

**VOLUME 03, CHAPTER 08: “STANDARDS FOR RECORDING AND REVIEWING
COMMITMENTS AND OBLIGATIONS”**

SUMMARY OF MAJOR CHANGES

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

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

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

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

The previous version dated [February 2020](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Administrative updates to include clarifying language and sections reorganized in accordance with Department of Defense Financial Management Regulation (FMR) Revision Standard Operating Procedures.	Revision
2.3.7	Emphasized recording of commitment of intragovernmental orders prior to entry in the Government Invoicing system.	Revision
3.7	Clarifying language to distinguish fund holders due diligence responsibilities for inter- and intra-governmental orders.	Revision
8.1.3	Clarifying language on use of Fiscal Service Form 7600B.	Revision
15.2.1	Clarifying language on internal controls with supporting FMR volume and chapter references.	Revision
15.4	Clarifying language on segregation of duties with supporting FMR volume and chapter reference.	Revision
16.2.4	Clarifying language on sub-allotter and sub-allottee dormant balance roles.	Revision
16.8.2.1	Clarifying language on the roles and activities of de-obligation of dormant obligations.	Revision
Policy Memo	The Deputy Chief Financial Officer’s policy memorandum, “Dormant Account Review - Quarterly Permanent Change of Station Dormancy Requirement Adjustment (FPM 21-09),” dated November 8, 2021 was incorporated into the chapter and canceled.	Cancellation

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CHAPTER 8

**STANDARDS FOR RECORDING AND REVIEWING COMMITMENTS
AND OBLIGATIONS**

1.0 GENERAL

1.1 Purpose

This chapter prescribes the requirements 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 Dormant Account Review Quarterly (DAR-Q) of Undelivered Orders, [Unpaid \(UDOU\)](#); Delivered Orders, Unpaid (DOU); Undelivered Orders, Paid (UDOP); and Unfilled Customer Orders (UFCO). Priorities for researching and correcting disbursement transactions are in Chapter 11.

1.2 Authoritative Guidance

The primary statutory sources include Titles 10 and 31 of the United States Code. The primary regulatory source is the Office of Management and Budget ([OMB Circular A-11](#), "Preparation Submission and Execution of the Budget"; [OMB Circular A-123](#), [Management's Responsibility for Enterprise Risk Management and Internal Control](#)"); and the Federal Acquisition Regulation ([FAR](#)).

2.0 COMMITMENTS

2.1 Definition

A "commitment" is an administrative reservation of allotted funds, or of other funds, in anticipation of an obligation (see paragraph 3.1). Since an obligation equal to or less than the commitment can be incurred without further recourse to an authorizing official, commitments are required for some appropriations and are permissible for others. For additional information, see Chapter 15 paragraph 3.3. A commitment, when recorded in the accounting records, reduces the allotment's available fund balance. A person authorized to reserve funds must sign the commitment document, i.e., the official responsible for administrative control of funds for the affected subdivision of the appropriation. This helps ensure the subsequent entry of an obligation will not exceed available funds. The amount recorded as a commitment is the estimated procurement cost set forth in the commitment document. The date the authorized official signed the commitment document determines the accounting period the commitment is recorded in the general ledger. Officials can commit funds only to acquire goods, supplies, and services that meet the [time, purpose, and amount](#) for which Congress appropriated funds, or bona fide needs of the period to replace stock used during that period. See subparagraph 3.4.1 for further bona fide need concepts.

2.2 Recording of Commitments

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 accordance with the United States Standard General Ledger (USSGL) Standard Financial Information Structure (SFIS) Transaction Library in Volume 1, Chapter 7.

2.3 Special Provisions for Determining the Amounts of Commitments

2.3.1. Criteria for Recognition of a Contingent Liability. A contingent liability is recognized when all of the following three conditions are met in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) 5, “Accounting for Liabilities of the Federal Government,” paragraph 38.

2.3.1.1. A past event or exchange transaction has occurred. For example, a federal entity has breached a contract with a nonfederal entity.

2.3.1.2. A future outflow or other sacrifice of resources is probable. For example, the nonfederal entity has filed a legal claim against a federal entity for breach of contract, and the federal entity’s management believes the claim is more likely than not to be settled in favor of the claimant; and

2.3.1.3. The future outflow of resources is measurable. For example, the federal entity’s management determines an estimated settlement amount.

2.3.2. 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:

2.3.2.1. Outstanding fixed price contracts containing escalation, price redetermination, or incentive clauses;

2.3.2.2. Contracts authorizing variations in quantities to be delivered; and

2.3.2.3. Contracts where allowable interest may become payable by the U.S. Government on contractor claims supported by written appeals pursuant to the “Disputes” clause contained in the contract, see subparagraph 4.2.4.

2.3.3. Recording Contingent Liabilities Remaining under Outstanding Contracts. Carry amounts to cover these contingent liabilities as outstanding commitments pending determination of actual obligations. Conservatively estimate and record amounts based on judgment, experience, and the probability an obligation will materialize. The amount need not be recorded at the maximum or ceiling price under the contract. Allowances may be made for the possibility of downward price revisions and quantity under runs. Support each contingent liability with sufficient detail as referenced in SFFAS 5, paragraphs 38 and 39.

2.3.4. Letter Contracts and Letters of Intent. When accepted, record a letter contract, letter of intent, or [other undefinitized contract action](#) as an obligation, but only in the amount of the maximum liability stated. Other regulations may limit the maximum liability amount 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 and no commitment [is](#) recorded.

2.3.5. Open End Contacts and Option Agreements. Record a commitment for an open end contract or option agreement (when neither the items nor quantities are specified) only when the amount estimated is reasonably firm, [i.e.](#), are the subject of subsequent orders. Competent authorized personnel must determine the required quantities and quality specification [for](#) reasonable estimated prices. The existence of a specific dollar amount in the procurement directive or request does not make the dollar amount reasonably firm. [For](#) example, [experienced](#) personnel can estimate an amount useful in planning, [i.e.](#) an initial complement of spare parts will be acquired, but this amount is not reasonably firm [and may be](#) recorded as a memorandum “initiation” (see Chapter 15, [paragraph 3.3](#)), but not as a commitment.

2.3.6. Contract Modification 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.

*2.3.7. Intragovernmental Requisitions and Orders. Record commitments [for](#) Intragovernmental requisitions and orders [using](#) Fiscal Service (FS) [Form 7600B](#), Department of Defense (DD) [Form 448](#), Military Interdepartmental Purchase Request (MIPR), or other digital equivalent Federal Intragovernmental Data Standard. [DoD requisitions and orders are recorded as commitments prior to entry in the Government Invoicing \(G-Invoicing\) system.](#) See [additional guidelines and specifics on G-Invoicing](#) in section 8.0.

2.3.8. Multi-year Contracts. [Do not](#) record contingent liabilities commitments for multi-year contracts [with](#) cancellation charges, [i.e.](#), when it is necessary for the government to cancel the contract for reasons other than contractor liability, until it becomes necessary to cancel the contract and the contractor is notified.

2.3.9. Commercial Purchase Cards. Establish [c](#)ommitments in amounts no less than the periodic purchase limits authorized for commercial purchase cards. Commitments limit expenditures to funds available for the purchase card program. Establish commitments [for each distinct](#) line of accounting. 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 [DoD Government Charge Card-Guidebook](#) for additional guidance.

2.3.10. Imprest Funds. Record a commitment for imprest funds before advancing funds to the imprest fund cashier.

2.4 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 the goods and services procured no longer align with the purpose set forth in the purchase request for which the commitment was certified. To mitigate this risk, certifying officials must conduct an automated pre-award validation with the contract issuing organizations to validate that committed funds remain available and suitable for the draft award's intended purpose. This check must also ensure that the data in the accounting and procurement systems are sufficiently aligned to facilitate line item traceability between commitments and obligations, to facilitate payment. The structure must support posting obligations and line items with different accounting treatments that must be segregated. This transaction may be performed via the Global Exchange system using system agnostic data standards.

3.0 OBLIGATIONS

3.1 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 an 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 canceled accounts. Provisions of Chapter 15 and Volume 14, Chapter 1 require that funds be allotted to DoD Component activities before the activities incur obligations. Additionally, obligations may not be made in excess of apportionments or formal subdivisions of funds. Chapter 11 specifies the recording of obligations related to unmatched disbursements and negative unliquidated obligations. Unless otherwise specified, DoD Components have primary responsibility for recording obligations. It is imperative only authorized personnel have the appropriate authorization for Generally Accepted Accounting Principles compliance. Such authorizations are explicitly delegated primarily through the issuance of a Delegation of Authority Memorandum or an Appointment/Termination Record-Authorized Signature [DD Form 577](#). As a result, authority is vested to such individuals to either make legal adjustment or take corrective action to

properly align the commitments and obligations. See section 14.3 for recording obligations by the accounting office [that](#) does not have the primary responsibility for such recording.

3.2 Obligation Responsibilities

[31 U.S.C. § 1501](#), “Documentary Evidence Requirement for Government Obligations,” directs that amounts must be recorded as obligations only when supported by documented evidence. The office that incurs an obligation must provide, within [five](#) 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 must record the obligation in the official accounting records within [five](#) calendar days of receipt of such documentation, information, or data. Timely and accurate recording of obligations facilitates the disbursing officer’s ability to verify fund availability before authorizing a [timely](#) payment.

3.3 Recording Obligations

3.3.1. All business 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 accordance with the SFIS Transaction Library in accordance with Volume 1, Chapter 7.

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

3.3.2.1. 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 feasibly ascertained at the time it is recorded, the best estimate must be used. Document [the](#) best estimate to include relevant inputs, assumptions, and calculations. In accordance with Volume 1, Chapter 9, retain evidence to support the transaction.

3.3.2.2. Ten-Day Rule. Record obligations in the official accounting records at the time a legal obligation is incurred, i.e., contract is [signed](#). In all instances, obligations must be recorded within 10 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, record [all](#) obligations (per [line of accounting](#)) 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, follow section 14.0.

3.4 Recording Contract Obligations

Offices generating contract obligations in the form of a contract, order, or modification; must provide official evidence of the obligations, and other supporting documents, to the office responsible for recording the obligation, via electronic format as defined in the Defense Federal Acquisition Regulation Supplement (DFARS) Procedures, Guidance, and Information (PGI 204.201), and in accordance with the SFIS data elements required in Volume 1, Chapter 4, and posting logic in Volume 1, Chapter 7. Load obligations manually, within five calendar days from the signature date on the contract or contract modification, based on the official obligating documents in the Electronic Document Access System, if the transactions fail to upload electronically. If the contract contains errors, omissions or deficiencies that prevent posting, a Contract Deficiency Report must be created to document the deficiency and request corrective action in accordance with PGI 204 270-2.

3.4.1. 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, 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. Additionally, a buying activity's project order must serve a bona fide need that exists in the fiscal year in which the project order is issued; otherwise, a valid obligation is not accomplished. Bona fide need generally is a determination of the buying activity and not that of the selling/performing activity. A selling activity must refuse to accept a project order if it is obvious the project order does not serve a need existing in the fiscal year in which issued. 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. It is not intended that the bona fide need of the fiscal year rule be construed to preclude procurement lead-time. If, 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 (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, such as the bona fide needs rule, period of availability, and type of funds. See Volume 11A, Chapter 2.

3.4.1.1. 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.

3.4.1.2. 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, Chapters 2 and 18.

3.4.1.3. 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.

3.4.2. 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 that is considered entire or non-severable 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](#).

3.4.2.1. 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. § 3133](#) 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.

3.4.2.2. Non-Severable Services. A service contract is non-severable 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 in [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 multi-year 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.

3.4.2.3. Training Contracts.

3.4.2.3.1. 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.

3.4.2.3.2. Bona Fide Needs Rule Exception for Special Training Courses Covered by Statute. In accordance with Regional Defense Combating Terrorism and Irregular Warfare Fellowship Program (CTFP), [10 U.S.C. § 345](#), 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. 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 specific program may commence in the next fiscal year. Thus, for a particular program that already is underway, expiring funds may be obligated for tuition in September for a course that will not complete until the next fiscal year.

3.5 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 begins 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:

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

3.5.2. 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.

3.5.3. 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.

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

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

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

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

3.5.3.2. Re-procurement or completion costs, liquidated damages, and performance bond money recovered from the contractor as refunds must 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.

3.6 Determining Scope of Work Changes

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

3.6.2. Standards for Making Determinations. Statutes and DoD policies for the use of appropriations limit the period of availability to fund new obligations. However unobligated balances that have expired for the purpose of new obligations, are available to fund within scope cost growth or increases in costs from claims arising out of the original obligation. 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 they are within the scope of the contract.

3.6.3. Increases in Quantities. Changes in the quantity of the major items called for in a contract generally are a change in contract scope and not authorized under the “Changes” clause. Therefore, fund a contract change that increases the number of end items ordered 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 within the scope of a contract unless they are so significant that they alter the basic contractual undertaking.

3.6.4. Increases in Required Levels of Service Performance. Any modification of a service contract requiring additional deliverable services is a change in scope. Fund such changes with appropriations available at the time of the change. For example, a contract modification for accounting and audit services to add onsite technical assistance and training to grantees of the agency is a change in scope and is beyond the scope of the original contract. Fund this change with funds available at the time of the change. Conversely, 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. See Chapter 10 for additional policy on within scope and change of scope determinations.

3.6.4.1. A contract modification to provide research and development for a new weapons system designed to 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 (such as specifications, drawings, and designs pertaining to the contract), then, the fact there is a possible change in the performance level specifications, does not, thereby, automatically result in a change in scope. Additionally, an increase in the number of people assigned to the project, or increased travel costs is within scope cost growth that could be funded as part of the original contract.

3.6.4.2. A modification for a cost-type level of effort contract with specified number of hours and level of personnel experience and training, which calls for a change in the specified number of hours or the level of experience and training, could be a change in scope. An increase in direct or indirect rates under the contract is within scope cost growth and could be funded as part of the original contract.

3.6.5. Claims. Fund claims arising out of an original undertaking, or resulting from a within scope change, from the appropriation available at the time of the original undertaking. Fund claims arising out of a change in scope to the original contract from the appropriation available and charged for the change in scope.

*3.7 Due Diligence

Fund holders, entrusted by components (buyer/receiving organizations) with administrative subdivisions of funds, ensure appropriated funds are used consistently with the intent, time, purpose, amount, and bona fide need for which the funds were provided. Fund holders must exercise due diligence in committing, obligating, de-committing, and de-obligating funds and generating inter- and intra-governmental orders through prescribed practices and oversight of documentation including contract, invoice, disbursement, and relevant supporting information. Fund holders must effectively collaborate with mission stakeholders including accountants, contracting officers, program managers, and logistics personnel. For generating

orders, see paragraph 15.2 for component/buyer fund holder and seller/servicing agency funding official responsibilities. The following is a checklist for due diligence compliance:

3.7.1. Internal control systems are adequate.

3.7.2. Information is reliable and valid.

3.7.3. Applicable laws, regulations, and policies are followed.

3.7.4. Resources are safeguarded and managed economically and efficiently.

3.7.5. Desired program results are achieved.

3.7.6. Operations are effective and efficient.

3.7.7. Commitments and obligations valid, and the fund level is sufficient to support the bona fide need. Refer to section 16.0.

3.7.8. Goods and services are received or outstanding.

4.0 RECORDING JUDGMENT FUND OBLIGATIONS

4.1 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 must 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, [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 (such as DoD) under statutes identified in the Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002, ” commonly known as the No FEAR Act.

4.2 Reimbursement of Contract Dispute Act Judgments

In accordance with 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 appropriation, “Judgment Fund.” After such payment, the DoD Component is required to reimburse the Judgment Fund.

4.2.1. 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.

4.2.2. 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. Use expired appropriations that were current at the time of the judgment 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.

4.2.3. Within 15 business days after paid claim confirmation, the Treasury Judgment Fund Branch sends a letter to the responsible DoD Component point of contact requesting reimbursement. Within 30 days of receipt of notice for reimbursement, the responsible DoD Component must repay Treasury's Bureau of the Fiscal Service (BFS) or contact BFS to make payment arrangements. If the impacted DoD Component fails to respond within 60 business days of the first 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 on the Treasury Direct website under the reports section at [Treasury Managed Accounts Reports](#).

4.2.4. Reimbursement to 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 policy on violations of the Antideficiency Act.

4.2.5. In all official accounting and reporting systems, a separate and unique Budget Line Item (BLI) designator is assigned for the recording and reporting of such reimbursements. This BLI designator is 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.

4.2.6. 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. However, if programming actions have reserved funds, the DFAS may be authorized to process the payment as an obligate-expend transaction. DFAS may process the transfer of funds for the payment to Treasury's Judgment Fund using the Intra-Governmental Payment and Collection (IPAC) system.

4.2.7. 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 million.

4.3 Reimbursement of No FEAR Act Judgments

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

4.3.1. Within 15 business days after the Treasury makes a payment from the Judgment Fund, Treasury will issue a written notification (electronically or by other means) concurrently to the Under Secretary of Defense Comptroller (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.

4.3.2. 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.

4.3.3. 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.

4.4 Administrative Oversight Roles and Responsibilities for Judgment Fund

4.4.1. The OUSDC, Program and Budget must:

4.4.1.1. 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.

4.4.1.2. 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.

4.4.2. DFAS must:

4.4.2.1. 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.

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

4.4.2.3. 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.

4.4.2.4. Write consolidated notes supporting financial statements to include documenting and/or reporting of Judgment Fund liabilities for inclusion in the DoD Agency Financial Report (DoD AFR). After DFAS provides the financial statement notes to OUSD(C), OUSD(C) has final responsibility for the presentation within the DoD AFR.

5.0 RECORDING GOVERNMENT-WIDE COMMERCIAL PURCHASE CARD OBLIGATIONS

Record obligations for Government-Wide Commercial Purchase Cards in the amounts placed for orders for goods or services. For additional information on purchase cards, see the Department of Defense Government Charge Card Guide.

6.0 RECORDING OBLIGATIONS FOR PROCUREMENT CONTRACTS AND ORDERS

6.1 Firm Fixed Price Contract

When the contract is executed, **record** an obligation for the total amount stated in the contract.

6.2 Fixed Price Contract with an Escalation, Price Redetermination, or an Incentive Provision

When the contract is **executed**, **record** an obligation for 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.

6.3 Cost Reimbursement and Time and Material Contracts

Cost reimbursement and Time and Material (T&M) 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, record an obligation for the total estimated contract 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. Increase or decrease amounts provided by contract modification, or a unilateral revision of an award fee estimate made by the contracting office. Record any fee awarded in excess of the target fee in a cost plus incentive fee contract as an obligation at the time of determination. 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.

6.4 Indefinite Delivery Type Contracts

Where the quantity required under a contract is indefinite, determine the ultimate amount of obligation by subsequent orders; however, record the amount of any required minimum order specified 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. Record an obligation in the amount of the agreed price or ceiling for an order in excess of the required minimum (as negotiated or accepted under terms of the contract) upon contractor's acceptance of the order. 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.

6.5 Contract Authorizing Variations in Quantities to be Delivered

When executing the contract, record an obligation 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.

6.6 Multi-year Procurement Contract

Record an obligation for a multi-year procurement contract in the amount of the price of the quantities specified for delivery in 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.

6.7 Letter Contract or a Letter of Intent

6.7.1. When the offer and acceptance are sufficiently 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 accepted in writing by the contractor, is documentary evidence to support the recording of an obligation. Record the obligation in the amount stated as the maximum liability under the letter or amendment.

6.7.2. 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, is 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.

6.7.3. Commitments with funds that will expire, cannot be carried past fiscal year-end.

6.8 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, record an obligation for the interest payable 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 may bargain away all or part of the interest in a settlement agreement.

6.9 Interest Payable under the Prompt Payment Act

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.

6.10 Purchase Orders

6.10.1. Record an obligation in the amount stated on the purchase order when issued. 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.

6.10.2. Record a purchase order requiring vendor acceptance (to form a binding contractual agreement) as an obligation in the amount specified in the order at the time of acceptance. Retain evidence of this acceptance. 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, record the obligation against current funds, and modify the purchase order accordingly.

6.11 Amendment of a Contract

A change in the government's contractual liability amount that results from a within scope change amendment 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:

6.11.1. For a contract modified pursuant to a clause authorizing equitable adjustment to contract terms (including price) within the general scope of the contract, record obligation increases or decreases by the amount specified by any and all amendments or modifications when executed. For a fixed price contract, charge or credit the original source of funds on the contract.

6.11.2. Pursuant to the provisions of [50 U.S.C. §§ 1431](#), 1432, 1433, and 1435; adjust the amount of a recorded obligation 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. Record the adjustment against the same source of funds for the original obligation when the amendment or modification does not change the scope of the contract and, thus, does not result in a new procurement. When the scope of the contract is increased, charge to the appropriation or fund available at the time the amendment is executed.

6.11.3. For a contingent obligation, such as one existing under an indemnification clause or a clause involving an equitable adjustment, record an obligation only in the amount of the contractual liability incurred when the amendment updating the contingent obligation is executed. If no amendment is required, the obligation is recorded when the event occurs that updates the amount of the liability under the contingent obligation. Record the obligation against the same source of funds originally cited on the contract.

6.11.4. When a price increase occurs in one or more items in a fixed price contract containing an escalation clause, a price redetermination clause or an incentive provision, or in the fee in a cost plus incentive fee contract; record an obligation in the amount of the increase at the time the changed price or fee is determined in accordance with the terms of the contract. Record the obligation to the original source of funds for the contract.

6.11.5. 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 the contracting officer determines, after consideration of all circumstances including available costs and production data or tentative offers from contractors, (and the fund holder or a designee approves) that the anticipated amount of liability under the contract could be reduced. Record the decrease in obligation by the amount determined and approved. See paragraph 16.8 for additional guidance on the de-obligation of funds.

6.11.6. 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.

6.12 Termination of Contracts and Agreements

When a contract or agreement is terminated in whole or in part for the convenience of the government, by giving a "Notice of Termination" to the other party to the contract or agreement, decrease the recorded obligation to an amount sufficient to meet the settlement costs under the termination. Similarly, the commitment must also be decremented to align to the forecasted obligation amount. The obligation cannot be decreased below the amount estimated by the contracting officer, based on the best evidence then available, as the amount due as a direct result of the termination.

6.13 Foreign Currency Exchange Fluctuations

Determine and record changes in obligations and contractual liabilities caused by foreign currency exchange fluctuations when payment is made. For foreign currencies not specified in a special foreign currencies fluctuations appropriation account, make adjustments at fiscal year-end or any other time a significant change occurs to 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.

7.0 RENTAL AGREEMENTS AND LEASES OF REAL AND PERSONAL PROPERTY

7.1 Amount Recorded as an Obligation on Rental and Lease Agreements

Record as an obligation amount based on the agreement or lease, or on a written administrative determination of the amount due under its provisions.

7.2 Rental Agreement Terminated by the U.S. Government

Under a rental agreement that may be terminated by the U.S. Government at any time without notice, and without incurring any obligation to pay termination costs, record the obligation each month at the time of payment, in the amount of the rent for that month.

7.3 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, record an obligation 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, record an obligation 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 is recorded.

7.4 Rental Agreements with Specified Dollar Payment

Under a rental agreement providing for a specified dollar payment in the event of termination, record an obligation upon execution of the agreement in the amount of the specified minimum dollar payment. In addition, record an obligation 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 is recorded.

7.5 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, record an obligation 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 10 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 10 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](#). For the legal, regulatory, or customary term of a foreign lease; 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.

7.6 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) in accordance with [40 U.S.C. §§ 581](#) and 121 need not include a provision 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.

7.7 Obligations for GSA Standard Level User Charges

Record obligations to the GSA for standard level user charges as specified in the GSA bill.

8.0 INTRA-GOVERNMENTAL REQUISITIONS AND ORDERS PLACED WITH DOD COMPONENTS OR OTHER U.S. GOVERNMENT AGENCIES

The Treasury's [G-Invoicing](#) system is used to negotiate, broker, and electronically store the General Terms and Conditions (GT&C) and activity between buyers and sellers for inter- and intra-governmental reimbursable transactions. The standard Interagency Agreement form is comprised of two forms, the GT&C (FS Form 7600A) and the Order Requirements and Funding Information (Order) (FS Form 7600B). When trading partners enter orders in the G-Invoicing system, the partners leverage data in the common repository to improve accuracy in accounting and reporting.

8.1 Reimbursable Procurement

8.1.1. The term “reimbursable procurement” refers to an order for supplies, material, services or equipment placed by a [buying/requiring](#) DoD Component for:

8.1.1.1. Procurement by [seller/servicing](#) 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.

8.1.1.2. Delivery to and reimbursement by the [buying](#) DoD Component.

8.1.2. The [buying](#) DoD Component records an obligation for a reimbursable order using the date and amount of acceptance by the [seller](#) activity.

*8.1.3. An FS Form 7600B, DD Form 448 MIPR, or other document as appropriate, may be used for processing reimbursable procurements. Obligation occurs when the [seller's](#) responsible government official [digitally or manually](#) signs the DD Form 448-2, Acceptance of MIPR, [other digital equivalent of the Federal Intragovernmental Data Standard](#), or other document, as appropriate; and returns to the [buyer's](#) office responsible for posting the obligation or customer order. For FS Form 7600B, both the funding and program official must sign. Additional guidance on MIPR processing can be found in the DFARS, PGI, subpart 253.208, and see [Treasury Financial Manual Part 2, Chapter 4700 for FS Form 7600B processing](#).

8.2 Direct Citation Procurements

The term “direct citation procurement” refers to procurement accomplished by combining the requirements of one or more DoD Components with those of the [seller/servicing](#) DoD Component. The [selling](#) DoD Component may issue one contract with separate schedules showing the quantities, prices, dollar amounts, and citation of funds of each [buying](#) DoD Component. The [buying](#) DoD Component records a direct citation order as an obligation when notified in writing that the [selling](#) DoD Component's contract or project order has been executed, or when a copy of the contract or project order is received. MIPRs or [other digital equivalent](#) used for these orders are not complete until the MIPR Acceptance is [digitally or manually](#) signed by the [seller](#), and received [and signed by the buying](#) office responsible for posting the obligation.

8.3 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. Record the obligation for reimbursable orders against the appropriation of the buying DoD entity as follows.

8.3.1. Project Order authority is available only for intra- or inter-DoD orders. Identify all project orders on the order document itself. Fund fixed price and reimbursable project orders similar to commercial procurement contracts. When a selling activity accepts the project order in writing, the buying activity records the obligation amount as stated in the order. See Volume 11A, Chapter 2.

8.3.2. Unless more specific statutory authority is applicable, the Economy Act provides authority for 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 multi-year 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 work to be performed must be expected to begin within a reasonable time after acceptance. Orders placed or agreements made obligates an appropriation of the buying agency or unit. MIPRs are Economy Act orders subject to downward adjustments when the selling component has not executed its agreed-upon contract or project order actions. Both the buying and selling agency must de-obligate funds to the extent that the selling agency or unit has not incurred obligations before the end of the appropriation period of availability; or made an authorized contract with another person to provide the requested goods or services. As specified in paragraph 16.2, all unliquidated obligations must be reviewed and any unsubstantiated obligations or excess funds de-obligated. Refer to Volume 11A, Chapter 3 for additional policy covering de-obligations related to Economy Act Orders.

8.3.3. DoD Component Non-Economy Act reimbursable orders placed with civilian agencies for supplies, material, services or equipment include obligational standards used for Economy Act reimbursable orders.

8.3.3.1. Non-Economy Act orders obligating annual or multi-year appropriation must satisfy a bona fide need of the appropriation's period of availability. The buying DoD activity must obligate funds when the selling activity accepts the order in writing.

8.3.3.2. The selling agency has a reasonable period of time to use transferred funds, depending on the nature of the order. Both the buying and selling agency must de-obligate funds to the extent that the selling agency has not provided the goods or services before the end of the DoD appropriation period of availability; or entered into a contract with another entity (contractor) to provide the requested goods or services in a manner consistent with the bona fide needs rule. See Volume 11A, Chapter 18.

8.3.3.3. DoD Components must establish and implement funds monitoring procedures. See paragraph 3.1.

8.4 Modifying Reimbursable Orders

[Buying](#) activities must apply the following guidelines in modifying reimbursable orders.

8.4.1. 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.

8.4.2. If the appropriation used to fund the initial order has expired, it may be used only to liquidate or adjust prior obligations [in accordance with paragraph 3.6](#).

8.4.3. Under no circumstances should an order result in a [selling](#) 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 performance period must begin during the period of availability of the [buying](#) activity's appropriation. For guidance on rental agreements with specified dollar payments, see paragraph 7.4.

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

9.1 General

The DoD has authority under [10 U.S.C. § 2208](#) and [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. [Direct citation orders placed with a DWCF must adhere to Volume 11B, Chapter 11 requirements](#). 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 and 2210, 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 [buying](#) activity's appropriation is available.

9.2 Recording DWCF Stock Funds

9.2.1. [Recording DWCF Capital Stock Fund Purchases](#). Unlike Economy Act orders and 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 [buyers](#) orders are not legally required to be obligated before expiration of the [buyer's](#) financing

appropriations. However, an order placed for an Integrated Material Management (IMM) item must be a bona fide need of the buyer activity's 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.

9.2.2. Recording Obligations for Stock Number and Nonstock-Number Items. Record an obligation for an item **with** a stock number assigned at the time **of** the order. Record an obligation for a Nonstock Numbered Item—number not assigned at the time of placement of the order—when the DWCF activity accepts the order for an IMM item that **the activity** will fill using its cost authority. Orders without stock numbers **require** order and acceptance because the **seller** may not be able to fulfill the order. DWCF activities that utilize contract authority are issued both contract authority and anticipated **buyer** order amounts that tie to one another, and the accepted **buyer** orders are recorded against the contract **authority** and not separately against reimbursable authority. DWCF accepted **buyer** orders for managed stock items procured with contract authority are recorded as an offset to contract authority and not against reimbursable authority levels.

9.2.3. IMM 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 IMM.

9.3 Change Notices

The following policies apply to change notices.

9.3.1. Cancellation. **Adjust an** obligation for an undelivered order placed with the stock fund activity when a change notice affecting price, quantity, or receipt **of** an unacceptable substitution of a like item. **Cancel an** undelivered order placed with the stock fund when the **buyer** receives a notice of:

9.3.1.1. Substitution that is unacceptable,

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

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

9.3.2. Transfers from Centrally Managed Procurement to DWCF Stock Fund. **Record an** obligation **for** a DWCF stock fund order if a **buying** activity receives notice that an ordered item funded by a centrally managed procurement appropriation has been transferred to funding by the stock fund.

9.3.3. Funding Shortfall. If a change notice results in a shortfall of **buyer** funds, the **buyer** may cancel the order or reduce the quantity on order. If the **buyer** 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 **buyer** funds if an apparent funding deficiency that results from a change notice is resolved with the stock fund by means of:

9.3.3.1. Cancellation or modification of the quantity on order, or

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

9.4 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 8.0.

10.0 PERSONAL SERVICES AND BENEFITS OBLIGATIONS

10.1 Obligations Recorded for Payments to Military and Civilian Employees

Record obligations for the amounts payable to military services members and civilian employees 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 [Federal Insurance Contributions Act](#) taxes; are also 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.

10.2 Obligations Recorded for Subsistence In Kind

Record an obligation for subsistence in kind based on requisitions and orders, or on a written administrative determination of the estimated cost of subsistence furnished by others.

10.3 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.

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

Record obligations for severance pay for U.S. Government civilian employees and foreign national employees (such as those German nationals covered by the German Tariff Agreement) 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.

10.5 Obligations Recorded for Severance Pay Under Specified Conditions

10.5.1. **Record** obligations for severance pay 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.

10.5.2. 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 follows:

10.5.2.1. In general, record obligations for separation allowances for foreign national employees 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. However, when a foreign country is committed to fund part of the separation allowance for its nationals, obligate 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 13.11 for guidance on those currencies not covered by the foreign currency fluctuations appropriation.

10.5.2.2. 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 centrally maintain the detailed employee and appropriation records for all transferred employees to facilitate the closeout and liquidation of liabilities.

10.5.2.3. Appropriated funds may not be obligated for separation allowances earned by foreign national employees during any period of employment by DoD non-appropriated 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 non-appropriated fund instrumentality.

11.0 PERMANENT CHANGE OF STATION OBLIGATIONS RECORDED

At the time [Permanent Change of Station \(PCS\)](#) orders are issued for civilian and military personnel, record obligations against current appropriations for all U.S. Government authorized reimbursable expenses incidental to relocation and for [estimated bookings of household goods movement and storage](#). 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.

12.0 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.

13.0 OTHER OBLIGATIONS

13.1 Loan Agreements

As required by [2 U.S.C. § 661](#), 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’s BFS, USSGL [Credit Reform Accounting](#) guidance for detailed guidance covering obligation and disbursement of funds for direct and guaranteed loans.

13.2 Grants and Subsidies Obligations Recorded

Record the obligation amount of a grant or subsidy when supported by documentary evidence as follows:

13.2.1. A grant requiring the grantee to undertake prescribed activities based on formation of a binding agreement. Usually, a grants officer signs a grant offer and provides 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.

13.2.2. A grant or subsidy not proceeded by a binding agreement at the time payable.

13.2.3. Annually, DoD Components must:

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

13.2.3.2. Determine why these funds were undisbursed, and

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

13.3 Bid Protests or Other Challenges

13.3.1. 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.

13.3.2. 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:

13.3.2.1. 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

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

13.3.3. 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.

13.3.3.1. A request for reconsideration of a GAO protest must be made within 10 days after the basis for reconsideration is known or should have been known, whichever is earlier.

13.3.3.2. 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.

13.3.4. 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 an 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.

13.4 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.

13.5 Litigation Obligations Recorded

As a general rule, record an obligation amount for the liability expected to result from pending litigation 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, do not record an obligation until the litigation has been concluded or the government’s liability is finally determined. A written administrative determination of the amount of the liability will serve as documentary evidence of the obligation.

13.6 Bills of Lading

Record an obligation amount for a bill of lading when issued to a [Transportation Service Provider](#) that is based on established rates and the estimated value of the transportation to be furnished and adjust on receipt of evidence of payment of the final bill.

13.7 Public Utility Services Obligations Recorded

Record an obligation for recurring utility services (such as gas, electricity, water, and steam) and communications each month or as required based on a written administrative determination of the estimated monthly cost of the service to be furnished. 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.

13.8 Claims

Record an obligation for a claim payable under law when finally approved and in the amount certified for such payment.

13.9 Legal Determinations

Record an obligation amount for a document evidencing a present legal liability of the U.S. Government, when the liability has been determined to exist by competent legal authority.

13.10 Simultaneous Disbursement and Obligation

Record an obligation amount for a disbursement that has been made (or is about to be made) when the related obligation was not previously recorded. See Chapter 11.

13.11 Foreign Currency Fluctuations

13.11.1. The Foreign Currency Fluctuations Appropriation was established to eliminate losses or gains to programs caused by fluctuation of specified foreign currency exchange rates from rates used in budget formulation. 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.

13.11.2. 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 or under obligation of an allotment.

13.12 Security Guard and Firefighting Services

13.12.1. [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:

13.12.1.1. 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;

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

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

13.12.1.4. 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.

13.12.2. [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.

13.13 Postage Obligations Recorded

Record an obligation for postage 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. Obligate stamps purchased at the time payment is made.

14.0 UNRECORDED OBLIGATIONS

14.1 Dollar Threshold for Obligations Identified as Not Recorded

Apply the following guidance when the accounting office identifies an obligation incurred but not recorded in the official accounting records, and the accounting office is in possession of a valid obligating document (as specified in paragraph 14.2).

14.2 Document Verification

14.2.1. The accounting office must verify the document was not previously recorded under the applicable obligation reference number indicated. Validate documents exchanged between electronic systems, such as entitlement systems, to ensure the transaction was properly transmitted or recorded under the applicable obligation reference number, and no errors resulted during the transmission. Additionally, verify the amount, appropriation, project-level accounting data, and vendor name to determine if the obligation is recorded under another reference number, to include unrecorded modifications that are controlled in other obligating documents. Look for related commitments in accounting systems that contain commitments.

14.2.2. The accounting office must verify **if** the obligation was recorded at an amount less than the face value of the obligating document or Electronic Data Interchange (EDI) representation. If so, limit the amount of the recorded obligation **increase** to differences between the amounts on the obligating document or EDI representation and the amount previously recorded in the official accounting records. If one of conditions described in subparagraphs 14.2.1 or 14.2.2 is met, the accounting office must immediately **adjust** the obligation if the dollar amount is \$2,500 or less. If the obligation amount is over \$2,500, follow the procedures in subparagraph 14.3.2.

14.3 Recording

14.3.1. DFAS must immediately record an obligation if the dollar amount is \$2,500 or less.

14.3.2. 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, upload, or **use** other means (retaining proof of transmission and receipt of the notification), to document the official document repository. **Allow** 10 calendar days for the **financial manager** to record the obligation or demonstrate the obligation was previously recorded. The accounting office must record the obligation on behalf of the **financial manager** if, within 10 calendar days, the **financial manager**:

14.3.2.1. **Has** **accounted** for the obligation,

14.3.2.2. The obligation is accurate,

14.3.2.3. The applicable obligation was **not** previously recorded, or

14.3.2.4. **Has not** recorded the obligation in the accounting records.

14.3.3. Whenever the accounting office records an obligation for any amount, the appropriate **funds holder** must be notified immediately but not later than 10 calendar days of the obligation being recorded. This notification must be via e-mail, fax, electronic upload, or other documented means used for **the** document repository. Additionally, whenever the accounting office records an obligation, the 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.

14.3.4. DoD Components must promptly record all obligations consistent with standards set forth in section 3.0. 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\(b\)](#).

14.4 Expired Funds

If the agency has incurred a valid, unrecorded obligation in the prior year, 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 the Antideficiency Act (31 U.S.C. § 1341) has been violated. Agencies should incorporate the due diligence guidance outlined in paragraph 3.7 to mitigate circumstances requiring use of current appropriations to cover previous year requirements.

15.0 INTERNAL CONTROLS

15.1 Departmental Responsibilities

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

15.2 Funds Holder Responsibilities

*15.2.1. For the buyer/receiving component, the funds holder must review and validate commitments and obligations as financial transactions occur. The review applies to all DoD Components, appropriations, reimbursable transactions, and funds including revolving funds and trust funds. Fund holders sign and approve the DD Form 448 and FS Form 7600B. Fund holders have certification responsibility and initiate actions that result in obligations. See paragraph 3.1 for required documentation to perform the fund holders' responsibilities. For seller/servicing components, the funding official that confirms orders received are aligned with the seller's mission (see Volume 5, Chapter 5), accepts/signs the 488-2 and 7600B, and manages buyer orders to include execution (see Volumes 11A and 11B).

15.2.2. Quarterly, the fund holder must reconcile all obligations incurred during the period to include amounts recorded in the general ledger to contracting system records and/or obligating documents such as contracts and modifications.

15.2.2.1. The fund holder must document and investigate all differences.

15.2.2.2. The fund holder must alert the financial managers of any variances. The financial manager must review the funds holder's documentation and assess whether an adjustment to the general ledger is required.

15.2.3. 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. Limit the use of bulk obligations as Antideficiency Act violations may occur in the absence of adequate procedures for monitoring and reconciling disbursements.

15.2.3.1. Bulk obligations must not be used for materiel requisitioned by Defense Logistics Management Standards or Military Standard Logistics Systems 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 Component personnel.

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

15.3 Supporting Documentation

Prior to recording an obligation, the financial manager responsible for the official accounting records of the funds holder must have one of the following:

15.3.1. A copy of the obligating document(s) (i.e., contract, contract modification, letter contract, purchase order, reimbursable order, lease agreement, travel order) via e-mail, fax, electronic upload to the official document repository, or other documented means, or

15.3.2. An EDI 850 transaction set representing a contract or an EDI 860 transaction set representing a contract modification or equivalent electronic data that represents an obligating document or supports an obligation.

*15.4 Segregation of Duties

To ensure proper internal controls within the responsible financial management office, the duty of approving, certifying, and recording an obligation or order acceptance must be separate from posting a receiving report(s) and certifying acceptance and payment(s) for that obligation. In instances where Management determines that segregation of duties is not practical, additional mitigating controls must be identified and implemented in accordance with Volume 5, Chapter 1.

15.5 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:

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

15.5.2. If the financial manager determines that:

15.5.2.1. The financial manager action has not resulted in a duplicate obligation
and

15.5.2.2. The obligation exceeded the funds holder's authorized budget authority,
then

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

15.5.3. If a valid obligation was 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, see Volume 14.

16.0 QUARTERLY REVIEW OF DORMANT ACCOUNTS

16.1 DAR-Q Justification

The DAR-Q serves as a quality control mechanism of entity-level internal control activities. The DAR-Q improves the Department's ability to execute all available appropriations before expiration and cancellation. The quarterly review is the inherent ability to track the dormancy and or validity of the DoD Components obligations and UFCO ensuring proper actions are taken to correct and or expedite the timely execution and full utilization of appropriated funds. The fund holder, financial manager, accountant, seller funding official, Budget Submitting Officer (BSO), contracting officer, and logistics representative efforts must be rigorous and synchronized. The integration of stakeholders' information enables effective outcomes to include evidence of the reasonableness of open balances in support of auditable financial statements.

16.2 Dormant Balances

16.2.1. DAR-Q requires review of sampled dormant balances. For purposes of the DAR-Q, balances are defined as dormant if they have not been liquidated and no obligations, adjustments, disbursements, withdrawals, or contract modifications with general ledger impact have occurred within the last 90-days. PCS orders, where Components have documented personnel readiness requirements to issue orders at least 90 days in advance of the move, will be considered dormant at 180 days. Current balances are defined as having a change in the status for obligations or UFCOs during the last 90-day period which generated general ledger activity.

16.2.2. Contracts are justifiably dormant while undergoing confirmed Defense Contract Management Agency (DCMA) contract closeout review or Defense Contract Audit Agency (DCAA) audit. Fund holders must retain evidence the open balance is currently under DCMA closeout review or DCAA audit.

16.2.3. Sampled dormant balances also include reimbursable balances, i.e., from a buying to selling organization. Both buying and selling organizations are responsible for reviewing their respective side of the transaction. DoD Components should also review reimbursable orders for compliance 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 (MOA)/Service Level Agreements) are consistent with DoD policy.

*16.2.4. Sampled dormant balances include sub-allotted funds. The fund holder (sub-allotter) must assign dormant sub-allotment samples to the selling organization (sub-allottee) for review within seven calendar days of the review period kickoff. Because sub-allotters may not have visibility into execution data, sub-allottees support completion of the review by providing source documents, contract or payable status, and financial analysis to the sub-allotter within 50 calendar days of sub-allotter's request. Sub-allotters and sub-allottees should develop formal memorandums of understanding to document the specific support requirements for sub-allotted funding.

16.3 DAR-Q Major Roles and Responsibilities

16.3.1. OUSD(C) Financial Improvement and Audit Remediation (FIAR) Directorate:

16.3.1.1. Issue DAR-Q sampling logic to Components completing DAR-Q manually.

16.3.1.2. Within 30 calendar days of receiving the Component level packages, perform the following:

16.3.1.2.1. Select a sample of DAR-Q records for review each quarter for assigned DoD Components.

16.3.1.2.2. For each sampled package, review evidence that all required DAR-Q requirements have been conducted.

16.3.1.2.3. Perform data analytics to evaluate validation criteria trends of dormant balances.

16.3.1.2.4. Review documentation of any funds holder and BSO that was unable to complete the required review or confirm the accuracy and validity of dormant balances, including a full explanation of, and any corrective action taken. Assess whether corrective action was taken.

16.3.1.2.5. Provide Components feedback on the results of the review.

16.3.2. OUSD(C) Enterprise Financial Transformation Directorate

16.3.2.1. Maintain the Advana DAR-Q Tool to facilitate enterprise-wide usage.

16.3.2.2. Update the Tool to align functionality with policy changes as necessary.

16.3.3. The Assistant Secretaries of the Military Departments Financial Management and Comptroller (FM&C) and Defense Agency Comptrollers:

16.3.3.1. Establish and/or update a SOP/desk guide to document entity-level DAR-Q procedures for implementation of the DAR-Q framework. For DoD Components executing within the automated Advana DAR-Q Tool, SOPs must include internal timeframes to meet submission due dates and workflow descriptions that utilize the expanded process flow functionality.

16.3.3.2. Create the standard queries and/or standard reports to ensure the completeness of the data extracted based on OUSD(C) FIAR sub-population sampling logic and requirements.

16.3.3.3. Establish entity-level implementation of the DAR-Q, through utilization of the automated Advana DAR-Q Tool to ensure accuracy and completeness.

16.3.3.4. Appoint at least one coordinator and BSO.

16.3.3.5. Review the BSO and funds holder submissions, complete the OUSD(C) FIAR DAR-Q submission and provide evidence of the review, along with supporting documentation, to the OUSD(C), FIAR Directorate by the FIAR quarterly completion dates.

16.3.3.6. Review of documentation of any funds holder that was unable to complete the required review or confirm the accuracy and validity of dormant balances, including an accurate explanation of any corrective action taken. Assess whether corrective action taken was appropriate.

16.3.3.7. Document these reviews using the BSO results to highlight both compliance and non-compliance of the BSO within a Component Level package and submit to OUSD(C) FIAR.

16.3.3.8. Identify problems noted as a result of the BSO review.

16.3.3.9. Initiate adjustments or corrections to remedy noted problems within 10 calendar days of identification and continue to track until completion.

16.3.3.10. Summarize by type actions or corrections remaining to be taken, and when such actions/corrections are expected to be completed.

16.3.3.11. Identify actions taken to preclude identified problems from recurring in the future.

16.3.3.12. Review BSO and fund holders' documentation, and prepare and submit quarterly a certification statement to the OUSD(C) FIAR attesting to the following:

16.3.3.12.1. Validation criteria was performed on the Agency's DAR-Q sample records of open Undelivered Orders Unpaid (UDOU), DOU, UDOP and UFCO balances within those populations. DAR-Q record validations are accurate based on research completed and information known at the time of completion, and can be reconciled to readily available source documents.

16.3.3.12.2. Effective internal controls are in place to ensure accounting adjustments and corrective actions identified as a result of the DAR-Q were initiated in the appropriate accounting system. The dormant balance and reason for dormancy was verified for each record. Corrective actions were taken to initiate the adjustment of balances within the appropriate systems as necessary. Corrective actions and monthly follow-ups are documented until complete.

16.3.3.12.3. Key Supporting Documentation (KSD) for all validated UDOU, DOU, UDOP, and UFCO records are readily available and will be provided within 10 calendar days upon request by the OUSD(C) FIAR for reasonable quality control review.

16.3.3.12.4. DAR-Q sample records are selected for validation as an OUSD(C) FIAR quality control activity to improve funding execution. DAR-Q is not intended to replace component internal control activities for open balance review, validation, or adjustment. The signee acknowledges it remains the responsibility of the DoD Component to perform continuous control activities on all open balances.

16.3.3.12.5. DAR-Q submission was performed in compliance with this chapter and internal SOP implementation guidance.

16.3.4. Coordinator. Coordinator disseminates records to appropriate personnel for review, facilitates the DAR-Q process, and serves as the OUSD(C) point of contact. Coordinators are not required to be financial managers, as their role is to facilitate the DAR-Q process by providing logistics, routing, and administrative support. Consolidated all quarterly records.

16.3.5. BSO. The BSO conducts reviews of the work performed and funds holder and financial manager documentation. The BSO ensures the DAR-Q was performed over a complete population and that the funds holder performed required procedures accurately and retained supporting documentation. The BSO must complete the DAR-Q within specified time frames for all funds.

16.3.5.1. Exercise reasonable assurance the funds holder completed their review in compliance with this Regulation and the Component's SOP requirements. BSOs must ensure fund holders have the capabilities and resources.

16.3.5.2. Prepare and submit a certification statement quarterly to the respective Assistant Secretary of the Military Department FM&C and/or Defense Agency Comptroller. The statement must attest to the requirements in subparagraph 16.3.3.12. Signee must also acknowledge it remains the responsibility of the BSO to perform continuous control activities on all open balances.

16.3.5.3. Provide respective Assistant Secretary of the Military Department FM&C and/or Defense Agency Comptroller supporting documentation within 10 calendar days upon request.

16.3.5.4. Review documentation of any funds holder that was unable to complete the required review or confirm the accuracy and validity of dormant balances, including a full explanation of, and any corrective action taken.

16.3.5.5. If the funds holder is not utilizing the Advana DAR-Q Advana Tool, confirm the funds holder used the DAR-Q OUSD(C) FIAR queries to ensure the completeness of data extracted.

16.3.6. Fund holder. Fund holders are DoD officials that receive a documented administrative subdivision of funds including apportionments, allotments, sub-allotment, allocations, and sub-allocations through their funding chain of command or from other government departments, agencies, and activities holding an administrative subdivision of funds. Fund holders review dormant records to evaluate the status and commence documented corrective action as necessary within 10 calendar days, following up monthly until corrective action and general ledger posting has occurred. Once the review is complete, route records to the BSO for review. The fund holder is responsible for conducting reviews of obligations and UFCOs, regardless of whether the fund holder or the financial manager actually records the obligations in the official accounting records. Document and maintain the results of these reviews.

16.3.6.1. Supporting documentation may include correspondence from the vendor, budget office, contracting officer, Contracting Officer's Representative (COR), seller funding official, or DFAS representatives. Additional documentation may include progress reports, contract modifications, invoices, IPAC system screen prints, or general ledger system/transactional reports that support the validity of the open balance or indicates it is no longer valid. The funds holder works through the contracting officer to obtain vendor documentation. Provide respective supporting documentation within 10 calendar days of BSO request. See Table 8-3 "Required DAR-Q Documentation" for a list of examples of supporting documentation by assessable unit. Print documentation or maintain screen prints electronically, unless the source system has reliable IT controls and data will be maintained in an archive.

16.3.6.2. Prepare and submit a quarterly certification statement to the BSO. The statement must attest to the requirements in subparagraph 16.3.3.12 as well as acknowledge it remains the responsibility of the funds holder to perform continuous control activities on all open balances.

16.3.6.3. See paragraph 16.5.4 if not utilizing the DAR-Q Advana Tool.

16.4 DAR-Q Populations

DAR-Q populations reflect the budgetary general ledgers impacting budget execution included in Table 8-1.

Table 8-1: DAR-Q Population and Associated USSGL Account Code

DAR-Q Population	USSGL Account
Undelivered Orders Unpaid (UDOU)	480100, 488100, 487100, 483100
Delivered Orders Unpaid (DOU)	490100, 498100, 497100, 493100
Undelivered Orders Paid (UDOP)	480200, 488200, 487200
Unfilled Customer Orders (UFCO)	422100, 422200, 423000, 425300

Table 8-2: DAR-Q Review Period

Quarter	Dormancy Period	DAR-Q Review Period
1	October 1 through December 31	Mid-January through Mid-March
2	January 1 through March 31	Mid-April through Mid-June
3	April 1 through June 30	Mid-July through Mid-September
4	July 1 through September 30	Mid-October through Mid-December

16.5 Advana DAR-Q Tool

16.5.1. The Advana DAR-Q Tool provides automation for effective and efficient reporting. The Tool leverages the Departments' universe of transactions to provide automated populations, reconciliations, record sampling, and a standard reporting platform.

16.5.2. DAR-Q sampling methodology focuses on high-risk, high-value balances. High-risk comprises dormant balances in General Fund expiring and canceling appropriations and Working Capital Fund and Foreign Military Sale balances remaining after the period of performance has ended. Populations are grouped by dollar value with higher sampling applied to high-value balances.

16.5.3. Components must perform DAR-Q on all balances regardless of the system in which they are executed. When the Tool does not incorporate transactions from legacy general ledger systems, Components must request population, sampling, and submission requirements from OUSD(C) FIAR Directorate to perform DAR-Q manually.

16.5.4. Fund holders not utilizing the Tool must adhere to the OUSD(C) FIAR annual guidance to obtain a population for sampled obligations and UFCOs. For all dormant balances, determine the validity and accuracy, and if future work will be conducted, future disbursements will be required, and if there is sufficient and readily available KSD to justify the remaining balance.

16.5.5. The Tool provides standard Validation Codes for users to select based on review of open balances.

16.5.5.1. Valid. An obligation where there is a bona fide need and a reasonable likelihood that future activity will occur. Examples of activity include, but are not limited to, receipt of goods and services, payment of invoices, collecting payment for goods delivered or services rendered, or performing work on a reimbursable basis.

16.5.5.2. DAR-Q Adjustment. A valid obligation that requires all or a portion of the balance to be adjusted in either the source general ledger system or initiated with the responsible party (i.e., DFAS, contracting office, performer, source of supply). An adjustment is an action required to accurately reflect business events.

16.5.5.3. The Tool provides standard Reason Codes aligned with each Validation Code, and capability to add granular data through explanation and comment fields.

16.6 Key Supporting Documentation.

Components provide KSD for a sub-sample of DAR-Q records to support the balance, validation code, and any corrective actions initiated. For valid dormant balances, documentation must support the balance, while balances that require adjustment include documentation to support the adjustment amount. OUSD(C) FIAR Directorate may review KSD for quality control and provide feedback as necessary. KSD must be provided within 10 calendar days of the request. To be considered valid and provide the correct line item support, the KSD is required to be signed by an authorized individual responsible for that transaction. See Table 8-3, “DAR-Q Documentation Examples” and the Advana DAR-Q User Guide for KSD examples. Components may have unique KSD.

Table 8-3: DAR-Q Documentation Examples

Assessable Unit	Supporting Documentation	Correspondence From
Contract Pay	<u>Originating Documents</u> Contracts, contract modifications <u>Liquidating Documents</u> Contract modifications, payment vouchers (including invoices and receiving reports)	- Contractor - Contracting Officer - COR - Financial Manager
Vendor Pay	<u>Originating Documents</u> Contracts, contract modifications <u>Liquidating Documents</u> Contract modifications, payment vouchers (including invoices and receiving reports)	- Vendor - Contracting Officer - COR - Financial Manager
Civilian Pay	<u>Originating Documents</u> Written administrative determinations of the liability amounts incurred for personal services based on payroll or personnel records <u>Liquidating Documents</u> Payroll file summaries	- Program office - Resource Manager - Financial Manager
Military Pay	<u>Originating Documents</u> Written administrative determinations of the liability amounts incurred for personal services based on payroll or personnel records <u>Liquidating Documents</u> Payroll file summaries	- Program office - Resource Manager - Financial Manager
Intragovernmental or Interdepartmental	<u>Originating Documents</u> MIPR, MIPR Acceptance, intra- or inter-agreement, MOA, other reimbursable work order GT&C FS Form's 7600 A/B <u>Liquidating Documents</u> IPACs Standard Form 1080 – Voucher Transfer Between Appropriations or Funds	- Program Manager - Fund Holder - Financial Manager - Funding Official

16.7 Documentation

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

16.8 De-obligation of Dormant Obligations

16.8.1. Within 10 calendar days of fund holders' identification, initiate and substantiate all required de-commitments, de-obligations, adjustments, or corrections by evidence of ongoing corrective actions. Accurately post recorded payments with clearing document numbers. After a thorough review by the funds holder (and/or the financial manager), all un-substantiated obligations must be de-obligated. Within 10 calendar days of receipt of funds holder's documentation, the financial manager must record the de-obligation, de-commitment, or adjustment(s) in the general ledger. Take no action to modify, cancel, or amend a contract or travel order below an amount identified as due and owing a contractor, vendor, or traveler.

16.8.2. Periodic reviews result in de-obligations such as for documented contract adjustments or corrections, cancellation of an order, when determined obligated funds are in excess of contract requirements, or determination of final contract closure.

*16.8.2.1. The contracting officer, to include Administrative Contracting Officers as appropriate, and other stakeholders, i.e., DCMA and DCAA; must apply due diligence to procedures such as reviewing contract funds status, establishing final indirect cost rates, and determining billing rates (see [FAR 42.704 and 42.705](#)). The contracting officer, stakeholders, and financial manager must collaborate regularly to manage potential excess funds, and generate documents, to include unilateral contract modifications to de-obligate funds.

16.8.2.2. For contracts 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 should issue a unilateral contract modification identifying the amount to de-obligate.

16.8.2.3. When terminating a contract or agreement in whole or in part for government convenience by "Notice of Termination", the contracting officer should issue a unilateral contract modification to maintain sufficient funds to meet termination settlement costs and de-obligate excess funds.

16.8.2.4. In some instances such as Firm Fixed Price contracts with escalation, price redetermination, or incentive provisions; the contracting officer may determine—after consideration of best available evidence, including available costs and production data or tentative offers from contractors—the anticipated reduction of contract liability and should issue a unilateral contract modification specifically to de-obligate funds.

16.8.2.5. The financial manager may, prior to a contract completion statement and upon notice of final payment, identify dormant funds through attained reasonable assurance of future commitments, obligations, expenses, and disbursements; and provide the contracting officer a document with the contract number, notice of final payment, remaining dormant balance, and request for the contracting officer's written consent or issuance of a unilateral contract modification to de-obligate funds. The financial manager must maintain a copy of the consent for audit and records management purposes.

16.8.2.6. For contract closeout, the contracting officer distributes a DD Form 1594, Contract Completion Statement or electronic equivalent as described in [DFARS, PGI 204.804](#). See Volume 10, Chapter 20 for contract reconciliation and closeout.

16.8.3. For dormant travel obligations for which travel did not occur, or the full obligated amount was not expended, the financial manager will de-obligate funds after documented efforts to contact the traveler is retained prior to the Authorizing Official (AO) or funds holder provides a written consent to de-obligate the remaining obligated balance. 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.

16.8.4. For dormant payroll obligations (i.e., salaries, wages, and benefits) for which funds were not expended, or the total obligated amount was not expended, the financial manager will de-obligate 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 and program office 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.

16.8.5. For intragovernmental or interdepartmental obligations, including Military Standard Requisitioning and Issue Procedures requisitions through mandatory sources for which funds were not expended or the total obligated amount was not expended, the financial manager will de-obligate funds once a new FS 7600B, DD 448-2, or a key source document is obtained. Source documents must align to the business process, account for adjustments made and, in cases of an intragovernmental/intergovernmental documents, must be signed by an authorized individual.