fiscal year end.

080608. Interest on Contractor Claims

Contractor claims made pursuant to CDA and settled by the contracting officer in the contractor's favor may generate interest payable to the contractor. In such cases, an obligation for the interest payable to the contractor **must** be recorded under the appropriation that financed the contract. Such interest **must** be applied from the date payment was due, and is not calculated or paid pursuant to the Prompt Payment Act. Parties settling a CDA dispute can bargain away all or part of the interest in a settlement agreement.

080609. Interest Payable under the Prompt Payment Act

Such interest penalties are payable in accordance with Volume 10, Chapter 7 and are recorded as obligations against amounts available to carry out the program for which the penalty is incurred in the fiscal year or years in which the interest accrues. Penalties are charged to appropriations of the agency that funded the contract.

080610. Purchase Orders

A. A purchase order may create an obligation when issued in the amount stated. This occurs when the purchase order represents acceptance of a binding written offer of a vendor to sell specific goods or furnish specific services at a specific price, or the purchase order was prepared and issued in accordance with small purchase or other simplified acquisition procedures.

B. A purchase order requiring acceptance by the vendor in order to form a binding contractual agreement **must** be recorded as an obligation in the amount specified in the order at the time of acceptance. Evidence of this acceptance **must** be retained in the files. If written acceptance is not required or provided, then commencement of performance constitutes acceptance by the vendor, and the amount of the order **must** be recorded as an obligation **in**

accordance with Volume 1, Chapters 4 and 7. Formation of the binding contractual agreement should occur during the period of availability of the appropriation cited on the purchase order. If contract formation occurs after expiration of the period of availability of funds cited on the purchase order, the obligation must be recorded against current funds, and the purchase order contract modified accordingly.

080611. Amendment of a Contract

A change in the amount of the government's contractual liability that results from an amendment (within scope change) to a contract is chargeable generally to the appropriation or other fund current at the time the contract was executed. Specific applications of and exceptions to this general rule include:

A. For a contract modified pursuant to a clause authorizing equitable adjustment to contract terms (including price) within the general scope of the contract, the amount of the recorded obligation must be increased or decreased by the amount specified by any and all amendments or modifications when executed. For a fixed price contract, the same source of funds that originally was obligated on the contract must be charged or credited.

B. Pursuant to the provisions of 50 U.S.C. § 1431, 50 U.S.C. § 1432, 50 U.S.C. § 1433, or 50 U.S.C. § 1435, the amount of a recorded obligation must be adjusted to reflect an increase or decrease resulting from a determination made that results in the correction of a mistake or the formalization of an informal agreement. These adjustments must be recorded against the same source of funds that originally was obligated when the amendments or modifications do not change the scope of the contract and, thus, do not result in a new procurement. When the scope of the contract is increased, the adjustment is chargeable properly to the appropriation or fund available at the time that the amendment is executed.

C. A contingent obligation, such as one existing under an indemnification clause or a clause involving an equitable adjustment, must be recorded as an obligation only in the amount of the contractual liability incurred when the amendment fixing the obligation is executed. If no amendment is required, the adjustment is recorded as an obligation when the event occurs that fixes the amount of the liability under the contingent obligation. The obligation must be recorded against the same obligation or fund that originally was cited on the contract.

D. When an increase occurs in the price of one or more items in a fixed price contract that contains an escalation clause, a price redetermination clause or an incentive provision, or in the fee in a cost plus incentive fee contract, an obligation must be recorded in the amount of the increase at the time the changed price or fee is determined in accordance with the terms of the contract. The obligation must be recorded against the same appropriation or fund that originally was obligated for the contract.

E. In some instances, it is appropriate to reduce a recorded obligation for firm fixed price contracts with escalation, price redetermination, or incentive provisions. This occurs when a determination is made by the contracting officer (and approved by the Fund Holder or a designee) that the anticipated amount of liability under the contract may be reduced and the

amount of the recorded obligation may be decreased by the amount so determined and approved. Such action is taken after taking all circumstances into consideration, including available costs and production data or tentative offers from contractors. See paragraph 081611 for additional guidance on the deobligation of funds.

F. [Contract modifications that increase funding on](#) cost reimbursement contracts [above](#) the original contract ceiling, and which are not based on an antecedent liability enforceable by the contractor, [are at the Government's discretion](#) and are chargeable to funds available when the increase is granted – rather than funds from the fiscal year cited on the original contract.

080612. Termination of Contracts and Agreements

When a contract or agreement is terminated in whole or in part for the convenience of the government by the giving of a “Notice of Termination” to the other party to the contract or agreement, the obligation recorded for the contract or agreement [must](#) be decreased to an amount that is sufficient to meet the settlement costs under the termination. The obligation [must](#) not be decreased below the amount estimated by the contracting officer, based on the best evidence then available, as the amount due as a result of the termination.

*080613. Foreign Currency Exchange Fluctuations

Changes in obligations and contractual liabilities caused by foreign currency exchange fluctuations are determined and recorded when payment is made. For foreign currencies not specified in a special foreign currencies fluctuations appropriation account, adjustments also are made at fiscal year end, and may be made at any other time a significant change occurs in order to help avoid over obligation of an allotment. [If a contract is priced in foreign currency, the agency must ensure that adequate funds are available to cover currency fluctuations to avoid a violation of the Antideficiency Act.](#) See Volume 6A, Chapter 7 for guidance on foreign currency fluctuations.

0807 RENTAL AGREEMENTS AND LEASES OF REAL AND PERSONAL PROPERTY

080701. [Amount Recorded as an Obligation on Rental and Lease Agreements](#)

The amount recorded as an obligation [must](#) be based on the agreement or lease, or on a written administrative determination of the amount due under its provisions.

080702. [Rental Agreement Terminated by the U.S. Government](#)

Under a rental agreement that may be terminated by the [U.S. Government \(USG\)](#) at any time without notice, and without incurring any obligation to pay termination costs, the obligation [must](#) be recorded each month [at the time of payment](#), in the amount of the rent for that month.

080703. [Rental Agreement Terminated Without Costs, with Notification](#)

Under a rental agreement providing for termination without costs upon giving a specified number of days for notice of termination, an obligation **must** be recorded upon execution of the agreement in the amount of rent payable for the number of days of notice called for in the agreement. In addition, an obligation **must** be recorded each month in the amount of the rent payable for that month. When the number of days remaining under the lease term equals the number of days advance notice required under that lease, no additional monthly obligation **must** be recorded.

080704. [Rental Agreements with Specified Dollar Payment](#)

Under a rental agreement providing for a specified dollar payment in the event of termination, an obligation **must** be recorded upon execution of the agreement in the amount of the specified minimum dollar payment. In addition, an obligation **must** be recorded each month in the amount of the rent payable for that month. When the amount of rent remaining payable under the terms of the agreement is equal to the obligation recorded for the payment in the event of termination, no additional monthly obligation need be recorded.

080705. [Domestic or Foreign Rental Agreement Not Exceeding 12 Months](#)

For a domestic or foreign rental agreement not exceeding 12 months that is financed under an annual appropriation, an obligation **must** be recorded at the time of its execution in the total amount of rent specified in the agreement -- even though the period of the lease extends into the subsequent fiscal year as addressed in 10 U.S.C. § 2410a. Leases of structures and real property, other than military family housing, in foreign countries may be entered into for periods of up to five years under authority of [10 U.S.C. § 2675](#), and the rent for each yearly period is paid from funds appropriated for that year. Leases of family housing in foreign countries may be for periods of up to **ten** years (15 years in Korea) and rent may be paid on an annual basis from funds appropriated for that year. If the laws, regulations or customs of a foreign country require advance payment for rent, the advance payment may be made in accordance with [10 U.S.C. § 2396](#), the legal, regulatory, or customary term of a foreign lease, and an obligation may be recorded against the current appropriation in the same amount at the time the lease is consummated. [Refer to Volume 4, Chapter 5 for guidance on accounting for advances and prepayments.](#)

080706. [Domestic Lease Agreements for Periods Greater Than One Year](#)

Domestic lease agreements entered into for periods greater than one year under authority delegated by the General Services Administration (GSA) under [40 U.S.C. § 581](#) and [40 U.S.C. § 121](#) need not include a provision to the effect that lease funding in future fiscal periods is subject to fund availability in those future fiscal periods. Annual rental payments may be made from funds appropriated for that fiscal year as authorized under [40 U.S.C. § 585](#). Leases **must** be fully funded at inception unless the lease includes a cancellation clause. Should a cancellation clause apply, the maximum liability is the amount of the lease payments over the minimum lease period plus any required cancellation payment.

080707. [Obligations for](#) GSA Standard level User Charges

Obligations to the GSA for standard level user charges are recorded as specified in the GSA bill.

0808 REIMBURSABLE ORDERS PLACED WITH DOD COMPONENTS OR OTHER U.S. GOVERNMENT AGENCIES

080801. Reimbursable Procurement

A. The term “reimbursable procurement” refers to an order for supplies, material, services or equipment placed by a requiring DoD Component for:

1. Procurement by another DoD Component ([or a major organization unit within the component](#)) or Federal Agency on a contract funded by the procuring DoD Component or Federal Agency.

2. Subsequent delivery to and reimbursement by the requiring DoD Component.

B. When recording obligation for a reimbursable procurement, the date and amount recorded as an obligation for a reimbursable order by the requiring DoD Component is the date and amount of acceptance by the procuring activity.

C. A MIPR or other document, as appropriate, may be used for processing reimbursable procurements. Obligation occurs when the authorizing and/or responsible government official signs the DD Form 448-2, Acceptance of MIPR, or other document, as appropriate. Obligations are not complete until the acceptance document is signed and returned to the office responsible for posting the obligation. Additional guidance on MIPR processing can be found in the DFARS, PGI, subpart 253.208.

080802. Direct Citation Procurements

The term “direct citation procurement” refers to procurement accomplished by combining the requirements of one or more other DoD Components with those of the procuring DoD Component. The procuring DoD Component may issue one contract with separate schedules showing the quantities, prices, dollar amounts, and citation of funds of each requiring DoD Component. The direct citation order is recorded as an obligation by the requiring DoD Component when it is notified in writing that the procuring DoD Component’s contract or project order has been executed, or when a copy of the contract or project order is received. MIPRs used for these orders are not complete until the MIPR Acceptance is signed and received by the office responsible for posting the obligation.

080803. Reimbursable Orders with Other DoD Activities

Reimbursable orders with other DoD activities for specific supplies, material, equipment, work, or services, may be placed under the Project Order statute ([41 U.S.C. § 6307](#)), the Economy Act ([31 U.S.C. § 1535](#)), or other applicable authority. Reimbursable orders with Non-DoD activities may be placed under the Economy Act or other applicable statutory authority. The obligation reimbursable orders **must** be recorded against the appropriation of the ordering DoD entity as follows.

A. Project Order authority is available only for intra- or inter-DoD orders. All project orders **must** be identified on the order document itself. Fixed price and reimbursable project orders are funded like similar commercial procurement contracts. When a project order is accepted in writing by the performing activity, the amount of the project order **must** be recorded as an obligation in the amount stated in the order. See Volume 11A, Chapter 2.

B. Unless more specific statutory authority is applicable, the Economy Act, codified at 31 U.S.C. § 1535, provides authority that allows DoD Components to order goods and services from other federal agencies (including other DoD Components) and from major organizational units within the same DoD Component. Economy Act orders citing an annual or multiyear appropriation must serve a bona fide need arising, or existing, in the fiscal year (or years) for which the appropriation is available for obligation. The requesting DoD activity must obligate funds when the performing activity accepts the order in writing. The work to be performed under Economy Act orders **must** be expected to begin within a reasonable time after its acceptance by the servicing DoD Component or organizational unit. Based on authority of 31 USC § 535(d), orders placed or agreements made under Economy Act orders, obligates an appropriation of the ordering agency or unit. **MIPRs are Economy Act orders subject to downward adjustment when the obligated appropriation is no longer available for obligation to the extent that the procuring component has not executed its agreed-upon contract or project order actions.** Funds must be deobligated by both the requesting and servicing agency to the extent that the servicing agency or unit filling the order has not incurred obligations, before the end of the period of availability of the appropriation, in (1) providing goods or services; or (2) making an authorized contract with another person to provide the requested goods or services. As specified in paragraph [081602](#), all unliquidated obligations must be reviewed and any unsubstantiated obligations or excess funds deobligated. Refer to Volume 11A, Chapter 3 for additional policy covering deobligations related to Economy Act Orders.

C. By DoD policy and agreement with civilian agencies, Non-Economy Act reimbursable orders placed by DoD Components for supplies, material, services or equipment are placed with conditions that, in practical effect, make them subject to obligational standards used for Economy Act reimbursable orders.

1. Non-Economy Act orders obligating annual or multiyear appropriation must satisfy a bona fide need of the appropriation's period of availability. The requesting DoD activity must obligate funds when the performing activity accepts the order in writing.

2. By policy and agreement with civilian agencies that have Non-Economy Act authorities to perform reimbursable orders, the DoD has further limited the fiscal principle that a performing agency with Non-Economy Act authority has a reasonable period of time to use transferred funds, depending on the nature of the order. Thus, Volume 11A, Chapter 18 and agreements civilian agencies provide that funds must be deobligated by both the requesting and performing agency to the extent that the performing agency has not, before the end of the period of availability of the DoD requesting agency appropriation, (1) provided the goods or services, or (2) entered into contract obligations with another entity (contractor) to provide the requested goods or services in a manner consistent with the bona fide needs rule.

3. It is the responsibility of each DoD Component or its subordinate entity, establishing obligations to develop and implement procedures, for ensuring timely monitoring and deobligation of funds.

080804. Modifying Reimbursable Orders

Requiring activities must also use caution in modifying reimbursable orders applying the following guidelines.

A. If the appropriation used to fund the initial order remains available for the new requirement, it may be used to fund modifications and amendments to the order that are a bona fide need of that appropriation.

B. If the appropriation used to fund the initial order has expired, it may be used only to liquidate or adjust prior obligations.

C. Under no circumstances should an order result in a performing agency's issuance of a contract for severable services crossing fiscal years that extends beyond one year from the date of contract award, as addressed in 10 U.S.C. § 2410a. Any such contract's performance period must begin during the period of availability of the requiring activity's appropriation. [For guidance on rental agreements with specified dollar payments see paragraph 080704.](#)

0809 ORDERS PLACED WITH (OR THROUGH) DEFENSE WORKING CAPITAL FUND ACTIVITIES

080901. General

The DoD has authority under [10 U.S.C. § 2208](#), and [10 U.S.C. § 2210](#), to establish Defense Working Capital Fund (DWCF) activities to finance inventories of its supply chain management business areas and provide working capital for industrial and commercial type activities. Activities funded through DWCFs perform work for others under several different authorities. These authorities include the Project Order Act for depots, the Economy Act for reimbursable and direct citation procurements, and supply management operations (stock fund operations) that use DWCF contract authority to acquire assigned items of supply for other

DoD Components. DWCF activities performing commercial type services charge stabilized rates rather than charges based on Economy Act actual cost methodologies. Activities performing DWCF operations can identify the transactional authority for work performed for others. Under 10 U.S.C. § 2208, the DWCF is used for two different types of activities to include stock funds (supplies) plus, goods and services. An order placed with a DWCF activity may only be for a bona fide need of the period for which the ordering activity's financing appropriation is available.

080902. Recording DWCF Stock Funds

A. Recording DWCF Capital Stock Fund Purchases. Unlike Economy Act orders, and unlike Non-Economy Act orders placed with civilian agencies pursuant to policies set forth in Volume 11A, Chapter 18, purchases made by DWCF stock fund activities using [contract](#) authority to fill customer orders are not legally required to be [obligated](#) before expiration of the customer's financing appropriations. However, an order placed for an Integrated Material Management (IMM) item must be a bona fide need of the requesting activity's financing appropriation. Thus, consistent with bona fide need requirements, the DWCF activity using contract authority to acquire an IMM must be able to satisfy the requirement within a reasonable period of time. Unreasonable delay in DWCF execution (or delivery in a subsequent fiscal year not based on delivery, production or manufacturing lead time exceptions) may reflect that the order placed with the DWCF was not a bona fide need of the requiring activity. There is no hard and fast rule in this regard, but a reasonableness standard does apply.

B. Recording Obligations for Stock Number and Nonstock-Number Items. An order for an item for which a stock number has been assigned [must](#) be recorded as an obligation at the time the order is placed. Record an obligation for a Non-stock Numbered Item (stock number not assigned at the time of placement of the order) when the DWCF activity accepts the order for an IMM item that it will fill using its cost authority. [Orders without stock number require order and acceptance because the provider may not be able to fulfill the order.](#)

C. Integrated Material Management Items: For purposes of this chapter, stock funded items are IMM items for which supply management and acquisition responsibility has been assigned to a single DWCF funded activity and that activity uses contract authority to acquire the item. [See DFARS subpart 208.7 for definition of integrated material management.](#)

080903 Change Notices

The following policies apply to change notices.

A. Cancellation. An obligation for an undelivered order placed with the stock fund activity [must](#) be adjusted when a change notice affecting price, quantity, or an acceptable substitution of a like item is received from the stock fund. An undelivered order placed with the stock fund [must](#) be canceled when the customer receives a notice of:

1. Substitution that is unacceptable,

2. Transfer of a stock funded item to funding by a centrally managed procurement appropriation within a DoD Component, or

3. Advice that the stock fund is unable to perform under the terms of the order.

B. Transfers from Centrally Managed Procurement to DWCF Stock Fund.

An obligation **must** be recorded as a DWCF stock fund order if a requiring activity receives notice that an ordered item funded by a centrally managed procurement appropriation has been transferred to funding by the stock fund.

C. Funding Shortfall. If a change notice results in a shortfall of customer funds, the customer may cancel the order or reduce the quantity on order. If the customer does not receive a change notice, or does not receive it in time to cancel or modify the quantity on order, the material may be refused or returned to the stock fund. There is no violation of administrative control for customer funds if an apparent funding deficiency that results from a change notice is resolved with the stock fund by means of:

1. Cancellation or modification of the quantity on order or

2. Refusal or return to the stock fund of the material.

080904. Economy Act and Project Orders Placed with DWCF Activities

DoD organizations record obligations for reimbursable procurement orders, direct citation orders, and project orders placed with DWCF activities in accordance with section 0808.

0810 PERSONAL SERVICES AND BENEFITS OBLIGATIONS

081001. Obligations Recorded for Payments to Military and Civilian Employees

Obligations for the amounts payable to military services members and civilian employees must be recorded in the month in which earned. These obligations **must** be supported by written administrative determinations of the amounts of the liabilities incurred for personal services based on payroll or personnel records. Payroll charges based on salaries and wages, (such as civilian living and quarters allowances, equalization allowances under [5 U.S.C. § 3584](#), and the employer's share of contributions to the retirement fund, insurance premiums, and FICA taxes) also are obligations at the time that salaries and wages are earned. In the event a payroll period covers portions of two calendar months, the proportionate amount accruing within each month **must** be recorded as an obligation applicable to that month. Enlistment bonuses, and allowances to military members for subsistence, quarters and clothing, as well as civilian uniform allowances and incentive awards, are obligated in the month that they become payable to the member or employee.

081002. Obligations Recorded for Subsistence In Kind

An obligation **must** be recorded for subsistence in kind based on requisitions and orders, or on a written administrative determination of the estimated cost of subsistence furnished by others.

081003. **Obligations Recorded for Annual and Sick Leave of DoD Employees**

Obligate annual leave for Department employees when it becomes due and payable as terminal leave or when otherwise specifically authorized by law, rather than at the time the leave is earned. Sick leave is obligated, costed, and paid when used.

081004. **Obligations Recorded for Severance Pay to U.S. Government Civilians and Foreign National Employees**

Severance pay for USG civilian employees and foreign national employees (such as those German nationals covered by the German Tariff Agreement) **must** be reported as an obligation on a pay period by pay period basis; that is, at the time the severance pay becomes payable, regardless of the time it is disbursed.

081005. **Recorded for Severance Pay Under Specified Conditions**

A. Obligations for severance pay are incurred and reported after an employee has been separated and specified conditions (such as those set forth in the German Tariff Agreement) have been met. The organization that terminates the employment of such individuals **is** responsible for recording and reporting the severance pay obligation. If the liability for any form of severance pay is significant, reasonable estimates **must** be made and an unfunded liability recorded and reported in accordance with **the Governmentwide Treasury Account Symbol Adjusted Trial Balance System**.

B. In accordance with other foreign country contracts and agreements, certain foreign national employees earn a separation allowance, also sometimes called “severance pay” in some contracts and agreements, from inception of or during their employment. In such cases, a liability accrues from such date and obligations **must** be recorded as indicated in the following paragraphs.

1. In general, obligations for separation allowances for foreign national employees **must** be recorded against applicable current allotments in the full amount of the liability that accrues during the accounting period even though the amount may not currently be payable. When a foreign country is committed to fund part of the separation allowance for its nationals, however, DoD funds **must** be obligated only for the Department’s portion of that cost. The amount chargeable to the applicable current allotment is the separation allowance liability incurred during the current accounting period and adjustments to outstanding liabilities for separation as a result of changes in pay. Adjustments for fluctuations in foreign currency exchange rates must be made at the time of the disbursement. See paragraph **081311** for guidance on those currencies not covered by the foreign currency fluctuations appropriation.

2. Upon transfer of a foreign national employee from one DoD Component to another, the relinquishing DoD Component **must** give detailed records to the gaining DoD Component on the unpaid accrued separation allowance for that employee. The detailed records **must** include the name of the employee, beginning and ending dates of employment, grade or classification, or both, amounts of the accrued liability by fiscal year appropriations and accounting classifications to be charged at the time of separation, and the name (or designation) and address of the activity that will be responsible for retaining the appropriation records. The relinquishing DoD Component **must** retain its liability for the accrued separation allowance, including the adjustment for any final fluctuation in the rate of foreign currency exchange, until notified of the employee's separation and payment of the allowance by the DoD Component effecting the separation. The gaining DoD Component is responsible for obligating separation allowances earned from the date of an employee's accession. Accrued separation allowances **must** be paid when a foreign national employee is separated. The DoD Component effecting the separation **must** coordinate its payment actions with the other DoD Components whose funds are to be charged. DoD Components should designate one of their activities to maintain centrally the detailed employee and appropriation records for all transferred employees to facilitate the closeout and liquidation of liabilities.

3. Appropriated funds may not be obligated for separation allowances earned by foreign national employees during any period of employment by DoD nonappropriated fund instrumentalities. The accrued separation allowance **must be paid**, if the employee is otherwise entitled to payment of such allowance upon such event pursuant to host nation law or agreement, when a foreign national employee transfers from an appropriated fund organization to a nonappropriated fund instrumentality.

0811 PERMANENT CHANGE OF STATION OBLIGATIONS RECORDED

At the time permanent change of station orders are issued for civilian and military personnel, obligations **must** be recorded against current appropriations for all authorized reimbursable expenses incidental to relocation at the request of the USG and for transportation requests and bills of lading expected to be issued. The only exception is the obligation of costs for non-temporary contract commercial storage of household goods, which **must** be obligated either in the period in which the service is rendered or to the appropriation current at the contract award. Record an adjustment to the obligation based on the costs itemized on the traveler's settlement voucher.

0812 TEMPORARY DUTY TRAVEL OBLIGATIONS RECORDED

Tentative obligations for temporary duty travel **must** be recorded from written administrative determinations, based on the travel authorizations issued, for the estimated transportation to be purchased and the estimated reimbursement to be earned by the traveler for per diem allowances, use of privately owned vehicles, and incidental travel expenses. When travel is performed under a blanket authorization (with the itinerary not definite), the amount of the tentative obligation recorded in the current month **must** not exceed the estimate of the travel

expenses to be incurred to the end of the current month. When the period covered by the travel authorization extends beyond the end of the fiscal year, and the travel costs are being paid by means of an annual appropriation or the final year of availability of a multiple year appropriation, the amount of the recorded obligation **must** be the cost of transportation purchased and reimbursements earned to the end of the fiscal year.

0813 OTHER OBLIGATIONS

081301. Loan Agreements

As required by [2 U.S.C. § 661-661f](#), new direct loan obligations may be incurred only to the extent that budget authority to cover costs is provided in advance. When a direct loan obligation is incurred, its cost (i.e., the estimated long term cost of the loan to the government) is obligated against the “program account” established for the loan program. Actual funding of the direct loan is made through a revolving, non-budget “financing account.” Refer to Treasury BFS, [U.S. Standard General Ledger \(USSGL\) Credit Reform Guidance](#) for detailed guidance covering obligation and disbursement of funds for direct and guaranteed loans.

081302. Grants and Subsidies Obligations Recorded

The amount of a grant or subsidy **must** be recorded as an obligation when supported by documentary evidence as follows:

A. A grant requiring the grantee to undertake prescribed activities **must** be recorded as an obligation based on formation of a binding agreement. Usually, a signed grant offer is provided by a grants officer to the grantee for acceptance. The obligation is incurred when the grantee accepts or approves the Component’s offer by signing the grant document and providing the acceptance to the Component.

B. A grant or subsidy not preceded by a binding agreement **must** be recorded as an obligation at the time payable.

C. Annually, Components **must**:

1. Track the amount of undisbursed grant funding remaining in expired grant or subsidy accounts,

2. Determine why these funds were undisbursed, and

3. Take action to resolve the undisbursed funding and close the expired grants and related accounts.

081303. Bid Protests or Other Challenges

A. Pursuant to the provisions of [31 U.S.C. 1558](#), funds available at the time of protest or other action filed in connection with a solicitation for, proposed award of, or award of such contract, remain available for obligation for 100 calendar days after the date on which the final ruling is made on the protest or other action.

B. A protest or other action consists of a protest filed with the Government Accountability Office (GAO), or an action commenced under administrative procedures or for a judicial remedy if:

1. The action involves a challenge to a solicitation for a contract; a proposed award for a contract; an award of a contract; or the eligibility of an offeror or potential offeror for a contract or of the contractor awarded the contract; and

2. Commencement of the action delays or prevents an executive agency from making an award of a contract or proceeding with procurement.

C. A ruling is considered final on the date on which the time allowed for filing an appeal or request for reconsideration has expired, or the date which a decision is rendered on such an appeal or request, whichever is later.

1. A request for reconsideration of a GAO protest must be made within ten days after the basis for reconsideration is known or should have been known, whichever is earlier.

2. The appeal of a protest decision of a district court or the Court of Federal Claims must be filed with the Court of Appeals for the Federal Circuit within 60 days after the judgment or order appealed from is entered.

* D. Where contract award is determined to be invalid as a result of a bid protest and the contract is terminated for convenience, appropriations charged for the original contract may be obligated for a replacement contract if it is awarded without undue delay after termination of the original contract. Any award within 100 days of termination necessarily is award without undue delay because 31 U.S.C. 1558 statutorily extends the availability of appropriations for such period following the final ruling on a bid protest.

081304. Liquidated Damages [Recorded](#)

Recover the amount of liquidated damages deducted and withheld from the contractor. If the contractor objects to the assessment of liquidated damages, treat the amount as a contingent liability. Reestablish an obligation only when a formal contractor claim is “approved,” i.e., sustained by government admission or by a judgment.

081305. Litigation [Obligations Recorded](#)

As a general rule, the amount of the liability expected to result from pending litigation [must](#) be recorded as an obligation in cases where the government definitely is liable for the payment of money from available appropriations, and the pending litigation is for the purpose of determining the amount of the government's liability. In other cases, an obligation [must](#) not be recorded until the litigation has been concluded or the government's liability finally is determined. A written administrative determination of the amount of the liability will serve as documentary evidence of the obligation.

081306. Bills of Lading

A bill of lading issued to a commercial carrier [must](#) be recorded, when issued, as an obligation in an amount representing the estimated value of the transportation to be furnished, based on established rates and adjusted on receipt of evidence of payment of the final bill. Obligations for transportation that has not been commenced at year end must be deobligated and obligated in the next fiscal year if still valid.

081307. Public Utility Services [Obligations Recorded](#)

An obligation for recurring charges for utility services (such as gas, electricity, water, and steam) and communications will be recorded each month or as required based on a written administrative determination of the estimated cost of the service that will be furnished during the month. Charges for utility services and communications for a time period beginning in one fiscal year and ending in another fiscal year [must](#) be charged against the appropriation current at the end of the time period covered by the service.

081308. Claims

A claim payable under law [must](#) be recorded as an obligation, when finally approved, in the amount certified for such payment.

081309. Legal Determinations

A document evidencing a present legal liability of the USG, when the liability has been determined to exist by competent legal authority, [must](#) be recorded as an obligation in the amount of the liability when that determination is made.

081310. Simultaneous Disbursement and Obligation

If a disbursement has been made (or is about to be made) without the related obligation previously having been recorded, an obligation [must](#) be recorded immediately in the amount of the disbursement. [Refer to Chapter 11 for further guidance on disbursements made without the related obligation.](#)

081311. Foreign Currency Fluctuations

A. The Foreign Currency Fluctuations Appropriation was established to eliminate losses or gains to programs caused by fluctuation of specified foreign currency exchange rates from those used in the budget, (DWCF foreign currency fluctuations are absorbed by the incurring DWCF business area, not the foreign currency account.) Contractual obligations or other obligations payable in the specified foreign currencies may not be adjusted until disbursements are made from the appropriation account involved. See Volume 6A, Chapter 7 for guidance on foreign currency fluctuations.

B. When foreign currencies not specified in the Foreign Currency Fluctuations Appropriation account are involved, any adjustments to cost at the time of payment must be supplemented with adjustments made at year end and may be made at any other time a significant change occurs in order to avoid over obligation of an allotment.

081312. Security Guard and Firefighting Services

A. Title [10 U.S.C. § 2465](#), prohibits the obligation or expenditure of appropriated funds for the purpose of entering into a contract for the performance of firefighting or security guard functions at any military installation or facility in the U.S., including Alaska and Hawaii. This prohibition does not apply to:

1. A contract that is to be performed in the commonwealths, territories, or possessions of the U.S., or other locations outside the U.S., when members of the Armed Forces otherwise would have to be used for the performance of firefighting or security guard services at the expense of unit readiness;

2. A contract to be carried out on a government owned, contractor operated installation;

3. A contract (or renewal of a contract) for the performance of a function that was under contract on September 24, 1983; or

4. A contract for the performance of firefighting functions if the contract is for a period of one year or less and covers only the performance of firefighting functions that, in the absence of a contract, would have to be performed by members of the armed forces who are not readily available to perform such functions by reason of deployment.

B. Title [10 U.S.C. § 2687](#), the Defense Base Closure and Realignment Act of 1990, as amended, authorizes special procedures for providing security guard (or firefighting) services 180 days before an installation closes under the Base Realignment and Closure initiative.

081313. Postage Obligations Recorded

An obligation for postage **must** be recorded each month based on an estimate of the billing to be received and adjusted based on the actual billing received. If advance payment for post office box is required, the obligation **must** be based on the advance billing. Stamps purchased **must** be obligated at the time payment is made.

***0814 UNRECORDED OBLIGATIONS**

081401. Dollar Threshold for Obligations Identified as Not Recorded

The following guidance **must** be applied when the accounting office identifies that an obligation has been incurred but not recorded in the official accounting records and the **accounting office** is in possession of a valid obligating document (as specified in subparagraph 081402).

081402. Document Verification

A. The accounting office **must** verify that the document was not previously recorded in the official accounting records under the applicable obligation reference number indicated. **Documents exchanged between electronic systems, such as entitlement systems, must also be validated to ensure that the electronic transaction was properly transmitted or recorded under the applicable obligation reference number and to, at a minimum, ensure that no errors resulted during the electronic transmission.** The verification process **must** also include an appropriate review (e.g., review by amount, appropriation, **project-level accounting data** and vendor name) to determine whether the obligation is recorded under another reference number, to include unrecorded modifications that are controlled in other obligating documents. For those accounting systems that contain commitments, the review also **must** involve looking for a commitment.

B. The accounting office **must** verify whether the obligation was recorded in the official accounting records at an amount that was less than the face value of the obligating document or **Electronic Data Interchange (EDI)** representation. If so, the amount of the obligation to be recorded **must** be limited to differences between the amounts authorized on the obligating document or EDI representation and the amount previously recorded in the official accounting records. **If one of conditions described in subparagraph 081402.A or 081402.B is met, the supporting accounting office immediately must record an obligation if the dollar amount is \$2,500 or less. If the amount of the obligation is over \$2,500, the accounting office must follow the procedures in subparagraph 081403.B.**

081403. Recording

A. **DFAS, the DoD-wide accounting office, must** immediately record an obligation if the dollar amount is \$2,500 or less.

B. If the dollar amount is greater than \$2,500, the accounting office **must** provide the appropriate DoD Component **Financial Manager** with a copy of the obligating document(s), via e-mail, fax, electronic upload, or other documented means (retaining proof of transmission and receipt of the notification), to the official document repository and allow ten calendar days for the **Financial Manager** to record the obligation or demonstrate that the obligation was previously recorded. The accounting office **must** record the obligation on behalf of the **Financial Manager** if, within ten calendar days, the **Financial Manager** does not demonstrate that:

1. It is not accountable for the obligation,
2. The obligation is inaccurate,
3. The applicable obligation previously was recorded, or
4. It has recorded the obligation in the accounting records.

* C. Whenever the accounting office records an obligation for any amount; the appropriate Funds Holder must be notified immediately; but not later than ten calendar days of the obligation being recorded. This notification must be via e-mail, fax, electronic upload, or other documented means used for document repository. Additionally, whenever the accounting office records an obligation, each such recording must be uniquely identified, formally approved by the individual designated to provide approval authority, and cross-referenced to the obligating document. The processed obligating document must be similarly annotated. It is acceptable for an automated system to identify the source of a DFAS recorded obligation.

* D. Components must promptly record all obligations consistent with standards set forth in section 0803. The over-recording and under-recording of obligated amounts is equally improper, as either makes it impossible to determine the actual status of an appropriation and may lead to violations of the Antideficiency Act. Over-recording and under-recording will also call into question the accuracy of agency financial statements and the propriety certifications on reports of obligations provided to Congress pursuant to 31 U.S.C. § 1108(c) and 1501(b).

*081404. Expired Funds

If the agency has incurred a valid obligation in the prior year which was unrecorded, prior year funds must be used. Current appropriations are not available to fund this obligation. If insufficient funds remain in the prior years' appropriation, the agency must seek a supplemental or deficiency appropriation and must further consider the possibility that the Antideficiency Act, 31 U.S.C. § 1341 has been violated.

0815 INTERNAL CONTROLS*081501. Departmental Responsibilities**

In accordance with its responsibility for implementing effective internal controls, the Assistant Secretaries and Comptrollers should establish standard procedures for Departmental/Agency level monitoring and review of all obligations and commitments. These reviews should be formally documented in Standard Operating Procedures.

081502. Funds Holder Responsibilities

A. The Funds Holder must review and validate commitments and obligations as financial transactions occur. The requirement for review of commitments and obligations applies to all appropriations and funds of all DoD Components. This requirement applies not only to direct appropriations, but also to all reimbursable transactions, as well as the Department's Revolving and Trust Funds.

B. Triannually, the Funds Holder must reconcile all obligations incurred during the period. They must reconcile amounts recorded in the general ledger to contracting system records and/or obligating documents such as contracts and modifications.

1. The Funds Holder must document and investigate all differences.

2. The Funds Holder must alert the Financial Managers for any variances. The Financial Manager must review the Funds Holder's documentation and assess whether an adjustment to the general ledger is required.

C. The use of "bulk" (estimated) obligations requires periodic monitoring and reconciliation of estimated obligations to the related disbursement transactions and the recording of appropriate adjustments to the estimated obligations based on the disbursement amounts. Consider limiting the use of "bulk" obligations as Antideficiency Act violations may occur in the absence of adequate procedures for monitoring and reconciling disbursements to bulk obligations.

1. Bulk obligations shall not be used for materiel requisitioned by Defense Logistics Management Standards (DLMS) or Military Standard Logistics Systems (MILS) transaction processing. Establishing an obligation for the proper amount for each line item under a unique requisition document number is essential for the timely and automated processing of interfund and non-interfund bills at the detail, line item level. Failure to do so may delay processing and increase workload for both DFAS and submitting Component personnel.

2. DoD Components that establish business processes for requisitioning outside their customer's Component sponsored supply system, e.g., via internet ordering applications, shall provide automated processes for their customers to record line item obligations for each requisition. Components that authorize their personnel to initiate orders outside of their Component sponsored supply system shall incorporate source of supply automated processes for establishing line item obligations for each requisition.

081503. Supporting Documentation

Prior to recording an obligation, the **Financial Manager** responsible for the official accounting records of the Funds Holder must have either:

A. A copy of the obligating document(s) via e-mail, fax, electronic upload to the official document repository, or other documented means (e.g., contract, contract amendment, letter contract, purchase order, reimbursable order, lease agreement, travel order) that will support an obligation, or

B. EDI transaction set that represents an obligating document or supports an obligation (e.g., an EDI 850 transaction set representing a contract or an EDI 860 transaction set representing a contract modification or equivalent electronic data).

*081504. Segregation of Duties

To ensure proper internal controls within the office responsible for financial management, the duty of recording obligations must be separate from other payment function duties. For example, technicians responsible for recording an obligation, must not also post receiving reports, or certify payments for the same transaction in which the technician recorded the related obligation.

081505. Antideficiency Act Violations

When the **Financial Manager** records an obligation in accordance with this policy and it results in an apparent Antideficiency Act violation, that office immediately must initiate research to include consulting with the Funds Holder. The following additional assessments apply:

A. If it is determined that the **Financial Manager** action resulted in a duplicate of an obligation that previously was recorded in the official accounting records, the **Financial Manager** action immediately must be reversed after the error is identified and no Antideficiency Act violation will be considered to have occurred.

B. If the **Financial Manager** determines that:

1. The **Financial Manager** action has not resulted in a duplicate of an obligation that was previously recorded in the official accounting records and

2. The obligation has exceeded the Funds Holder's authorized budget authority,

3. Then a preliminary review of the potential violation must be initiated in accordance with Volume 14, Chapter 3.

C. If a valid obligation actually had been incurred in excess of available funds, the actual incurrence of the obligation, rather than the recording of the obligation, would be considered to have caused the apparent violation. In such cases, follow the appropriate DoD guidance for Antideficiency Act investigations contained in Volume 14.

*0816 TRIANNUAL REVIEWS OF COMMITMENTS, OBLIGATIONS, ACCOUNTS PAYABLE, UNFILLED CUSTOMER ORDERS AND ACCOUNTS RECEIVABLE

081601. DoD Triannual Review Goals

In addition to the Triannual Review being an integral component of exercising sound internal controls, the DoD goal in performing the Triannual Review is to increase each DoD Component's ability to use available appropriations before they expire and ensure remaining open obligations are valid and liquidated before the cancellation of the appropriation. To ensure that obligations are liquidated before canceling, obligations related to appropriations that will cancel on September 30th of the current fiscal year must be reviewed during the May 31st Triannual Review period. Triannual Reviews should be particularly rigorous in reviewing commitments and obligations of appropriations prior to their expiration. Attaining the DoD's Triannual Review goals is contingent on the effective integration and synchronization of the Funds Holder (Resource Manager), Accounting, Program Management, Contracting Officers, and Acquisition/Logistics efforts during each Triannual Review process. The responsibility for successfully completing Triannual Reviews is a collaborative effort. The integrating of all the stakeholders into the review process will allow for an effective review. From a financial audit perspective, one outcome of a well-executed and documented Triannual Review is to provide evidence of the reasonableness of open balances in support of auditable financial statements.

081602. Triannual Reviews of Commitments, Obligations, Accounts Payable, Unfilled Customer Orders, and Accounts Receivable

A. The Triannual Review process is an internal control practice. The Funds Holder, with assistance from supporting Financial Managers, must review commitments, unliquidated obligations, accounts payable, unfilled customer orders (UFCO), and accounts receivable transactions, for validity, accuracy, and completeness not later than 30 calendar days after each of the four month periods ending on January 31st, May 31st, and September 30th of each fiscal year. Also, the Triannual Review will ensure that the SFIS Transaction Library has been adhered to for recording the proprietary and budgetary transactions.

B. Funds provided from a granting to performing organization (reimbursable) are subject to the same scrutiny as all other appropriations. Both the granting and performing organizations must review the status of the reimbursable funds utilizing the same level of criteria and oversight as all appropriated funds. Granting organizations are only responsible for reviewing their side of the transaction, while performing organizations are responsible for reviewing their side of the transaction. Components should also review Reimbursable Orders for conformance with the Economy Act or other applicable statutory authority for the Reimbursable order. Non-Economy Act orders should be reviewed to ensure that the interagency agreements (Memorandums of Agreement/Service Level Agreements) are consistent with DoD policy.

C. Suballotted funds are subject to the same scrutiny as direct funds. Granting agencies must include suballotted funds in their triannual review population. Because granting organizations do not have visibility into execution data, performing organizations are responsible for assisting the granting organization in completing the review. This support includes providing source documents, contract or payable status, and financial analysis, as requested by the granting organization. Granting and performing organizations should develop formal memorandums of understanding to document the specific support requirements for suballotted funding.

081603. Internal Control Responsibilities Supporting Triannual Reviews

A. The Assistant Secretaries of the Military Departments (Financial Management and Comptroller), and Comptrollers of the Defense Agencies and DoD Field Activities must implement effective internal controls to ensure that the required reviews and identified corrective actions are completed in a timely manner.

B. The Assistant Secretaries and Comptrollers should establish standard procedures for completing the Triannual Review. Standard procedures must address:

1. Standard queries and/or standard reports to ensure the completeness of data extracted.

2. File naming; file structure; and data fields for supporting documentation.

3. Process to properly record the status of each commitment / obligation / Payable / UFCO / Receivable. At a minimum the following document statuses should be reported: “valid,” “adjusted,” “canceled,” or “awaiting contract review by the Defense Contract Audit Agency (DCAA).”

4. Process to prepare and report results with the correct status of each balance in a standard reporting format, to allow management analysis and decision making.

5. Component specific documentation required to support each obligation, commitment, UFCO, receivable and payable. Refer to Table 8-2 for general documentation requirements by assessable unit.

081604 Dormant Balances

A. Balances are defined as dormant if they have not been liquidated, and no obligations, adjustments, contract modifications, disbursements, or withdrawals occur within a 120 day period. "Current," defined for this chapter, is having changes in the status for commitments, obligations, disbursements or contracting activity during the last 120 day period.

B. Contracts should not be considered dormant while undergoing review by the Defense Contract Management Agency or DCAA prior to closeout.

C. Unliquidated obligations for Firm Fixed Price contracts with an expected delivery date beyond the review period are considered current for that particular review period.

D. The Funds Holder must establish aging criteria for identifiable groups of transactions that are based on the normal historical cycle for such transactions. For example, contract commitments should be reviewed once the normal time frame for contract award has elapsed. This may be longer than the normal cycle time for a purchase order. The same is true for obligation transactions. Purchase order delivery time frames normally would be shorter than the delivery time for a major weapons system procurement contract. The criteria for each group of transactions must be documented and made part of the review documentation.

081605. Responsibilities of the Financial Manager

A. The office responsible for financial management must provide Funds Holder with listing(s) or automated media identifying commitments and unliquidated obligations, both dormant and current, recorded for the Funds Holder. The Financial Manager also must provide listing(s) or automated media identifying accounts payable, UFCO, and accounts receivable which enable the Funds Holder to verify proprietary and budgetary accounts and, thus, ensure that proprietary and budgetary accounts are valid, accurate, and reconciled. The transaction media must be such that the review can be documented and individual transactions can be annotated if the review reveals further action is required.

B. If requested, the Financial Manager must assist Funds Holder in the conduct of their reviews by:

1. Assisting in the identification and organization of transaction groupings in such a manner so as to facilitate the review by different segments of the Funds Holder's organization;

2. Assisting in the identification and correction of situations that may delay the recording of commitments or obligations, or the matching of disbursements to obligations; and

3. Entering corrections identified by the Funds Holder when such corrections are adequately documented and the entry of such transactions is the normal function of the Financial Manager.

C. The Financial Manager must identify dormant commitments and unliquidated obligations eligible for close out by the paying office for contracts that are physically complete and for which the period of performance has expired (hereinafter, “dormant contracts”), and no pending transactions are expected.

D. Further, the Financial Manager will review and reconcile the accounts payable balances for all accounts payable, to include accounts payable resulting from canceled appropriations, to their specific accounts payable subsidiary ledgers and certify their accuracy.

081606. Responsibilities of Funds Holder

The Funds Holder is responsible for conducting reviews of commitments, unliquidated obligations, accounts payable, UFCO, and accounts receivable, irrespective of whether the Funds Holder or the Financial Manager actually records the commitments or obligations in the official accounting records. This responsibility is placed on the Funds Holder because the Funds Holder initiates those actions that result in commitments, obligations, payables and receivables and, therefore, is in the best position to determine the accuracy and the status of such transactions. The Funds Holder should complete the following procedures no later than 30 calendar days after the Triannual Review Date (each of the four month periods ending on January 31st, May 31st, and September 30th of each fiscal year):

A. Obtain a population of all commitments, obligations (undelivered, paid and undelivered unpaid), payables, UFCO and receivables. For all dormant balances above the thresholds noted in Table 8-1, assess the validity of the open balance by determining (as applicable): whether the commitment requirement is still valid and accurate, future work will be conducted on the contract or UFCO, future disbursements will be required to liquidate open payables, or future collections are likely to be obtained for the receivables. Review thresholds are based on the balance of individual commitments, obligations, payables, receivables and undelivered orders, not the overall contract/purchase order amounts.

Table 8-1: Review Thresholds

Balance	Related DoD FMR Chapter	Appropriation	Review Threshold
Commitment	Volume 3, Chapter 8	Procurement; Research, Development, Test and Evaluation; Military Construction; Investment-Type Portion of the Foreign Military Sales (FMS) Trust Fund; and the Capital Budget of the Defense Working Capital Funds (DWCF)	Above \$200,000
Commitment	Volume 3, Chapter 8	Operation and Maintenance, Military Personnel, Revolving Funds, Trust Funds Including the Operating-Type Portion of the FMS Trust Fund, the Operating Portion of the DWCF, and Other Appropriations/Funds, as appropriate	Above \$50,000
Obligation	Volume 3, Chapter 8	Procurement; Research, Development, Test and Evaluation; Military Construction; Investment-Type Portion of the FMS Trust Fund; and the Capital Budget of the DWCF	Above \$200,000
Obligation	Volume 3, Chapter 8	Operation and Maintenance; Military Personnel, Revolving Funds; Trust Funds Including the Operating-Type portion of the FMS Trust Fund; the Operating Portion of the DWCF; and Other Appropriations/funds, as appropriate).	Above \$50,000
Payable	Volume 4, Chapter 9	All	Above \$50,000
Unfilled Customer Order	Volume 11A	All	Above \$50,000
Receivable	Volume 4, Chapter 3	All	Above \$50,000

B. Document the results of these investigations and maintain all supporting documentation. Supporting documentation may include correspondence from vendor/buyer, and (as applicable): Budget Office, Contracting Officer, Contracting Officer's Representative, and DFAS representatives. Additional documentation may include progress reports, contract modifications, invoices, IPAC system screen prints or system reports that support the validity of the open balance or suggest that it is no longer valid. In the event that documentation must be obtained from the vendor, the Funds Holder should work through the Contracting Officer to contact the vendor. See Table 8-2: "Required Triannual Review Documentation" for a list of examples of supporting documentation by assessable unit. Documentation should be printed or screen prints maintained electronically, unless the source system has reliable IT controls and data will be maintained in archive.

Table 8-2: Required Triannual Review Documentation

Assessable Unit	Supporting Documentation	Correspondence From
Contractor Pay	<p><u>Originating Documents</u> Contracts, contract modifications</p> <p><u>Liquidating Documents</u> Contract modifications, payment vouchers (including invoices and receiving reports)</p>	<p>-Contractor -Contracting Officer -Contracting Officer's Representative -Financial Manager</p>
Vendor Pay	<p><u>Originating Documents</u> Contracts, contract Modifications</p> <p><u>Liquidating Documents</u> Contract modifications, , payment vouchers (including invoices and receiving reports),</p>	<p>-Vendor -Contracting Officer -Contracting Officer's Representative -Financial Manager</p>
Civilian Pay	<p><u>Originating Documents</u> Written administrative determinations of the amounts of the liabilities incurred for personal services based on payroll or personnel records</p> <p><u>Liquidating Documents</u> Payroll file summaries</p>	<p>-Program office -Resource manager - Financial Manager</p>
Military Pay	<p><u>Originating Documents</u> Written administrative determinations of the amounts of the liabilities incurred for personal services based on payroll or personnel records</p> <p><u>Liquidating Documents</u> Payroll file summaries</p>	<p>-Program office -Resource manager - Financial Manager</p>
Intragovernmental	<p><u>Originating Documents</u> MIPR (DD Form 448), Acceptance of MIPR (DD Form 448-2), intragovernmental or interdepartmental agreement, memorandum of agreement, other reimbursable work order</p> <p><u>Liquidating Documents</u> IPACs SF-1080s (Voucher for Transfers Between Appropriations and/or Funds)</p>	<p>-Program Manager -Funds Holder - Financial Manager</p>

C. Quantify the total dollar amount of dormant balances below the established thresholds to determine whether these items are material in aggregate. If these balances are material, select an additional sample of dormant balances for review. This analysis should be documented in the Triannual Review documentation package.

D. From the population of current balances, select a sample of the open balances. This may be based on risk characteristics of the balances. For each sampled balance, obtain the originating document or documents (such as contracts and modifications, including all amendments for obligations, invoices for payables, MIPRs for UFCOs, or bills for receivables). Obtain the liquidating documents (such as accrued estimates or payment records for payables, and collection records for receivables) for each obligation, payable, UFCO, or receivable and confirm the following:

	Initiating Document Amount (From Originating Documents, as amended)
Less:	<u>Liquidating Documents Amount(s)</u>
Equals:	Supported Open Balance Amount

1. For each sampled balance, confirm the balance was recorded in accordance with the FMR chapters listed in Table 8-1.

2. For any invalid or inaccurate balances, initiate actions with the Financial Manager to decommit, deobligate, or adjust the open payable, receivable or unfilled customer order balances.

E. Prepare a confirmation statement. The statement must confirm the following:

1. All dormant commitments, obligations, payables, UFCO, or receivables recorded in the accounting system have been validated to a hardcopy or an electronic source document.

2. Adequate follow up was conducted on all dormant balances to determine if the balance is still valid.

3. All commitments that could not be substantiated or validated after a thorough review by the Funds Holder have been decommitted.

4. All obligations that could not be substantiated or validated after a thorough review by the Funds Holder (and/or the Financial Manager) have been deobligated.

5. All below threshold dormant balances are immaterial or, if material, were sampled to gain reasonable assurance the balances are correct.

6. “As of (date), (number) (percent ~ %) of obligation transactions for known contingencies and related documents for the Triannual period ending (date) were verified to be properly captured, classified, recorded and reported.”

7. The sampling methodology used of all current balances resulted in a representative sample.

8. Each sampled current balance was recorded in accordance with the FMR chapters listed in Table 8-1.

9. Commitments, Obligations, Payables, UFCO, and Receivables were recorded in accordance with Volume 4, Chapter 8; Volume 11A, Chapter 9; and Volume 4, Chapter 3 (respectively).

10. All reviewed balances were recorded to the applicable DoD Standard Chart of Accounts found on the SFIS website for recording the proprietary and budgetary transactions.

11. Problems noted as a result of the review have been identified.

12. Adjustments or corrections to remedy noted problems have been taken.

13. Actions or corrections remaining to be taken, and when such actions/corrections are expected to be completed, have been summarized, by type.

14. Actions taken to preclude identified problems from recurring in the future have been identified.

H. Submit the confirmation and all supporting documentation to the Budget Submitting Officer.

081607. Responsibilities of the Budget Submitting Officer

The Budget Submitting Officer is responsible for conducting reviews of the work performed, and documentation prepared by the Funds Holder and supporting Financial Managers. The Officer’s review should ensure that the Triannual Review has been performed over a complete population, and that the Funds Holder performed all the required procedures accurately, and retained supporting documentation. The Budget Submitting Officer should complete the following procedures no later than 15 calendar days after receiving the Funds Holder’s Triannual Review package:

A. Confirm the completeness of the Triannual Review by reviewing the Funds Holder's list of:

1. All open obligations, commitments, payables, UFCO, and receivables at the time of the review date and
2. All the dormant items in those populations.
3. Review procedures should include confirming that the Funds Holder used standard queries and/or standard reports to ensure the completeness of data extracted.

B. Select a sample of dormant balances and review supporting documentation provided by the Funds Holder. Confirm the balances were appropriately classified as valid or invalid by determining (as applicable):

1. Whether future work will be conducted on the contract or unfilled customer order,
2. Future disbursements are likely required to liquidate open payables, or
3. Future collections are likely obtained for the receivables.
4. For invalid balances, confirm a deobligation action has been processed, payable reversed, or receivable written off, as applicable.

C. Review a sample of current balances previously reviewed by the Funds Holder and confirm the initial balance and all liquidating activity are supported by appropriate documentation. Confirm that the supported initial balance less liquidating activity equals the open balance. Submit this review as part of the Triannual Review package.

D. Document the results of these reviews in a formal Budget Submitting Officer package and submit to the Assistant Secretaries and Comptrollers.

081608. Responsibilities of the Assistant Secretaries and Comptrollers

A. Within 15 calendar days of receiving the Budget Submitting Officer's package, the Assistant Secretaries of the Military Departments (Financial Management and Comptroller) and the Comptrollers of the Defense Agencies must review the packages and provide evidence of those reviews, along with all supporting documentation, to the OUSD(C), Financial Improvement and Audit Readiness (FIAR) Directorate. Assistant Secretaries must perform the following, at a minimum:

1. A review of the Budget Submitting Officers' submissions to confirm that they were prepared by the Funds Holder and reviewed by the Budget Submitting Officer.
2. The review of documentation of any Funds Holder that was unable to complete the required review or confirm the accuracy and validity of open balances, including a full explanation of, and any corrective action taken. Assess whether corrective action taken was appropriate.
3. Document these reviews in a Component Level package and submit to FIAR.

081609. Responsibilities of the FIAR Directorate

Within 60 calendar days of receiving the Component Level Packages, the FIAR Directorate must perform the following:

- A. Select a sample of Triannual review packages to review. Establish a sampling parameter that ensures at least one package from each Component is evaluated annually.
- B. For each sampled package, review documentation which evidences that all required Triannual Reviews have been conducted. Documentation should include a listing of all open balances, listing of balances reviewed, and a listing of invalid variances.
- C. Evaluate the trends on total dormant balances by component.
- D. Confirm the sample methods used by the Funds Holder and the Budget Submitting Officer.
- E. Review documentation of any Funds Holder that was unable to complete the required review or confirm the accuracy and validity of open balances, including a full explanation of, and any corrective action taken. Assess whether corrective action was taken.
- F. Provide feedback on the results of the review to each sampled Component.

081610. Documentation

Components are required to maintain documentation that is sufficient to permit independent organizations, such as the Office of the Inspector General, DoD, or the DoD Component Audit Agency/Service or Inspector General, to verify that the reviews were accomplished as required in accordance with the retention standards of Volume 1, Chapter 9.

081611. Deobligation Procedures for Dormant Obligations

A. Within ten calendar days of their identification by the Funds Holders, all required decommitments, deobligations, adjustments or corrections identified must be executed. Deobligations may result from a contract modification, determination of final contract closure, documented adjustments or corrections, cancellation of an order, or when funds are determined to be excess of contract requirements as a result of a periodic review by the contracting officer. Funds holders are DoD officials that receive a documented administrative subdivision of funds including apportionments, allotments, suballotment, allocations, and suballocations through their funding chain of command or from other government departments, agencies, and activities holding an administrative subdivision of funds. All obligations that cannot be substantiated or validated after a thorough review by the Funds Holder (and/or the Financial Manager) must be deobligated. Within ten calendar days of the receipt of documentation from the Funds Holder, the Financial Manager must record the deobligation, decommitment, or adjustment(s) in the general ledger. No action, however, must be taken to modify, cancel, or amend a contract or travel order below any amount that is identified as due and owing a contractor, vendor, or traveler. It is the Funds Holder's responsibility to identify such amounts upon notification by the Financial Manager that action will be taken.

B. The contracting officer and other stakeholders are responsible for exercising due diligence in ensuring that appropriate procedures are followed during the contract closeout and deobligation process. Specifically, the contracting officer is responsible for ensuring compliance with appropriate contract close out policy and procedures set forth in FAR 4.804-4 and DFARS 204.804.

1. It is the responsibility of the contracting officer to send notification to the Financial Manager, Program Office, and Funds Holder denoting that a contract is complete and no further valid transactions will be forthcoming through the use of a DD Form 1594, Contract Completion Statement (DD 1594), or electronic equivalent as described in DFARS, PGI 204.804. Deobligation of excess funds at contract closeout may be accomplished through the use of a DD 1594 or electronic equivalent.

2. For dormant contracts which have been physically completed the contracting officer administering the contract must review the contract funds status and notify the Funds Holder of any funds excess to the needs of the contract that can be deobligated prior to contract closeout. Deobligation will be done through the use of a contract modification.

3. For contracts that are canceled in full or in part, such as unilateral orders where the contractor does not accept the order or through agreement of the parties, the contracting officer will notify the Funds Holder and Financial Manager that funds may be deobligated.

4. In some instances, it is appropriate to reduce a recorded obligation for Firm Fixed Price contracts with escalation, price redetermination, or incentive provisions. This occurs when a determination is made by the contracting officer (and approved by the Fund Holder or a designee) that the anticipated amount of liability under the contract may be reduced and the amount of the recorded obligation may be decreased by the amount so determined and

approved. Such action is taken after taking all circumstances into consideration, including available costs and production data or tentative offers from contractors and be accomplished through a modification to the contract.

5. When a contract or agreement is terminated in whole or in part for the convenience of the government by the giving of a "Notice of Termination" to the other party to the contract or agreement, the obligation recorded for the contract or agreement must be decreased to an amount that is sufficient to meet the settlement costs under the termination through a modification to the contract. The obligation must not be decreased below the amount estimated by the contracting officer, based on the best evidence then available, as the amount due as a result of the termination.

6. Where there is not a contract completion statement and the Financial Manager has identified dormant funds and that a final payment has been made they must provide the respective contracting officers with the contract number, notice of final payment and the remaining balance for each dormant contract with remaining funds of any amount. Such information must be provided in a manner that will allow the contracting officer to consent for deobligation simply by annotating and returning the information to the Financial Manager for further processing without a contract modification. The Financial Manager must maintain a copy of the Funds Holder's consent for audit purposes and in a manner consistent with applicable record keeping requirements.

C. For dormant travel obligations, for which travel did not occur, or the full obligated amount was not expended, the Financial Manager will deobligate the funds based on a written consent from the Funds Holder or authorizing official (AO). It is the responsibility of the AO to send notification to the Financial Manager, program office, and Funds Holder denoting no further valid transactions will be forthcoming. The AO should obtain and review the applicable travel vouchers, receipts, and correspondence between the traveler and the AO.

D. For dormant payroll (salaries, wages, and benefits) obligations, for which funds were not expended, or the full obligated amount was not expended, the Financial Manager will deobligate the funds based on a written consent from the Funds Holder. It is the responsibility of the Funds Holder to send notification to the Financial Manager, program office, and Funds Holder denoting no further valid transactions will be forthcoming. The Funds Holder should obtain and review the applicable pay period calendar, Leave and Earnings Statements, payroll disbursements, support for journal vouchers, and correspondence between the program office, employees, and the Financial Manager.

E. For intragovernmental or interdepartmental obligations, including Military Standard Requisitioning and Issue Procedures requisitions through mandatory sources, for which funds were not expended, or the full obligated amount was not expended, the Financial Manager will deobligate the funds based on a written consent from the Funds Holder and related program manager.