Deobligation Guidebook

A Mandatory Reference for ADS Chapter 621

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*An asterisk indicates that the adjacent material is new or substantively revised.

I. PURPOSE

Because of USAID reorganization and the implementation of the Foreign Assistance Framework, the references to strategic objectives in this document can also be interpreted to mean program areas.

This Deobligation Guidebook provides detailed and mandatory guidance on the deobligation of program and operating expense (**OE**) funds in USAID obligating documents. Specifically, this Guidebook outlines the processes necessary for Agency personnel to deobligate funds from the following types of Agency obligating documents:

- Grants to foreign governments (Strategic Objective Agreements, Limited Scope Agreements, Commodity Import Program Grants, or Cash Transfer Grants);
- Assistance Awards to Non-Governmental Organizations (**NGOs**);
- Contracts;
- Procurement Authorizations (**PAs**); and
- OE-funded obligations (such as Travel Orders (TAs), Training Orders (TR), Credit Card Orders (CZ), and Miscellaneous Obligations (MOs))

For deobligating funds from interagency agreements, consult **ADS 306.3.12**, **Completion and Closeout of an Interagency Agreement**.

II. REQUIREMENTS

31 U.S.C. 1554 requires "the head of each agency to submit to the President and the Secretary of the Treasury a report regarding the unliquidated obligations, unobligated balances, canceled balances, and adjustments made to appropriation accounts of that agency during the completed fiscal year." USAID policy directives and required procedures detailed in **ADS 621**, Obligations, require Agency Controllers and Program Offices to initiate and coordinate reviews of all unliquidated obligations at least once a year to determine whether the obligation balances should be retained or deobligated. ADS 621 require Assistant Administrators (**AAs**), Mission Directors, and Independent Office Directors to provide an annual certification of unexpended balances to the Chief Financial Officer (**CFO**). **ADS 621** also establish the policy directives and required procedures for managing obligations.

This Guidebook is designed to assist Agency employees in meeting the deobligation requirements of **ADS 621**.

III. BACKGROUND

Establishing sound financial management practices within USAID will greatly facilitate the deobligation and reobligation process. It is important to ensure that the amount of funding obligated is not over-budgeted and fits the requirement of the desired results. By following these guidelines, the Agency should improve the use of scarce financial resources and reduce the need for significant deobligations.

USAID's adherence to laws, policies, procedures, and the related USAID guidelines has been the subject of numerous audits conducted by the Office of Inspector General (**OIG**). In general, these audits have found that although only a few recorded obligations had questionable validity, many obligations had balances that were excessive or no longer needed. This guidebook's guidance and instructions will strengthen the Agency's ongoing and annual review requirements through the full participation of various offices within the Agency. In addition, for closeout Missions, the guidance and instructions will speed the liquidation and closure of all remaining activities.

IV. ROLES AND RESPONSIBILITIES

Although many officers and officials have roles and responsibilities in the deobligation process, the following are the principal roles and responsibilities as they pertain to the actions identified in Section I of this reference.

a. The Cognizant Technical Officer (CTO) in coordination with the Strategic Objective (**SO**) team plans and monitors the level of funding necessary for the execution of the activity. This includes periodically reviewing the status of all obligated funds and identifying obligations with

(1) Unneeded balances (funds remaining after all goods and services have been delivered or completed and paid for); and

(2) Excessive balances (balances that exceed forward funding guidelines).

Most importantly, the Mission CTOs initiate the deobligation process and ensure that the deobligation process outlined in Section V is followed.

b. The Activity Manager keeps the SO Team (including the CTO) advised of any problems related to performance, reviews the financial status of the activity for potential excess funding, notifies the CTO when an activity is complete, and recommends that excess funds be deobligated. The CTO works closely with the Activity Manager to obtain critical activity-level performance information for the deobligation process.

c. The Strategic Objective (SO) Team Leader ensures that the team prudently plans, monitors, and manages the financial aspects of its program throughout the life of the SO. Specifically, the Team Leader ensures that the SO Team (which includes the

CTO and Activity Manager), along with the Controller's Office, reviews the status of all obligated funds and makes any necessary adjustments to ensure that these funds are used in a timely manner or are deobligated if no longer needed or exceed forward funding policies.

d. Mission Controllers and USAID/W Program Offices: In order for the SO Team (specifically, the CTO, in coordination with the Activity Manager) to conduct periodic reviews of the status of all program-funded obligations and identify excess/unneeded funds for deobligation, Mission Controllers and USAID/W Program Offices provide offices with comprehensive pipeline reports. In addition, they provide guidance and arrange training, as needed, to ensure that CTOs and Activity Managers are aware of their responsibilities related to the deobligation process.

e. Bureau for Management, Office of Acquisition and Assistance (M/OAA) Obligating Official: In USAID/W, the M/OAA Obligating Official is responsible for the initial obligation and subsequent deobligation of funds from active awards that are near completion and from completed awards prior to going for final closeout processing. For active awards that are using funds still within the period of availability, or for active awards that have potential deobligations in excess of $100,000, the M/OAA Obligating Official may act on a request from the CTO or other Obligation Manager for modification of the budget and request for deobligation of funds determined to be in excess of needs (per Section V, subsections A and B.2). M/OAA Obligating Officials are expected to deobligate excess funds under these conditions when deobligation is reasonable and it is an efficient use of M/OAA resources.

f. Bureau for Management, Office of Acquisition and Assistance, Cost, Audit and Support Division (M/OAA/CAS) Administrative Closeout Official: In USAID/W, the M/OAA/CAS Administrative Closeout Official processes the closeout of M/OAA obligated awards and the subsequent deobligation of residual funds. For expired awards, the M/OAA/CAS Administrative Closeout Official closes the award and deobligate the remaining balance, once the M/OAA Obligating Official has sent the award for closeout processing. The M/OAA/CAS Administrative Closeout Official negotiates indirect cost rates. M/OAA/CAS also sends requests to the cognizant CTO to ensure that all terms of the award were met prior to closeout. It is important to note that the closeout process (waiting for final audit of overhead rates, etc.) may take up to several years.

g. Mission Contracting/Agreement Officers (CO/AOs): Program funds may be initially obligated in a bilateral agreement (such as a Strategic Objective Agreement [SOAG]) between USAID and the cooperating country (see **ADS 201**, Planning; **ADS 350**, Grants to Foreign Governments; and **ADS 621**, Obligations). When this is the case, Mission CO/AOs are responsible for executing the subobligation (commitment) documents (grants, contracts, cooperative agreements, etc.)

Before funds in a subobligation (commitment) document can be de-subobligated (decommitted), a formal closeout process for contracts, grants, and cooperative

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agreements [outlined in the ADS 621 internal mandatory reference, **Contract Information Bulletin (CIB) 90-12, Subject: Guidance for AID Missions – Closing Out Contracts, Grants, and Cooperative Agreements**] is required. Since Missions are responsible for closing out their own actions, as well as M/OAA-issued procurement actions that have been transferred to the field for administration, it is the CO/AO's responsibility to take the lead role in ensuring that closeouts are accomplished in a timely and comprehensive manner so that funds can be de-subobligated (decommitted).

h. USAID/W Bureau Assistant Administrators (AAs) or their Designees: In lieu of M/OAA, these individuals serve as Agreement and Grant Officers responsible for obligating and deobligating funds in interagency agreements and certain grants, respectively. (See **ADS 103**, Delegations of Authority; **ADS 306**, Interagency Agreements; **ADS 308**, Grants and International Agreements with International Organizations; and **ADS 350**, Grants to Foreign Governments)

i. Administrative Management Services (AMS) or Executive Management Team (EMT) Offices, Management Bureau Cost Centers, Bureau for Legislative Public Affairs (LPA), and Independent Offices [Office of General Counsel (GC), Office of Equal Opportunity Programs (EOP), Office of Small & Disadvantaged Business (OSDBU), Office of Security (SEC)] that Manage Non-Program Funds: In coordination with the CTO or other Obligation Manager, the designated Obligating Official in these USAID/W offices is responsible for the following:

- Conducting periodic reviews of the status of all OE-funded obligations,
- Identifying excess/unneeded funds, and
- Deobligating excess or unneeded funds obligated in the Phoenix accounting system.

NOTE: The Chief, Bureau for Management, Office of Administrative Services, Travel and Transportation Division (M/AS/TT) is the Obligating Official for all travel orders, except those generated in the USAID Missions. In addition to M/AS/TT, the Chief, Bureau for Management, Office of the Chief Financial Officer, Washington Financial Services Division (M/CFO/WFS), or his/her designee, has the authority to deobligate funds in TAs. However, M/AS/TT is responsible for deobligating funds in current year TAs while M/CFO/WFS is responsible for deobligating funds in prior year TAs**.** (See the ADS 621 internal mandatory reference, **Improving the Determination Process for Deobligating Unliquidated Balances in Prior Year Travel Authorizations**)

j. Office of the Chief Financial Officer (M/CFO): In USAID/W, M/CFO assists Bureaus and Independent Offices in their efforts to deobligate OE funds in obligations that were obligated in the Phoenix accounting system. M/CFO provides a quarterly report to each Bureau that details deobligations by Bureau/Mission and Fund Account. In addition, M/CFO notifies the Office of the Director of Foreign Assistance, Coordinator for Resource and Appropriation (**F/R&A**) via e-mail that the apportionment of these funds has been completed and makes these funds available in Phoenix to F/R&A. (For more information on the reobligation process, see the ADS 621 internal mandatory reference, **Reobligation Policy**.)

k. F/R&A: In USAID/W, after withholding amounts necessary to fund upward adjustments, F/R&A returns 50 percent of each Bureau's remaining current year recoveries to the Bureaus once M/CFO certifies these funds as available. In the case of a rescission or other pressing Administration or Agency initiative/requirement, the Administrator can decide to revoke this policy at any time. (For more information on the reobligation process, (see **Reobligation Policy**.)

V. THE DEOBLIGATION PROCESS

This section outlines and explains the deobligation process for both active and expired obligating instruments. The process varies, in some stages, between field Missions and USAID/W; between active awards that are using funds still within the period of obligation availability and all other awards; and slightly varies within USAID/W itself, depending on who executed the award (i.e., M/OAA for contracts, grants, cooperative agreements, etc., or Bureau AAs (or designees) for interagency agreements and certain grants).

Once the CTO or other Obligation Manager has initiated a deobligation request, the Obligation Manager must establish and maintain a tracking and reporting system to ensure that identified excess/unneeded funds are

- Deobligated,
- Made available for reobligation by F/R&A, and
- Returned to the deobligating operating unit (see **Section VI**).

A. Identifying Excess and Unneeded Funds

Excess and unneeded funds may be identified for deobligation through various means such as the following:

1. **Performance monitoring** and ongoing management oversight through procurement planning, periodic portfolio reviews, and the Annual Report (**AR**) and Bureau Program Budget Submission (**BPBS**) Program exercises lend themselves to identifying funds that are excess or no longer needed and that could be deobligated as a result of activity completion or changed circumstances.

2. **Accruals reporting** are required at the end of each quarter. CTOs or other Obligation Managers and other responsible parties examine the status of their obligating (**or sub-obligating**) instruments. They also review the obligated (**or**

subobligated), disbursed/vouchered, and unliquidated obligation amounts. Accruals are developed based on the best estimate of goods and services received but not yet paid for. During this review, expired awards may be designated for closeout. Once the CTO or other Obligation Manager has properly flagged the obligation for close-out and properly disposed of the files in accordance with the procedures described in **ADS 502.5.7**, **Records Disposition – USAID/W and Overseas Missions: Records Inventory and Disposition Plan**, the CTO role is essentially completed. However, if the unliquidated amount is $100,000 or more and M/OAA/CAS or the Mission Closeout Official decides to process a deobligation action ahead of the official closeout, then see **section B.1.d** for USAID/W awards and **Section C** for overseas awards. (For more information on accrued expenditures, see **ADS 631**, Accrued Expenditures. For more information on CTO files, see **ADS 302.3.7.1**, Standardized Model Letters for Designating the Cognizant Technical Officer (CTO) for Contracts and **303.3.17** for Grants, and Cooperative Agreements.)

3. **Periodic reviews of unexpended balances** are also a good means of flagging activities with excess and unneeded funds for deobligation.

4. **Pipeline reports and burn-rate reports** are excellent tools for identifying candidates for deobligation.

B. The Deobligation Process in USAID/W

The deobligation process varies slightly depending on whether M/OAA or operating units executed the award, and if it has expired or is still active and uses funds that are still within the period of obligation availability. **For all grants under the LOC payment mechanism, any deobligation action should be verified with M/CFO/CMP to ensure that the proposed deobligation reconciles with the LOC records.**

1. Expired Awards

a. The M/OAA/CAS Administrative Closeout Official will verify that the awardee has satisfactorily completed the activity as outlined in the award. Have the required goods and/or services been received? If not, what is outstanding and what additional funds are required? Responses to these questions may require input from the CTO or the Activity Manager along with communication with the awardee.

b. The Bureau for Management, Office of the Chief Financial Officer, Cash Management and Payment Division (**M/CFO/CMP**) must determine whether the awardee has submitted the final payment request and whether the final disbursement has been posted to USAID's accounting records. This information can be obtained from the awardee or CTO. In some cases, the final voucher may not be submitted pending final overhead rate adjustments. Provisions for these outstanding costs are provided for in paragraph c below.

c. The M/OAA/CAS Administrative Closeout Official must determine the amount that is available for deobligation. This is the obligated amount less amounts disbursed, less the estimated amount to be disbursed (see paragraph b above), and less a "cushion" that may be required for closeout. The estimated amount yet to be disbursed may be requested from the awardee or vendor. An amount should be retained to provide for such things as possible changes to the provisional overhead rates that are subject to adjustment after final audit. Determining this amount is a judgment call with a lot of variables to consider, so there is no mandatory method or limitation. A methodology for calculating this amount is suggested below. It is important that the awardee/vendor understand that they will not be entitled to payment of any amount in excess of the obligation.

To determine the amount of “excessive” residual funds that can be safely deobligated ahead of the official closeout, the Administrative Closeout Official should contact the vendor, since they are in the best position to determine this amount. Generally, any residual funds remaining beyond performance completion are only needed for the contingency that final indirect cost rates may be higher than billed provisional rates. The vendor will know its applicable actual indirect cost rates for the period, even though they may not have been officially audited or finalized via the negotiated indirect cost rate agreement. Thus, the vendor can use the lesser of the actual rates or ceiling rates to determine any potential adjustments due to higher final indirect cost rates. The amount that can then be safely deobligated will be the total residual funds minus the amount the vendor has calculated they need for final indirect cost settlement and any other potential adjustments. It is prudent to always ask the vendor if there are any other anticipated changes. The “excessive” residual funds should be deobligated by a bilateral modification.

d. **For expired M/OAA-obligated awards not yet in closeout**: A rough materiality threshold of $100,000 in reported “**excessive**” residual funds may be used to determine if deobligating funds ahead of the closeout process is warranted. M/OAA’s decision to process a deobligation action ahead of the official closeout is usually a function of materiality and current resource availability. CTOs or other Obligation Managers must enter the deobligation request in New Management System/Acquisition & Assistance module (**NMS/A&A**) or Phoenix and provide the supporting documentation to the Obligating Official. Deobligation of A&A obligations (e.g., delivery orders, grants, purchase orders (POs)) is done exclusively in the A&A module of NMS. Step-by-step procedures are found in the Phoenix/A&A Interface Operating Procedures section of the NMS Users Manual at **http://inside.usaid.gov/nms/phoenix/phoenix.htm**. Click on “8. How Do I Deobligate Funds in A&A?”

NOTE: For agreements under the Letter of Credit (LOC) payment mechanism, M/CFO/CMP issues a memo, subject “Notification of Final Voucher,” to M/OAA/CAS upon receipt and processing of the “final” voucher (A Voucher for Purchases and Services other than Personal, for contracts and SF-269,

Financial Status Report, for grants). After the contract completion date, the M/OAA Obligating Official may deobligate unneeded funds (minus expected closeout costs) pending a final invoice or voucher, as discussed in Section V.B.1.c. If the AO agrees to extend the date the financial status report is due, he/she should at the same time deobligate unneeded funds.

e. For expired M/OAA-obligated awards already in closeout: The amount that was not deobligated by the M/OAA Obligating Official and assigned to M/OAA/CAS for final closeout and deobligation may remain with M/OAA/CAS for an extended period of time (up to two years) pending such actions as verifications with the awardee, CTO or other Obligation Manager, M/CFO/WFS, and final audits. However, if the funds involved are material, M/OAA/CAS will process deobligations ahead of the closeout process, using the $100,000 threshold as a guide. In other words, just because an award is in M/OAA/CAS for closeout does not necessarily mean the Bureau or Independent Office has to wait for final closure to deobligate the funds.

Since Personal Service Contracts (**PSCs**) normally do not require final audit, it is anticipated that M/OAA/CAS can close out and deobligate them within a much shorter timeframe. The terms of their contracts require PSCs to submit a final voucher within 120 days of completion of work on the contract. Upon termination of a PSC, the responsible program/technical office, including the CTO, will complete a checkout list before the final salary payment is made. This checkout list will contain all the items that a PSC must account for, including a certification from the PSC that he/she has filed all claims, including medical, travel, etc.; filed a final timesheet; and has cleared all advances. In addition to the checkout list, M/CFO/CMP needs a copy of the request from the CTO to the CO that authorizes the payment of any unused annual leave. Upon receipt of this information, M/CFO/CMP will complete the closeout checklist and forward it to M/OAA/CAS for contract closeout and deobligation action. Once M/OAA/CAS has received M/CFO/CMP certification that final payment has been processed and all applicable insurance fees and taxes have been paid, it will close the PSC contract and deobligate the balance, if any.

f. Occasionally, during the closeout process, it may be determined that additional funds are needed to close out the award even when a cushion amount was built in. In this case, the CTO or other Obligation Manager needs to identify a source of additional funds from either existing resources (this should be coordinated with the Bureau's Program or Controller's Office) or prior-year funds that might be available from the Bureau for Management, Office of the Chief Financial Officer, Central Accounting and Reporting Division (M/CFO/CAR). M/CFO/CAR will prepare a memo to the Obligating Official, if the award is active, or to the M/OAA/CAS Administrative Closeout Official, if the award is expired, requesting approval for the reobligation. If the reobligation is approved, then M/CFO/CAR will process the reobligation via Phoenix. (See also ADS 621.3.10, Upward Adjustments of Obligations.)

2. Active Awards

a. The CTO or other Obligation Manager will ascertain whether the unused obligated funds are in excess of remaining activity requirements. This may include obtaining an updated activity budget from the Activity Manager and confirming remaining activity requirements and funding needs in writing with the awardee and M/CFO/CMP for grant awards under the LOC payment mechanism.

b. The CTO or other Obligation Manager will then advise the CO/AO of the amount that is available for deobligation.

c. Deobligation of A&A obligations (e.g., delivery orders, grants, purchase orders (POs)) is done exclusively in the A&A module of NMS. For active awards that are using funds still within the period of availability, or for active awards that have potential deobligations in excess of $100,000, the CTO or other Obligation Manager will enter the deobligation request in New Management System/Acquisition & Assistance module (**NMS/A&A**) and provide the supporting documentation to the Obligating Official. Step-by-step procedures are found in the Phoenix/A&A Interface Operating Procedures section of the NMS Users Manual at **http://inside.usaid.gov/nms/phoenix/phoenix.htm**. Click on "**8. How Do I Deobligate Funds in A&A?**"

d. For non-A&A obligations (e.g., CZ, MO, T, TR), deobligations are done in Phoenix. Step-by-step procedures for non-A&A obligations are found in Section 2.17.3 of the Purchasing SOP in the USAID Financial Management Procedures Manual at **http://inside.usaid.gov/M/FM/FS/policy.htm**.

e. For current year TAs, the Bureau/Independent Office will provide a list to M/AS/TT highlighting the deobligation requested and providing a justification for each. For prior year TAs, the Bureau/Independent Office will annotate the status of each TA on a list provided on a quarterly basis by M/CFO/WFS. (See the ADS 621 internal mandatory reference, **Improving the Determination Process for Deobligating Unliquidated Balances in Prior Year Travel Authorizations**). To deobligate funds in TAs, M/CFO/WFS and M/AS/TT will follow the step-by-step procedures in Section 2.7.2.2 of the Purchasing SOP in the USAID Financial Management Procedures Manual at **http://inside.usaid.gov/M/FM/FS/policy.htm**. Bureaus/Independent Offices will periodically remind all travelers that they must file a travel voucher within five business days of the completion of a trip or every 30 calendar days of an extended trip. (See **ADS 633.5.3**, Travel Voucher Processing Requirements)

f. To deobligate migrated obligations, follow the step-by-step procedures in Section 2.17.4 of the Purchasing SOP in the USAID Financial Management Procedures Manual at **http://inside.usaid.gov/M/FM/FS/policy.htm**.

NOTE: The Office of the CFO will process deobligations of prior-year OE funds and all migrated AWACS obligations (AWACS obligations that were migrated to Phoenix before 10/01/2000).

C. The Deobligation Process in Field Missions

1. Bilateral Program-Funded Obligations with Expired Project Activity Completion Dates (PACDs)

a. The CTO or other Obligation Manager, in conjunction with the financial analyst or responsible accountant, performs a comprehensive review of subobligation (commitment) documents such as grants, contracts, cooperative agreements, POs, and TAs to ensure all payments have been made and disbursements are posted to Phoenix. Until the disbursements are recorded in Phoenix, the review of unexpended balances in subobligation (commitment) documents is incomplete.

For awards under the Letter of Credit (**LOC**) payment mechanism, the process for de-sub-obligating (de-committing) residual funds is no different from other USAID contracts/grants. M/FM notifies the Mission Controllers (and copies the CO/AO, if easy to identify) via memorandum when the contractor/grantee submits a final Financial Status Report. In between the time the awards expire and the grantee submits the final invoice, CO/AOs may de-sub-obligate unneeded funds (minus expected closeout costs). The Missions must make sure a copy of the modification that de-sub-obligate unneeded funds are forwarded to the LOC branch in M/CFO/CMP.

NOTE: While the transfer of the payment process eliminated the need for grantees to submit all of the SF-269s to M/FM, grantees are still required to submit the final SF-269 to M/FM.

For Mission funds subobligated in M/OAA awards, the CTO or other Obligation Manager, in concert with M/OAA regarding the activity performance status, will calculate the accrued expenditures. Therefore, it is critical that M/OAA and the Mission CTO stay in close communication.

b. The responsible accountant will de-sub-obligate (de-commit) residual funds from sub-obligations (commitments) after the CO/AO has modified/amended the sub-obligating document (contract, grant, cooperative agreement (CA), etc.). If it is clear that the awardee is making no further claims on the award, then the responsible accountant will de-sub-obligate (de-commit) residual funds through a journal voucher (**JV**) cleared by the CTO or other Obligation Manager and approved by the responsible CO/AO. The responsible accountant will de-sub-obligate funds if, for example, the awardee submitted a final voucher or a release; or if the grant/cooperative agreement period is over and the recipient has already agreed that there will be no further vouchers.

NOTE: In most Missions, the CO and AO is the same person. However, the roles are still different, even if the same person is performing both roles. The individual functioning in the role must provide the approval.

If the Mission Director signed the grant or cooperative agreement in question, then the Mission Director as the responsible AO provides the approval. Conversely, even though an Executive Officer (**EXO**) may also be a CO, the EXO does not have AO authority and may not provide the approval for a grant or cooperative agreement.

For expired sub-obligations (commitments) such as contracts and cooperative agreements, a formal closeout process [outlined in the ADS 621 internal mandatory reference, **Contract Information Bulletin (CIB) 90-12, Subject: Guidance for AID Missions -- Closing Out Contracts, Grants, and Cooperative Agreements**] is required before funds can be removed. If the bilateral obligation PACD has expired, there should be no active sub-obligations, so the formal closeout process is required anyway as long as all disbursements are recorded in Phoenix.

NOTE: A JV is a very convenient mechanism because it allows space for signatures (unlike the 1311 review worksheet) and is less complicated and time-consuming (unlike amendments).

c. The responsible accountant will de-sub-commit (de-earmark), through a JV cleared by the SO Team Leader and CO/AO, remaining funds that were not subobligated (committed) under the contract, grant, cooperative agreement, PO, etc.

d. The responsible accountant will deobligate the de-subcommitted (de-earmarked) and the remaining un-subcommitted (un-earmarked) funds. This may be done through a JV cleared by the SO Team Leader and the Program Officer, and approved by the Controller. Obtaining the host government's agreement is not required.

e. After funds have been deobligated from the SOAG, the responsible accountant will enter a "**reduction of Budget Allowance**" transaction in Phoenix for all prior-year funds, and report to USAID/W all the monthly deobligations. When funds are deobligated, the de-allowance will be posted the following month and appear on the U-101 report.

Note: In Phoenix Missions, de-allowance is not applicable. Deobligation will automatically affect the commitment parent level and will close it. If the funds deobligated by a Phoenix Mission belong to a current year fund account, the deobligated funds will return to the activity level, and will remain under the Mission's control. If the funds deobligated belong to a prior-year fund account, the deobligated funds will automatically go to a recovery account controlled by USAID/W.

2. Bilateral Program-Funded Obligations Before the PACD Expires

Funds cannot be deobligated from a SOAG, the obligating instrument, unless it is amended to reduce the amount obligated. However, funds may be de-subobligated (decommitted) from a subobligation (commitment) document to be made available for Mission re-use under the same SOAG. If funds are obligated under a SOAG, and later subobligated (committed) for a contract, grant, etc., unliquidated funds from this contract, grant, etc., can be de-subobligated (decommitted), kept under the same obligation, and reprogrammed for other activities within the same SOAG. In reality, this occurs almost all the time when Missions conduct their review of unexpended balances. Unliquidated funds are decommitted and later subcommitted (earmarked) and subobligated (committed) under the same SOAG.

3. OE-Funded Obligations

a. The CTO or other Obligation Manager, in conjunction with the financial analyst or responsible accountant, will perform a comprehensive review of all obligating documents (**POs, TAs, contracts, MOs, etc.**) to ensure that all payments for goods or services received have been made and posted to Phoenix.

b. If there is sufficient evidence on hand to document that the remaining funds are no longer needed for the obligation, the responsible accountant will deobligate any residual funds with a JV cleared by the responsible CO or his/her designee. However, the Mission Controller and the EXO may agree that the EXO does not need to clear on deobligation requests for residual funds in POs, PSCs, and MOs issued by the EXO (who is the Obligating Official for these obligations). (See **ADS 621.3.9**, Deobligation and Reobligation) For TAs, the responsible accountant may deobligate residual funds without a formal deobligation action by the Obligating Official, provided that the traveler has submitted a travel voucher or if a balance remains on the TA for six months or more (see **ADS 621.3.13c**, Circumstances That May Result in Excess Funding).

c. After funds have been deobligated, the responsible accountant will enter a "**reduction of Budget Allowance**" transaction in Phoenix for all prior-year funds, and report to USAID/W all the monthly deobligations. When funds are deobligated, the de-allowance will be posted the following month and appear on the U-101 report. See the Note in **Section V.C.1e** for funds deobligated by a Phoenix Mission.

4. Program-Funded Obligations Signed by the CO/AO When the Contract/Grant is the Obligating Document

a. The CTO or other Obligation Manager, in conjunction with the financial analyst or responsible accountant, will perform a comprehensive review of all obligating documents (grants, cooperative agreements, etc.) to ensure that all payments have been made and the disbursements posted.

b. The CTO or other Obligation Manager will determine the amount that is available for deobligation, providing for a possible needed cushion as discussed in **Section V.B.1.c**.

c. For active obligating documents, the CO/AO must execute an amendment to deobligate the funds in question, thus reducing the amount obligated. Then the financial analyst or responsible accountant may record the deobligation. In other words, the deobligation itself only occurs when the amendment is executed by both parties. [**Note: Even though the obligation itself may be a contract or grant, any reduction to the program in the contract/grant must be either bilateral or handled as a partial termination by the CO/AO. This is not done very often.]**

If the obligating document is under the LOC payment mechanism, the analyst or accountant must provide a copy of the amendment to M/CFO/CMP to ensure that the proposed deobligation reconciles with the LOC records.

d. For expired obligating documents, a formal closeout process [outlined in the ADS 621 internal mandatory reference, **Contract Information Bulletin (CIB) 90-12, Subject: Guidance for AID Missions -- Closing Out Contracts, Grants, and Cooperative Agreements**] is required before the final amount of the agreement may be determined and the balance of unexpended funds can be deobligated.

e. After funds have been deobligated, the responsible accountant will enter a "**reduction of Budget Allowance**" transaction in the system for all prior-year funds, and report to USAID/W all the monthly deobligations. When funds are deobligated, the de-allowance will be posted the following month and appear on the U-101 report. See the Note in **Section V.C.1e** for funds deobligated by a Phoenix Mission.

VI. CLOSEOUT MISSIONS

It is recommended that activity completion dates begin three to six months prior to the Mission's closeout date in order to allow adequate time for activity closeout actions, which may include deobligations.

For awards that are obligated and accounted for by USAID/W in Phoenix/NMS, the process outlined in **Section V.B** also applies to closeout Missions. It is critical that CTOs closely monitor awards in closeout Missions and provide enough lead time to ensure timely deobligation of funds. Once the Mission is closed out, key personnel (such as the Activity Manager) may have departed and will not be able to provide the CTO with needed deobligation information. CTOs may use the closeout Mission's unliquidated pipeline reports to highlight all awards that may need immediate deobligation action based on expiration dates or a pipeline/burn-rate analysis.

As noted in **Section V.C,** for awards obligated and accounted for overseas, the closeout Mission has responsibility for deobligation. The closeout Mission must keep its deobligation actions and plans current at all times in order to minimize excess pipeline and reduce deobligation needs at the Mission's final closeout. If all deobligation actions are not completed by the time the Mission closes, the remaining deobligation actions will be transferred to the gaining accounting station for follow-up review and closeout actions. Therefore, it is critical for the gaining location to work closely with the closeout Mission to ensure that remaining deobligation actions are completed.

Transferring accounts between Phoenix Missions is much simpler because it is done by transferring the Security Organization (control over Phoenix accounts) from the closeout Mission to the gaining Mission. However, all other hand-over procedures, and those related to eliminating or reducing the pipelines to their minimum level before the transfer, remain in effect with Phoenix.

The time required for deobligation of certain procurement actions may be lengthy. For those Missions scheduled for closeout, the deobligation action may not be completed until closeout has actually occurred. For this reason, F/R&A will attempt to provide funds from other deobligations for return to those closeout Missions for which deobligations are planned and in process. These Missions should proceed with deobligations as above **[Sections V.B and V.C]**. F/R&A will work to ensure that funds are available for reobligation on a timely basis. The only caveat is that the Mission must demonstrate that the funds for reobligation will be used in accordance with the approved Mission closeout plan. F/R&A will not provide funds for activities outside of the Mission closeout plan or for planned deobligations if the Mission Controller has not certified that the funds are available for deobligation.

VII. SUMMARY

Deobligation allows funds to be used for other purposes. This Guidebook provides detailed guidance on the deobligation process to enable USAID to better manage its funds. For questions related to this Guidebook, please contact the Chief, Bureau for Management, Office of the Chief Financial Officer, Financial Policy and Systems Division (**M/CFO/FPS**).

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