

**SUMMARY OF MAJOR CHANGES TO
DoD 7000.14-R, VOLUME 10, CHAPTER 1
“FINANCIAL CONTROL OF VENDOR AND CONTRACT PAYMENTS”**

All changes are denoted by blue font

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

Hyperlinks are denoted by *underlined, bold, italic, blue font*

PARA	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated to include a Table of Contents. Reworded and reformatted chapter for clarity. Revised, eliminated duplicative references, and added references. Added electronic links.	Update
010103 previous version now under 0102	Updated information concerning internal controls.	Update
010104 previous version	Deleted paragraph. Disbursing Policy issues are discussed in Volume 5 and document retention is in Chapter 8 of this volume.	Deleted
010105 previous version	Deleted paragraph. Policy related to electronic commerce is contained in Chapters 17 of this volume. Information related to late payment interest is contained in Chapter 7 of this volume.	Deleted
010106 previous version now under 0103	Updated information concerning prevalidation.	Updated
010107 previous version	Deleted paragraph. Policy related to financing payments is contained in Chapters 7, 8, and 10 of this volume.	Deleted
010108 previous version	Deleted paragraph. Policy related to invoice payments is contained in Chapters 7, 8, and 10 of this volume.	Deleted
010109 previous version	Deleted paragraph. Policy related to acceptance and receipt is contained in Chapters 7 and 8 of this volume.	Deleted
010201 previous version	Deleted paragraph. Policy related to processing payments, discount, electronic signature, FAST Pay and late payments are contained in Chapters 7, 8, and 10 of this volume.	Deleted
010202 previous version	Deleted paragraph. Policy related to contractor registration and EFT payments is contained in Chapters 8 and 17 of this volume.	Deleted
010203, previous version now under 0104	Updated guidance on payment limitations.	Updated

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CHAPTER 1

FINANCIAL CONTROL OF VENDOR AND CONTRACT PAYMENTS0101 GENERAL

010101. Department of Defense (DoD) officials are responsible for ensuring that DoD organizations maintain control of payments made to vendors and contractors. This volume prescribes the policy necessary to ensure the obligation of the DoD to pay for goods, services, and transportation and to make payment based on terms and conditions contained in accepted purchase orders, contracts, and unilateral and bilateral modifications. It prescribes the policy to issue payment based on the entitlement, preparing payment vouchers, and keeping contract, disbursement (entitlement), and accounting records complete, consistent, and accurate.

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

0102 INTERNAL CONTROLS

★ 010201. DoD officials are charged with establishing an effective system of internal controls needed to maintain accountability over resources, including identifying, reporting, and reducing improper payments. It is the policy of DoD to make payments and collections that are timely and accurate. Managers are responsible for ensuring that internal controls are established and functioning properly. Managers with responsibilities for determining entitlement, authorizing and executing payments and collections shall:

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

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

C. Establish systematic controls that capture adequate audit trails to allow the tracing from source documents of financial events to general ledger account balances through successive levels of summarization and financial reports/statements. Ensure all transactional

data is processed using accurate coding and errors are researched and corrected.

D. Employ systems that ensure the authenticity of data that are electronically transmitted, including the electronic signature. Such controls shall provide reasonable assurance that deliberate or inadvertent manipulation, modification, or loss of data during transmission is detected (see [Chapter 17](#) of this volume).

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

F. Periodically test effectiveness of internal controls, document results of testing, and take necessary corrective actions (see Office of Management and Budget [Circular A-123](#), Management's Responsibility for Internal Controls.)

0103 [PREVALIDATION](#)

010301. Obligations (and any adjustments) are established and recorded for the amounts of orders placed and contracts awarded that will require payment in the current or some future accounting period, as prescribed in [Volume 3](#), Chapters 8 and 15, of this Regulation. Liabilities for payment, including accounts payable, are established as prescribed in [Volume 4](#), Chapters 8 and 9, of this Regulation. Prevalidation is the process of matching the planned disbursement with a recorded obligation before the financing or invoice payment is made. The requirement is to determine before the payment is made that the undisbursed balance of each applicable obligation is sufficient to cover the amount of the planned disbursement, as well as all previously scheduled disbursements. See [Volume 3, Chapter 11](#). The process is intended to minimize the occurrence of problem disbursements and Antideficiency Act violations. See [Public Law 104-208 Sec. 8106, "DoD Appropriations Act, FY 1997"](#). Every year since then, Congress has amended the requirement in the annual DoD Appropriations Act. The DoD has established policy as follows.

★ 010302. All Non-Mechanization of Contract Administration Services (non-MOCAS) payments are prevalidated.

010303. The Department has established the following prevalidation thresholds for MOCAS payments:

A. All payments made on contracts awarded after FY 2004 are prevalidated.

B. On contracts issued during FY 2004 and prior, payments for more than \$5,000 are prevalidated.

0104 [PAYMENT LIMITATIONS](#)

★ 010401. The following contract clauses, when applicable, may impose limitations on entitlement to financing or invoice payments.

A. [Limitation on Undefined Contracting Actions](#). In accordance with

Federal Acquisition Regulation ([FAR](#)) [16.603-4](#), letter contracts shall include FAR contract clause [52.216-24](#). Under the terms stated there, the maximum amount of the government's obligation is the amount specified in the clause. Initially, that amount shall not exceed 50 percent of the not-to-exceed-cost of the definitive contract but, in most circumstances, the percentage may be increased to 75 percent if the contractor submits a qualifying proposal before 50 percent of the not-to-exceed price has been obligated (see Defense Federal Acquisition Regulation Supplement ([DFAR](#)) [217.7404-4](#) and related contract clause [252.217-7027](#)). According to the Defense Federal Acquisition Regulation Supplement (DFARS) [217.7401](#), "definitization" means the agreement on, or determination of, contract terms, specifications, and price, which converts the undefinitized contract action to a definitive contract. An "undefinitized contract action" means any contract action for which the contract terms, specifications, or price are not agreed upon before performance is begun under the action. Examples are letter contracts, orders under basic ordering agreements, and provisioned item orders, for which the price has not been agreed upon before performance has begun.

B. Limitation of Cost or Funds. The basic requirements for contract funding are described in [FAR 32.700](#). No officer or employee of the government may create or authorize an obligation in excess of the funds available or in advance of appropriations. The contracting officer expressly shall condition contracts on the availability of funds. Fully funded cost-type contracts may include FAR contract clauses [52.232-20](#), or incrementally funded cost-type contracts may include FAR contract clauses [52.232-22](#). Under the terms stated there, the government's obligation to the contractor (and the contractor's obligation to perform) is generally limited to the funds allotted to the contract.

C. Limitation on Withholding of Payments. In accordance with [FAR 32.111\(b\)\(2\)](#), noncommercial supply, research and development, service, time and materials or labor hour contracts that include two or more terms that authorized temporary withholding of amounts otherwise payable shall include FAR contract clause [52.232-9](#). Under the terms stated there, the total amount that may be withheld at any one time shall not exceed the amount that may be withheld under any one clause or contract schedule term. This limitation does not apply to withholding under any clause related to employee wages, the recovery of overpayments, withholdings not provided for in the contract, or to any withholding for which the contracting officer determines the limitation would not be appropriate.

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