



DEPARTMENT OF DEFENSE  
OFFICE OF DEPENDENTS SCHOOLS  
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ALEXANDRIA, VIRGINIA 22331-1100

FISCAL DIVISION

DS ADMINISTRATIVE  
INSTRUCTION 7205.3  
April 25, 1989

OFFICE OF DEPENDENTS SCHOOLS  
ADMINISTRATIVE INSTRUCTION

SUBJECT: ESTABLISHMENT, REVIEW, AND VALIDATION OF OBLIGATIONS

- References:
- (a) DS Administrative Instruction 7205.1, "Review and Validation Procedures for Unliquidated Obligations," dated August 12, 1983
  - (b) DS Administrative Instruction 7205.2, "Criteria for Establishing Obligations," dated September 17, 1985
  - (c) DS Regulation 7100.1; "Budget Policies and Procedures," dated July 5, 1988

A. PURPOSE

This Instruction prescribes the criteria for establishing and recording obligations, and the responsibilities for the review and validation of obligations

B. CANCELLATION

References (a) and (b) are cancelled by this Instruction.

C. APPLICABILITY AND SCOPE

The provisions of this Instruction apply to the Office of Dependents Schools (ODS) and all Department of Defense Dependents schools (DoDDS) regional offices.

D. DEFINITIONS

1. Accrual Accounting. Accrual accounting is the method of accounting whereby:

a. Operating costs are accounted for in the fiscal period during which the benefits are received -(cost of resources consumed or applied).

b. costs for which the benefits are applicable to future periods are deferred and considered as assets.

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c. Liabilities for unpaid costs are recorded in the accounts when goods or services are received.

d. Income for work or services performed on a reimbursable basis is recorded in the accounts when reimbursable expenses are incurred. Amounts collected for tuition should be prorated between fiscal years in which the income is earned; i.e., match revenue and expenses in year they occur.

2. Commitments. A commitment is an administrative reservation of funds and is an intent to incur an obligation. Commitments constitute the first stage in the commitment/obligation concept. They include requisitions for material to be delivered from stock fund inventory and for goods and services ordered through procurement procedures which do not obligate DoDDS funds until the procurement document is Issued. Commitments may be incurred in excess of existing obligational authority and do not constitute an administrative violation of fund authority. Care should be exercised to ensure over commitments do not result in overobligations.

Commitments also include limitations issued on obligational authorities, amounts on Military Interdepartmental Purchase Requests (MIPR's) pending acceptances by supplier as reimbursable items (Category I) and non-reimbursable (Category II) items, direct funded items pending contractual procurements, and/or billing obligations.

3. Obligations. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. In addition to orders and contracts for future performance, obligations include the value of goods and services accepted and other liabilities arising against the appropriation or fund without a formal order and outlays made for which obligations were not previously recorded. When the amount is not known and cannot be feasibly ascertained at the time it is to be recorded, the best estimate may be used for recording in the accounts and reports.

a. Undelivered Orders. Undelivered orders are those documents issued for materials or services which have not yet been received. This stage of obligation represents those orders, contracts, or agreements-which have been placed and constitute a legal reservation of funds. Upon receipt of the obligation document, the commitment stage is reduced, and the undelivered order stage is increased.

b. Accounts Payable (Accrued Expenditures Unpaid). This stage of obligation represents the amount of goods and services received by DoDDS activities and for which funds are owed to the suppliers. Upon notice that goods are received or services rendered, the Undelivered Orders Outstanding stage is reduced, and the Accounts Payable stage is increased by the amount involved.

c. Disbursements (Accrued Expenditures Paid) Once the invoice has been received and properly certified the payment is made. When the payment (disbursement) is recorded, the Accounts Payable stage is reduced, and the Disbursement (Accrued Expenditures Paid) stage is increased.

E. POLICIES AND PROCEDURES

1. Establishment of Obligations

a. An amount shall be recorded as an obligation only when supported by documentary evidence of the transaction. A verbal order or agreement must be reduced to writing and conform to the provisions of this Instruction before the obligation can be recorded. Once an obligation is incurred, it must be recorded accurately and promptly, even if it results in an over-obligation of available funds. The failure to record a valid known obligation in no way invalidates the Government's liability nor eliminates the possibility of a violation of Title 31, U.S.C. When an amount is not known or cannot be feasibly ascertained at the time it is to be recorded, utilize the best estimate available for recording the obligation. In recording obligations, the following principles shall be applied:

(1) Contracts or orders for goods, supplies, or services are placed to fleet a bona fide need. It is the responsibility of the Director, DoDDS, or the directors of DoDDS regions, or their authorized representatives? to assure that the goods, supplies, or services required, pursuant to contracts entered into or orders placed obligating an annual or multiple year appropriation, are intended to meet a bona fide need of the period for which the funds were appropriated.

(2) Performance under contracts or orders. Contracts entered into or orders placed for goods, supplies, or services shall be executed only with bona fide intent that the contractor (or other performing activity) will commence work and perform the contract without unnecessary delay.

b. Enclosure 1 provides specific instructions for establishing obligations.

2. Review and Validation of Unliquidated Obligations.

At least once each fiscal year quarter, the DoDDS accounting activity will review outstanding obligations for all fiscal years. The regional Fiscal/Financial Management Division will review the documents in accounts payable and undelivered orders to determine the need for follow-up action. The validation/review process must include a reconciliation of unliquidated obligation documents with reported balances and a

review of the documents to ensure that they meet the criteria for obligations. Statistical sampling techniques may be used except " at fiscal year end and where the review of the statistical sample or possibly other information outside the sample leads to less than the prescribed level of validity. A statistical sample which produces a requirement to adjust, cancel, or modify obligations of more than 2 percent of the documents reviewed, would indicate that the statistical sample should be increased or the total population should be reviewed. Statistical samples which produce adjustments which are 5 percent or more of items sampled, require that all documents be reviewed. Enclosure 2 provides guidance in conducting reviews of unliquidated obligations.

#### F. RESPONSIBILITIES

1. The Chief, Fiscal Division, ODS, by reference (c) is delegated authority to administer all funds received by the Director on behalf of the DoD Dependents Schools. This includes the subdivision and allotment of funds within CDS, to regional offices, and to other DoD and Government agencies.

2. The Chief, Fiscal Division, ODS, has primary responsibility for administering this Instruction.

3. The Chief, Fiscal Division, ODS, and the Directors of DoDDS regions are responsible for ensuring that for funds allotted:

(a) All obligations are properly recorded.

(b) All recorded obligations are valid.

(c) Amounts recorded as obligations include all known obligations and are supported by documentary evidence described by this Instruction.

(d) Obligations are not understated because of delays in receiving and recording obligation documents.

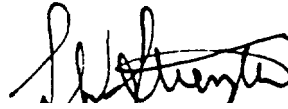
(e) Review and validation procedures are established and performed in accordance with the provisions of this Instruction and enclosure 3.

#### G. REPORTS

Certification that reviews have been conducted at least once each quarter of the fiscal year is required with the submission of the status of allotment report in the month in which the review was conducted and with the fiscal year end report for September 30, for each appropriation.

H. EFFECTIVE DATE AND IMPLEMENTATION

This Instruction is effective 60 days after publication. Copies of implementing instructions should be forwarded to ODS for approval prior to publication.



John L. Stremple  
Director

Enclosure 1 - Criteria for Establishment and Control of Obligation  
Enclosure 2 - Review of Unliquidated Obligations  
Enclosure 3 - DoD Directive 7200.1

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A. ADMINISTRATIVE CONTROL OF APPROPRIATIONS

1. General.

The following is the DoDDS administrative policy to control appropriations. This policy is to be implemented by all DoDDS regions and is in conformance with Department of Defense guidance, General Accounting Office requirements, and congressional intent. As allotment holders, the regional directors are responsible for complying with DoD Directive 7200.1, May 7, 1984 (enclosure 3), and conducting periodic reviews of unliquidated obligations in accordance with enclosure 2.

2. Duties and Responsibilities.

The following are duties and responsibilities for the administrative control of appropriations and other funds:

a. The Chief, Fiscal Division, ODS:

(1) Receives fund authorizations from the Office of the Secretary of Defense.

(2) Issues allotments (subdivision of funds).

The total of the amounts shall not exceed the amount of the fund authorizations available for each period.

(3) Centrally manages the military construction appropriation and Foreign Currency Fluctuation accounts.

b. The regional directors:

(1) Receive allotments from the Chief, Fiscal Division, ODS Operation and Maintenance and Procurement allotments are received separately and are responsible for assuring that funding authority is not exceeded and that provisions of Title 31, U.S.C. 200, are not violated. If authorizations are exceeded and this causes the allotment to be overobligated, the regional director may be cited as the responsible individual in the official violation report which is submitted to the Congress and to the President.

(2) Issue suballotments/fund targets/expense authorizations/obligation authorities to operating officials to whom authority to certify funds availability has been delegated for all appropriated funds. The total of the amounts issued on these documents shall not exceed the amount apportioned for the allotment available for each period.

(3) Authorize the incurrence of obligations , ' (travel orders, services, etc.) and certify as to the "availability of funds" in those cases in which a program is administered at the regional level.

(4) Establish fund control procedures and maintain the necessary fund control records on availability of funds to:

(a) Ensure that an overobligation does not occur in those funds held at the regional level.

(b) Ensure that fund certifying officers do not exceed their authorized targets.

(5) Ensure receipt of the accounting copy of financial documents (obligations, accruals, reimbursements, etc.) from the initiator of the documents.

(6) Prepare financial reports and perform financial analysis to monitor the financial management program.

(7) Provide funds that are used only for the purpose prescribed and that funding authority, including any limitation within or on that authority, is not exceeded.

(8) Ensure that all obligations are properly recorded in a timely manner and that all recorded obligations are valid.

(9) Delegate authority to appropriate DoDDS regional personnel to perform all or some of the above functions. Responsibility for overobligations may not be delegated.

(10) Receive prior year financial reports from the military departments' servicing accounting offices and ensure liquidation of prior year transactions.

B. CONTROL OF OBLIGATIONS

1. General.

a. Obligations which are established and simultaneously liquidated by payment will be recorded directly to the accrued expenditure paid stage of gross obligations.

b. Obligations incurred will be charged immediately against the applicable appropriation or fund. Once an obligation is incurred, it shall be recorded promptly. Valid obligations must be recorded against an authorization whether or not it results in an overobligation.

c. Caution will be exercised to ensure that funds are charged solely for the purpose intended by Congress in compliance with subsection 1341(a) or section 1519(a) or section 1342 of 31 U.S.C.

d. Recorded obligations will be adjusted promptly upon receipt of documentary evidence indicating that the previously established liability should be adjusted. DoDDS personnel who initiate or who are responsible for such transactions will furnish all documentary evidence required to adjust the recorded obligation.

e. Contemplated changes in contracts, purchase orders, or other obligating documents which will alter the scope of the obligation or increase the previously recorded amount will not be effected until the availability of funds is determined in the same manner as for the original obligation.

f. Obligations incurred for contracts or purchase orders which provide for discounts will be recorded for the net price of the contract or purchase order.

g. In the case where it is not possible to determine the Government's liability at the time of recording, the DoDDS allotment holder is responsible for reserving funds sufficient to cover the Government's potential or contingent liability.

h. When the performance period of a contract extends beyond the expiration of the period of availability of an appropriation for obligation, and when it becomes necessary to terminate the contract due to default of a contractor, the appropriation obligated under the original contract will be available for the purpose of entering into a new contract to



complete the terms of the original contract provided a need existed for goods and services at the time of the original contract and continues to exist during execution of the replacement contract.

i. Transactions with commercial contractors for items which are of a continuing operational nature and involve administrative lead time may be processed prior to fund availability, provided such documents bear the clause "The Government's obligation hereunder is made contingent upon Congress enacting appropriations. " However, no services or supplies will be accepted from the contractor until funding authority of the new fiscal year has been received.

j. A subsequent fiscal year's appropriation may be cited on travel orders, provided no obligations are incurred in the current fiscal year against the subsequent year's appropriation.

## 2. Recording Obligations.

a. Record an amount as an obligation only when it is supported by documentary evidence, such as:

(1) A binding agreement/contract between the parties, including Government agencies:

(a) Executed in a manner and for a purpose authorized by law.

(b) Executed before the end of the period of availability for obligation of the appropriation or fund concerned for:

(i) Specific goods to be delivered.

(ii) Real property to be purchased or leased.

(iii) Work or services to be performed.

(2) An order required by law to be placed with a Government agency.

(3) An order issued under a law authorizing purchases without advertising when necessitated by public exigency or for perishable supplies or within specific monetary limitations.

(4) Liability under pending litigation.

(5) personal services, travel, utilities, and communications services.

(6) Estimates of obligations may be recorded in the system by a miscellaneous obligating document (MOD). MOD'S may be prepared based on knowledge that a liability has been incurred and only the official documentation has not been received, as in the case of payroll, the award of a contract or recurring expenses such as telephone services, utility bills, etc.

(7) Other legal liabilities.

b. An oral agreement must be confirmed in writing before the obligation can be recorded.

3. Personnel Compensation.

a. Civilian Personnel Costs. Obligations incurred include amounts earned by employees during the reporting period. Other charges based on salaries and wages, such as living quarters allowances and the employer's share of contributions to the retirement fund and FERS premiums for insurance, such as health and life insurance, and FICA taxes, are obligations at the time the salaries and wages are earned. Include other allowances when they become payable to the employee. Severance pay for U.S. civilian employees will be reported as an obligation when paid on a pay-period by pay-period basis. Authorized reimbursable expenses estimated to be paid to employees for real estate (Panama Region only), temporary subsistence, and other expenses incident to dislocation at the request of the Government will be reported as an obligation at the time the orders are issued to an employee. Annual leave will not be reported as an obligation until it becomes due and payable as terminal leave.

b. Accounting For Foreign National Employee Separation Allowances, Severance Pay, and Seasonal Bonuses. Separation allowances are eventual payments of known amounts that accrue to foreign national employees as a condition of employment and as a reward for those employees with long and faithful service. Obligations are incurred based upon local labor contracts, the host country's labor and wage legislation, collective bargaining agreements, and other employee agreements. Severance pay obligations are incurred either as a result of separation or of contracts that provide for accruals from inception or during employment. Obligations are incurred under two conditions:

(1) Recording Obligation Upon Separation. After an employee has been separated and specific conditions within a country agreement have been met, the organization that terminates the employment of an employee shall be responsible for funding the severance pay obligation and recording an obligation on a pay-period by pay-period basis when it becomes due and payable. If the liability for severance pay is significant, reasonable estimates shall be made and an unfunded liability recorded in the official accounting records.

(2) Recording Obligations from Inception or During Employment. In accordance with other foreign country contracts and agreements, certain foreign national employees earn a separation allowance (also called severance pay in some contracts and agreements) from the inception of or during their employment. Separation -allowances earned by foreign national employees may include retirement allowances or separation pay entitlements, payable upon retirement, resignation, termination, death, disability, or reduction in force and will be recorded against applicable current appropriations in the full amount of the liability that accrues during the reporting period whether or not the amount is currently payable. The amount chargeable to the current fiscal year is the amount earned during the current fiscal year and adjustments to outstanding liabilities for separation allowances, as a result of changes in pay. Adjustments for foreign currency exchange rates will be made against the appropriation(s) in which the obligation for the separation allowance was originally recorded by the activity maintaining the appropriation records for such obligations. Adjustment to obligations for foreign currency exchange rates will be made when employees separate and at fiscal year end. (Note: Adjustments for foreign currency rate changes will occur only for those fiscal years and for those currencies not included under special DoD Foreign Currency Fluctuation procedures. For those years and for those currencies included in special DoD Foreign Currency Fluctuation procedures, obligations will be established at the budget rate, and all adjustments for rate changes will be made in the DoDDS centrally managed allotment at the time payment is made. Separation allowances for which an accrual has not been previously recorded will be obligated immediately and charged to the region and fiscal year appropriation(s) which were applicable during the period(s) of employment. Separation allowances applicable to periods of employment with another DoDDS region or DoD component will be charged to appropriations under the administration of that DoDDS region or DoD component during the period of prior employment. Regional offices will coordinate with civilian payroll offices to ensure that records are available to support separation allowances earned by employees, that appropriations chargeable for current, prior, and Successor "M" account appropriations are accurate., and that funding is adequate to support the liabilities.

(3) Retroactive Pay Increases. When a pay increase is granted, the effective date determines the Government's liability to pay the additional compensation. The increase is chargeable to the appropriations currently available for payment of the wages for the period to which the increases apply. When a retroactive pay increase is awarded and periods of employment extend to another DoDDS region, DoD component, or U.S. Government agency, that activity will be advised of the increase and the resultant liability.

(4) Transfer of Employees. Upon transfer of a foreign national employee(s) from a DoDDS region to another DoDDS region or DoD component, the relinquishing region will provide the gaining activity detail records regarding unpaid accrued separation allowance for each employee. The detail records will include the name(s) of the employee(s), beginning and ending dates of employment, grade and/or classification, the amounts by fiscal year appropriation(s) and accounting classification(s) to be charged at time of separation, and the name (or designation) and address of the activity that will be responsible for retaining the appropriation records. Similarly, a gaining DoDDS regional office will ensure that employees' records transferred in will contain this detail information.

(a) Transfer Between DoDDS Regions. When DoDDS employees transfer between regions, any liabilities for accrued separation allowances are assumed by the gaining region. The gaining activity will record obligations against the applicable current, prior, or Successor "M" account fiscal year appropriation to cover separation allowances accrued to the employee from the date of DoDDS employment. The losing DoDDS region will furnish the gaining DoDDS region a Standard Form 2806 (Individual Retirement Record), showing the separation allowances which accrued to the employee from date employed to date of transfer. The losing DoDDS activity will deobligate the separation pay accrued to the employee prior to transfer, and the gaining DoDDS activity will record obligations in the same appropriation as those charged by the losing activity. In the event that the separation pay entitlement will cause an overobligation (Title 31, U.S.C. ), a transfer of funds between DoDDS regions will be requested from ODS prior to transfer.

(b) Transfer Between DoDDS and Another DoD Component or U.S. Government Agency. When a DoDDS employee transfers to another DoD component or U.S. Government agency, the DoDDS regional office will retain its liability for the accrued separation allowances, including all adjustments thereto, for subsequent fluctuations in the rate of foreign currency exchange until notified of the employee's separation and payment of the

allowance by the activity effecting the separation. The gaining activity is responsible for obligating separation allowances earned from the date of the employee's accession. The losing DoDDS region will provide detail information on transferred employees to include the name(s) of the employee(s), beginning and ending dates of employment, grade and/or classification, the amounts by fiscal year appropriation(s) and accounting classification to be charged at time of separation, and the name (or designation) and address of the activity that will be responsible for retaining the appropriation records. Similar information will be required for employees hired by DoDDS regions which includes separation allowance pay accruals applicable to periods of prior employment with another DoD component or U.S. Government agency.

(c) Transfer Between DoDDS and Morale, Welfare, and Recreation (MWR) Activities (Nonappropriated fund activities). It is DoD policy that accrued separation allowances will be paid when foreign national employees are separated or transferred from an appropriated fund organization (DoDDS region) to a nonappropriated fund activity (MWR). Similarly, appropriated funds will not be obligated for separation allowances for periods of prior employment with a nonappropriated fund activity. Record obligations for separation allowances earned by employees transferred to DoDDS regions from date of gain. Employees transferred to nonappropriated fund activities (MWR'S) will be treated as separations. Where country-to-country agreements or local labor union agreements conflict with the above, follow the country-to-country agreements or local labor union agreements and record obligations as follows:

(i) Transfers to MWR Activities. Retain the obligations for employees from date of employment to date of transfer and record any increases or decreases due to changes in pay (retroactive pay increases, promotions, etc.) or foreign currency exchange rates until date of separation from the DoDDS activity. Detail information similar to that previously described under this section will be forwarded to the gaining activity.

(ii) Transfer from MWR Activities. If a DoDDS region is the gaining activity, establish an obligation from date of hire of the employee. Record increases or decreases in current, prior, and Successor 'M' account obligations for changes in pay (retroactive pay increases, promotions, etc.) only from the date of employment with the DoDDS region from current year funds. Changes in obligations due to foreign currency rate fluctuations will be made from date of employment with DoDDS against the appropriation(s) in which the obligation was originally established. The MWR activity will be advised when a change in pay occurs or a change in foreign currency exchange rate has necessitated an adjustment.

(iii) Seasonal Bonus Accruals. If seasonal bonuses are required for foreign national employees as a condition of employment, accruals will be recorded monthly for amounts earned by foreign national employees whether or not amounts are currently payable, and will be funded from current year appropriations. Increases or decreases due to changes in pay or foreign currency exchange rates will be funded from current year appropriations and prior year appropriations, respectively. Procedures for recording seasonal bonus obligations from employees transferring between activities are identical to those established for recording separation/severance pay allowances for employees transferring between activities.

4. Travel and Transportation.

a. Travel and Related Transportation. Obligations incurred for travel and related transportation will be evidenced by official travel orders or written administrative determinations based upon travel authorizations issued.

(1) Temporary Duty Travel (TDY). Obligations for TDY will be recorded for the full amount of the estimated cost of travel included in the itinerary, including per diem allowance and other reimbursable expenses, subject to the following conditions:

(a) Obligations will be recorded not later than the month in which the travel commences.

(b) Per alien allowances and other reimbursable expenses related to travel will be charged to the appropriation current at the time the expenses are incurred; e.g., Per diem allowances are incurred through the last calendar day of the fiscal year. Should the travel authorization continue under the same order into the subsequent fiscal year, then per diem costs applicable to the next year must be obligated and disbursed against the subsequent year's appropriation. Per diem obligations must be adjusted at fiscal year end to amounts earned by employees for which reimbursements are due.

(c) Transportation allowances will normally follow the above policy, except that when the period covered by the travel authorization extends beyond the end of the fiscal year, the amount of the recorded obligation will be the estimated cost of transportation purchases, i.e., when a transportation request is issued and a ticket purchased (issued), the cost of the return trip in the subsequent fiscal year is included as an obligation against current year appropriation. When a Privately Owned' Vehicle (POV) is used, the obligation will be recorded against appropriation current at the time travel is performed.

(2) Permanent Change of Station (PCS), at the time permanent. change of station orders are issued to employees, obligations shall be recorded against the current appropriation for all the authorized reimbursable expenses incident to dislocation at the request of the U.S. Government and for transportation requests and bills of lading expected to be issued. The only exception is the cost of contemporary contract commercial storage of household goods which will be charged to the period during which the service is rendered.

(a) Obligations will be recorded not later than the month in which travel commences.

(b) PCS costs incurred that are not travel or transportation related, such as supplemental, temporary living or separate maintenance allowances, will be charged to the appropriation current at the time the expenses are incurred.

b. Basis of Estimates. Obligation amounts established for TDY and allowance should be based upon rates established by regulation, together with statistical factors gained through experience. Volume II, Joint Travel Regulations (JTR), contains rates for per diem, mileage, and shipment of household goods (moves within the continental United States (CONUS) only). Since the JTR does not provide data for transportation of household goods to and from overseas areas, other sources are available. The Military Traffic Management Command publishes overseas commuted rates for various overseas areas. These rates are available at local transportation offices, household goods section. In addition, the Military Airlift Command (MAC) periodically publishes other rates currently charged for MSC flights between various points in CONUS and Europe.

#### 5. Communications, Utilities, and Rents.

a. Communications. Obligations incurred include costs for services furnished for use of property during the reporting period. In those cases when bills are rendered for a period beginning in one month and ending in the following month, the services received subsequent to the latest billing date need not be included. However, if the accrued liability for communication services performed for the portion of the month between the end of the billing period and the end of the month is material, provision should be made for recording it as an obligation.

(1) Record obligations for recurring services monthly as services are received or from bills received during the month. The obligation for recurring services arises when service starts.

(2) Record obligations when service starts for one-time incidental charges for the start of new services. Obligate funds current on the date service starts. Obligate funds for postage when stamps are purchased or advance payments for metered mail are made.

b. Utilities. Obligations recorded for public utilities (e.g., heat, light, power, water, sewage disposal, gas, electricity) will be evidenced by a written determination based on utility services furnished during the billing period ending in the monthly reporting period. In those cases where bills are rendered for a period beginning in one month and ending in the following month, the services subsequent to the latest billing date need not be included. However, if the accrued liability for utility service performed for the portion of the month between the end of the billing period and the end of the month is material, provision should be made for recording it as an obligation. Obligations recorded will be adjusted upon receipt of paid vouchers or documentary evidence indicating the need for adjustment.

c. Rents. Base obligations for amounts due under rental agreements and leases on the provisions of such agreements or leases, or upon written administrative determinations of specific amounts due under those provisions. Record the obligation in accordance with the provisions below:

(1) Rental agreements without termination clauses.

(a) When the agreement covers a period not to exceed 12 months, record an obligation at the time of its execution in the total amount of the agreement even though the period of the lease extends into the next fiscal year.

(b) When the agreement covers a period in excess of 12 months (multi-year), the obligation will be recorded for only the amount to cover the current fiscal year. The obligation to cover the rent applicable to the succeeding fiscal year will be recorded when funding authority has been received for that fiscal year.

(2) Rental agreements with termination clauses.

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



(b) Under a rental agreement providing for termination without cost upon giving a specific number of days' notice of termination, record an obligation, upon execution of the agreement, in the amount of rent payable for the number of days' notice called for in the agreement. In addition, record an obligation each month in the amount of the rent payable for that month.

(c) Under a rental agreement providing for a specific 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,

6. Other Contractual Services, Supplies and Materials, and Equipment.

a. General. DoDDS activities shall determine that the goods, supplies, or services required, pursuant to contracts entered into or orders placed obligating an annual or multiple year appropriation, are intended to meet a bona fide need of the period for which the funds were appropriated. Such determination shall consider estimated current consumption and the requirements which may be foreseen for future years based upon the procurement lead time. Contracts entered into or orders placed for goods, supplies, or services shall be executed only with bona fide intent that the contractor (or other performing activity) will commence work and perform the contract without unnecessary delay.

(1) Contractual obligations are based upon binding written agreements. The agreements must be in a form and for a purpose authorized by law. Types of documents most commonly used are contracts, purchase orders, delivery orders issued against requirements types contracts and MIPR's.

(2) The provisions of the documents and the nature of the transactions involved determine when obligations have been incurred and in what amount.

(3) Documents which serve only to reserve funds administratively for specific use are not obligations. Examples are: Obligation Authorities and blanket purchase agreements.

(4) Do not record as obligations contractual documents with specific provisions for a no-cost termination before performance until the Government's right to terminate has expired. If annual funds are involved, charge to funds current when the Government may no longer terminate.

b. Commercial Contracts.

(1) Fixed Price Contracts. Record an obligation when the contract is executed for the total amount stated in the contract.

(2) Fixed price Contracts with Escalation, Price Redetermination, or Incentive Provisions. Record an obligation in the amount stated in the contract or the target price. Record obligations for contracts with an incentive clause at the billing price. Record obligations for contracts having both a target and ceiling price in the amount of the target. That portion of the contract between the target amount and ceiling represents a contingent liability and remains on the books as a commitment. Adjust the obligations recorded based on amendments to the contract.

(3) Cost-Reimbursement and Time-and-Material Contracts. Includes cost, cost-sharing, cost-plus-fixed-fee, cost-plus-incentive fee, cost-plus-award-fee, time-and-material, and labor-hour contracts. An obligation shall be recorded when the contract is executed for the amount of the total estimated cost or payment shown or provided in the contract, but not in excess of the maximum current liability shown, 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.

(4) Indefinite Delivery Type Contracts. This type of contract provides for the furnishing of an indefinite quantity, within stated limits, of specific items of material or performance of service during a specified contract period, with deliveries to be scheduled by the timely issuance of orders to the contractor by activities designated either specifically or by class.

(a) Blanket Purchase (call) Agreements. When the contract provides for an indefinite quantity at specific prices, the total amount of each call represents an obligation.

(b) Basic Ordering Agreements. When a contract provides for an indefinite quantity at indefinite prices, record as obligations the amount of each order written for specific quantities at firm prices. If firm prices have not been established, record the amount shown on the order as the monetary limitation on the obligation of the Government. Adjust these obligations after firm prices have been established.

(c) Requirements Type Contracts. Under requirements type contracts, the Government agrees to order certain supplies or services from specific contractors. Each written order placed under a requirements type contract represents an obligation upon issuance of the DD Form 1155.

(5) Letter Contracts and Letters of Intent. When the offer and acceptance are sufficiently specific and definitive to show the purpose and scope of the contract finally to be executed, a letter contract or letter of intent and amendments thereto accepted in writing by the contractor shall constitute documentary evidence to support the recording of an obligation. The obligation shall be recorded in the amount stated as the maximum liability under such letter or agreement.

(6) Contracts Authorizing Variations: Record obligations under these contracts for the value of the quantity specified for delivery, excluding variations. Adjust the obligations to the value of quantities delivered and accepted.

(7) Multi-Year Procurement Contracts. An obligation for a multi-year procurement contract shall be recorded in the amount of the price of the quantities specified for delivery under the first program year's requirement, and the amount shall be identified with that program year. Subsequently, each time the contractor is notified that funds are available to cover another program year's requirement, an obligation shall be recorded in the amount of the price of the quantities specified for delivery thereunder and shall be identified with that program year. In the event the contract is canceled, or the contractor is not notified by the specified cancellation date that funds have been made available to cover another program year's requirement, an obligation shall be recorded and charged to the current program year in the amount estimated as sufficient to cover the Government's liability under the terms of the contract.

(8) Contracts for Subscriptions to Periodicals. The entire amount of subscriptions will be obligated and charged to the appropriation current at the time the subscription is paid for, even though the subscription may extend beyond the end of that fiscal year or more than 1 fiscal year. This is applicable also when deliveries begin in such current fiscal year, even though the payments are to be made in installments, some of which will be made in a subsequent fiscal year.

(9) Tuition-Fee School Contracts. Obligations are chargeable to and will be recorded against the fiscal year in which the school academic (severable) term begins. For purposes of obligation, a "severable" term is that period of time into which the contractor divides the academic year for purpose of instruction; e.g., semester or quarter. If the contractor does not divide the academic year into severable terms, and payment is demanded in full the entire amount billed will be charged to the appropriation current at that time.

(10) Purchase Orders. A purchase order may be awarded to accept a specific, binding offer made by a vendor to sell specific goods or to furnish specific services at specified prices. Record the obligation upon issuance of the purchase order if the purchase order contains the final DoDDS approval and

has been mailed or otherwise delivered to the contractor. A purchase order requiring acceptance by the vendor before a firm agreement is reached shall be recorded as an obligation in the amount specified in the order at the time of acceptance. Evidence of this acceptance shall be retained in the files. If written acceptance is not received, delivery under the purchase order shall constitute evidence of acceptance to the extent of such delivery.

c. Supplies and Materials and Equipment.

(1) Each regional office issues a sub-allotment to DGSC for the financing of all supplies and equipment which will be contracted for by DGSC. The sub-allotment is initially recorded in the regional accounting records as a commitment. Status of allotment reports *received* from DGSC will support summary entries for obligations, disbursements, etc.

(2) Orders or requisitions placed with another Government agency for delivery from stock.

(a) Orders from stock fund other than local stock fund. An order or requisition for material to be delivered from stock shall be treated as an "obligation by the requisitioning DoDDS activity when (a) the materials, supplies, or equipment ordered. are intended to meet a bona fide need of the current fiscal year and (b) when the order is firm and complete. (This means that the ordering activity must request prompt delivery of the specific available stock items for a stated consideration and it must be accepted by the supplying agency with formal notification to the requisitioning agency.) All other requisitions will be recorded as commitments until delivery or notification of drop from inventory (shipment) by the supplying activity, An obligation will be recorded upon receipt of supplies and materials or upon notification of drop from inventory (shipment).

-(b) Delivery from local stock fund.  
Obligations are recorded at time of delivery and must be against the appropriation current at time of delivery.

d. Military Interdepartmental Purchase Request.

(1) General. A MIPR is placed pursuant to Section 601 of the Economy Act of 1932, as amended, 31 U.S.C. II 686, and under the provisions of 41 U.S.C. 23. A MIPR may be issued for direct citation procurement or reimbursable procurement with obligations recorded in" the following manner:

(a) Direct Citation Procurement. Direct citation procurement refers to procurement accomplished by combining the requirements of a DoDDS activity and other DoD components with those of- the contracting DoD component under one contract with separate schedules showing the quantities prices, dollar amounts, and citation of funds of each requiring component, or by the placing of separate contracts for each requiring component.

(i) Performance. The Comptroller General of the United States has ruled that a MIPR is placed pursuant to Section 601- of the Economy Act of 1932, which requires that funds cited retain the characteristics of the original appropriation from which they were drawn. Agency funds cited in a MIPR will lapse/expire if the procuring agency has not executed a contract or otherwise obligated them before the end of the period of availability of the funds for obligation purposes.

(ii) Recording of Obligation. The order shall be recorded as an obligation by the DoDDS activity when notified in writing that the contract has been executed or a copy of the contract has been received in the amount provided in the order . Amounts previously established as a commitment will be reversed and an obligation established on the official accounting records in the' exact amount of the contract under the contract number assigned by the procuring activity.

(b) Reimbursable Procurement. Reimbursable procurement refers to an order for supplies, materials, services, or equipment placed by a DoDDS activity for procurement by another DoD agency on a contract funded by the procuring agency, without separate identification of the items or separate citation of the funds of the DoDDS activity, with subsequent delivery to and reimbursement-by the DoDDS activity.

(i) Performance . Reimbursable procurement may be placed via a MIPR pursuant to Section 601 of the Economy Act of 1932, as amended, 31 U.S.C. II 686, or under the provisions of 41 U.S.C. 23, and the following limitations apply:

(ii) Reimbursable procurement pursuant to section 601 of the Economy Act of 1932, as amended, 31 U.S.C. II 686. A MIPR placed under this provision requires that funds cited retain the characteristics of the original appropriation from which they were drawn. Agency funds cited in the MIPR will lapse/expire if the procuring agency has not executed a contract or otherwise obligated them before the end of the period of availability of the funds for obligation purposes. As such, any funds not obligated at the end of availability will be returned to the DoDDS activity, and procurement will be funded from allocations made available for the subsequent fiscal year.

(iii) Reimbursable procurement authorized by 41 U.S.C. 23 and implemented under Project Order procedures of Department of Defense Instruction (DoDI) 7220.1. Project orders are analogous to contracts placed with commercial concerns, and, like such contracts, shall be specific, definite, and certain

both as to the work encompassed and that they must serve a bona fide need existing in the fiscal year in which issued; otherwise, a valid obligation is not accomplished. A project order, when placed with and accepted by a separately managed and financed Government-owned and operated establishment, serves to obligate appropriations in the same manner as orders or contracts with commercial enterprises. All MIPR's which are to be treated as project orders" will be clearly identified as such by including the statement: "This order is placed in accordance with the provisions of 41 U.S.C. 23 and Department of Defense Instruction 7220.1. " If the transaction cannot satisfy all the provisions of DoDI 7220.1, then the MIPR will be considered issued under the Economy Act of 1932, as amended, 31 U.S.C. II 686, and unobligated funds will automatically revert to the issuer upon expiration of funds for obligational purposes.

(iv) Recording of Obligation. Contracts or project orders for reimbursable procurement shall 'be recorded as an obligation by the DoDDS activity in the amount stated in the order when the order is accepted in writing under the document number assigned by the issuing DoDDS activity.

#### 7. Other Obligations.

a. Foreign Currency Fluctuations (FCF) Account. The purpose of the FCF is to alleviate the adverse effect of significant fluctuations in foreign currency exchange rates on authorized DoD programs. Funds are available only for funding the centrally managed allotment (CMA) held by the Director, DoDDS, which has been established to cover net gains and losses due to foreign currency rate changes. DoDDS regional offices record "foreign currency obligations" in dollars at the late at which the President's Budget was compiled (i.e., the budget rate) for specified foreign currencies. When payment is made in an affected foreign currency, the difference between the budgeted rate and the current exchange rate is charged against the CMA held by ODS. For obligation purposes, ODS determines an "accrued variance" based on the difference between unliquidated obligations at the budget rate and unliquidated obligations at the current rate; i.e., the exchange rate on the last day of the month. The obligation is recorded as of the last day of the accounting month. Outstanding unpaid obligations subject to payment in a foreign currency will be merged into the "M" accounts at the budget rate. The variance amount will be obligated in the "M" account at the time the disbursement is made at the current rate. No provision, for variance amounts will be recorded prior to disbursement. No charges from the "M" account may be transferred to the FOF account for payment.

b. - Liability Under Pending Litigation. A written administrative determination of the amount of liability expected to result from any pending litigation, including a condemnation suit that has been filed without a declaration of taking, will serve as documentary evidence of the obligation. If a declaration of taking has been filed, the obligation shall be recorded upon the payment of the amount required to be deposited with the court under such declaration of taking. If a declaration of taking is filed subsequent to the administrative determination of the liability under the condemnation suit, the original amount shall be adjusted to the amount set forth in the declaration of taking. Any deficiency judgment entered subsequent to the declaration of taking shall be recorded as an obligation or the then current appropriation available for such purpose.

c. ADJUSTMENT TO OBLIGATIONS

Promptly adjust recorded obligations when documents are received which increase or decrease amounts currently obligated. A change in the amount of contractual liability resulting from an amendment to a contract or other agreement is generally charged to the appropriation or fund current when the basic contract was awarded. Adjust obligations to correct mistakes and formalize agreements based on amendments or supplemental agreements. Record these adjustments against the fund under which the contract was initially awarded when such amendments or modifications do not increase the quantity of items ordered, or cover additional items of service, supplies, or costs not provided for in the original contractual agreement or result in new procurement. Adjustments may be based on price redetermination, changes in specifications, engineering, or other changes necessitating price adjustments. Consider amendments that increase the quantity of items, cover additional services, supplies, or costs not provided for in the original contractual agreement, or which otherwise change the scope of the contract and result in new procurement as new obligations. Obligate the increase against funds currently available for obligation.

REVIEW OF UNLIQUIDATED OBLIGATIONS

A. GENERAL

1. The Review Process. An unliquidated obligation is that portion of a recorded obligation for which a disbursement has either not been recorded or only a partial disbursement has been recorded. Once an obligation reaches an age where a disbursement should have taken place, it is incumbent upon the allotment holder to validate the transaction and determine that goods or services have either been received or will be received and for which a bill should be forthcoming; or, that the obligation is no longer valid and should be cancelled and the funds utilized for another purpose. The verification process must include a reconciliation of unliquidated obligation balances to supporting documents and a review of the documents to ensure that obligations meet the criteria for validity. As a minimum, such reconciliations and validations must be accomplished at least once each quarter, the last as close as practical to fiscal year end. A determination that an obligation can be cancelled should be confirmed with the procurement, legal, or other office originally charged with the responsibility of providing support, if appropriate.

2. ODS and Regional Directors Responsibilities. It is the responsibility of ODS and each region to insure the accuracy of their accounts. It is required that each unliquidated obligation be \slid and supported by documentary evidence. A careful review of accounts should verify that:

a. All unresolved suspense transactions are properly researched and corrective action is taken to clear them from the suspense files.

b. Each disbursement has been matched to the proper obligation.

c. Negative amounts are not reflected in undelivered orders or accounts payable.

d. Each undelivered order is accurate and constitutes a valid requirement, has proper documentation, is a bona tide need of the appropriate fiscal year, and complies with regulatory rules of obligation.

e. Adjustments have been made for cancellations and changes in price or quantity of requisitions, purchase orders and contracts, changes in estimated amounts, changes in itinerary or length of TDY, modification or contracts, and any other information Which results in a change of recorded obligations.



B. CONDUCTING THE REVIEW

Items to be reviewed. Listings from output of the accounting system will be maintained as evidence of conduct of required reviews with appropriate annotations of actions required/taken.

a. Undelivered Orders/Unfilled Orders. The allotment holder will validate bona fide outstanding orders, including those for which material may have been received but not disbursed, and any cancellations to be deleted from the file.

b. Accounts Payable. The allotment holder will review, validate, and annotate the accounts payable listing to indicate amounts due other Government agencies for material and services received, employer's contribution to accruals for fringe benefits payable, amounts due vendors and contractors, salaries and wages due U.S. civilians and foreign nationals, civilian travel, and other liabilities due for which disbursements have not yet been recorded in the official accounting reports.

c. Accounts Receivable File. An accounts receivable file will be maintained for billed accounts and will remain open until collection has been received. The allotment holder will ensure that control procedures are established to have all necessary actions taken to effect Collections in accordance with DSAI 7200.3.

2. Review process. The degree of effort necessary during the joint review is contingent upon the effectiveness of the preliminary action. The most recent documents listing report will serve as the basic document for conducting the review.

a. Each item appearing on the listing will be annotated as to its validity, and all necessary adjustments will be identified. The report should also be reviewed to ensure that all known obligations have been recorded.

b. Actual documents will be examined when needed to ensure that amounts are properly documented.

c. The personnel making the review will determine the need for cancellation, adjustments due to contract modification, or revisions due to price or quantity changes.

d. Significant obligations recorded on an estimated basis will be examined to determine the need for revision or adjustment to actual amounts.

e. During the review, accounting personnel should use a checklist containing pertinent questions. This could include such questions as:

(1) Have the latest document listings been reviewed in conjunction with hard copy commitment files, to determine if any purchase orders and/or contracts have been let but not obligated? Any commitments recorded which have not been obligated within certain time frames should be investigated.

(2) Have records been adjusted for all cancellations and/or modifications?

(3) Have records been adjusted for all disbursement adjustments?

3. Report Certification

a. Upon completion of the review, a certificate should be executed on the document listing by personnel conducting the review to the effect that "accounting reports for the period ending      ( DATE )      have been reviewed and all required adjustments are contained herein. "

b. Accounting personnel will retain a copy of the certified and marked-up reports to support the annual certification of funds.

A. Procedures for Atlantic, Pacific, and Panama for Prior Year Funds Accounted for by Air Force Activities.

a. Preparation for the review of unliquidated obligations. The most recent Open Document Listing (ODL) will serve as the basic document for conducting the review. Two copies of the ODL will be requested for all SMA'S from the servicing Air Force Accounting and Finance Office in the sequence options desired from AFM 177-370, paragraph 20-6. (SMA's are required to check accounting classification document number, and dollar amount(s) of each document on file against the ODL to verify that documents on file are properly recorded.)

b. Conducting the review.

(1) Each line on the original ODL will be analyzed to determine if the obligation is still valid.

(2) Review the ODL for items which were to be liquidated within a specified period, but the disbursement failed to take place. Initiate immediate follow-up action to travelers, procurement representatives, contractors, etc., to determine why the disbursement has not been processed, and when it can be expected to be accomplished. Justification for retention might include:

- (a) Purchase Orders - invoice not received.
- (b) Purchase Orders - items not received.
- (c) Miscellaneous Obligation Documents (MOD's), e.g., for Services - utility bills not received.

(3) Obligations that cannot be justified will be cancelled.

(4) For all other obligations, in the margin to the right of the document number, indicate the action to be taken as outlined below:

(a) Show "cancel" to deobligate an invalid obligation.

(b) Show "Increase to \$(dollar amount)" to increase an obligation to a new dollar amount.

(c) Show "Decrease to \$(dollar amount)" to decrease an obligation to a new dollar amount.

(d) Use a check mark to indicate those obligations that are valid and should remain awaiting liquidation by disbursement.

c. Completion. The review will be documented "by entries on the retained copy of the listing showing the results of actions completed in paragraph B.3. and will serve to support the annual certification of funds.

5. Procedures for Atlantic Region for Prior Year Funds Accounted For By USAFACEUR. The Atlantic and Mediterranean regions will follow procedures similar to paragraph B.4., for review and validation of unliquidated obligations for prior year funds accounted for by USAFACEUR.

6. Procedures for Atlantic Region for Prior Year Funds Accounted for by Naval Education and Training Financial Information Processing Center, (NETFIPC), Pensacola, Florida. Files of undelivered orders/outstanding obligations and accounts payable will be maintained separately and segregated by applicable fiscal year. Valid obligations applicable to contracts and project orders will remain as undelivered orders under the accounting data cited on the obligating documents."

a. If no payment is recorded, the basic obligation document should be reviewed to determine if cancellation action has occurred and the deobligation not recorded. If information available from other sources shows that the payment was made, the microfiche of the Payment Voucher (PV) Journal should be reviewed. This should be done especially for high cost items. This review should include searches for payments of the same or similar amount, document number or job order. If the payment was posted prior to obligation, or posted to another document number, the review of the PV Journal should locate it. If the payment was previously posted, the outstanding obligation should be deobligated, with the remark annotated - "Payment previously posted to (document number) on (date)".

b. All adjustments to outstanding obligations and accounts payable should be annotated on the basic review/working copy of the Outstanding Transaction Journal. This "marked up" report will be retained at the regional office for audit trail purposes.

c. Completion. The review will be documented on a letter to the NETFIPC. This letter will contain requested adjustments to obligations and accounts payable. Separate enclosures for each cost center will be provided showing document number, job order, amount, and a remark giving justification for the adjustment. The letter will be prepared on regional office letterhead and signed by the accounting officer or chief, Fiscal Division. A copy of the letter will be retained in the NETFIPC transmittal file.

7. 'M" Account. Unliquidated obligations carried forward into the "M" account must be supported by valid documentation. Miscellaneous Obligation Documents (MODS) may not be used to support an obligation other than estimates of liability for payment of benefits to foreign nationals.