



DEPARTMENT OF WAR

FINANCIAL MANAGEMENT REGULATION

**VOLUME 3: “BUDGET EXECUTION -
AVAILABILITY AND USE OF BUDGETARY
RESOURCES”**

UNDER SECRETARY OF WAR

(COMPTROLLER)

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VOLUME 3**BUDGET EXECUTION – AVAILABILITY AND USE OF BUDGETARY RESOURCES****1.0 GENERAL****1.1 Overview**

1.1.1. Volume 3 provides general guidance on the execution of the budget, specifically for availability and use of the budgetary resources, for the Office of the Secretary of War (OSW). Budget policy memoranda issued throughout the year, special instructions, and nonrecurring requirements unique to that year's budget cycle will provide any necessary changes or revisions to this standing document. The provisions of Volume 3 apply to all DoW military and specified civil functions.

1.1.2. Volume 3 also provides budget policies; general guidance on supporting material, and budget execution submission formats in addition to specific guidance by appropriations, programs, and activities. Required budget exhibits and formats, corresponding instructions, procedures, and automated submission requirements can be found in the Volume 3 Supplemental Document.

1.2 Purpose

This volume provides budget execution policies, exceptions to policies, and proposed changes, specifically related to the availability and use of budgetary resources. This volume also contains guidance for governing budget execution business rules and financial management arrangements. The scope and provisions in this volume apply to the OSW, the Military Departments (MILDEPs), the Defense Agencies, the Combatant Commands, and any other Defense Agencies or DoW Field Activities (hereafter referred to as "Components") that manage program and budget resources.

1.3 Authoritative Guidance

Refer to the authoritative guidance document.

2.0 APPORTIONMENT / REAPPORTIONMENT AND FUNDS DISTRIBUTION**2.1 Responsibilities**

2.1.1. Office of Management and Budget (OMB). The administrative control of all government funds is legally mandated through an apportionment process, as required by 31 U.S.C. §§ 1512 and 1513. The OMB manages and approves these apportionments at the Treasury appropriation fund symbol (TAFS) level. All appropriation requests must follow the guidance in OMB Circular No. A-11, Section 120, which also identifies certain exemptions. OMB may grant additional exemptions under its authority in 31 U.S.C. § 1516.

2.1.2. OUSW(C)/Program and Budget (P/B). Following OMB's approval, the OUSW(C) P/B allocates funds to the Military Services and Defense Agencies for execution. The OUSW(C)

P/B is responsible for the initial distribution of all funds to Military Services and Defense Agencies. This is accomplished via funds authorization documents (FADs) after the funds have been apportioned. The assigned OUSW(C) P/B analyst for each appropriation account will allocate funds to the Military Services and/or the Defense Agencies via FADs. Funds in transfer-only accounts are not available for obligation or outlay and are not distributed directly. Instead, they are moved to the recipient appropriation's FAD using the reprogramming procedures outlined in section 6 (Reprogramming of DoW Appropriated Funds).

2.1.3. OUSW(C) Program and Financial Control (P&FC) Directorate. The OUSW(C) P&FC manages the complete apportionment lifecycle. It submits all requests to OMB and processes all approved apportionments. All appropriations must be apportioned unless exempt per OMB Circular No. A-11 or 31 U.S.C. § 1516. P&FC processes authorized exemptions and maintains a comprehensive list of exempt accounts for the DoW.

2.2 Provisions

2.2.1. Accounts must be reapportioned before obligating any upward adjustment of budgetary resources that is greater than \$400,000 or 2 percent, whichever is lower. Unobligated balances in unexpired accounts must be reapportioned every year. Expired accounts are not apportioned, and transfer-only accounts are generally exempt from apportionment. Refer to the OMB Circular No. A-11, Section 120. All reapportionments must be validated against the most current SF 133 (Report on Budget Execution and Budgetary Resources).

2.2.2. For Surcharge Collections, Sales of Commissary Stores - Trust Revolving Fund, the 10 U.S.C. § 2685 permits obligation of anticipated proceeds from the adjustments or surcharges authorized by 10 U.S.C. § 2685.

2.2.3. OMB automatically apportions certain funds in accordance with OMB Circular No. A-11 Section 120.41 for newly enacted appropriations in accordance with the Interim Apportionment Authority for Initial Appropriations Act.

2.2.4. If an appropriations act is not signed into law by October 1, Congress may pass a Continuing Resolution (CR) to temporarily fund government operations. Multiple CRs may be necessary, and each must be signed by the President to become law, until the final annual appropriations act is passed.

2.2.5. Apportionments to record the sale and replacement of assets under Section 21 of the Apportionments and the Arms Export Control Act require actions codified at 22 U.S.C. § 2761.

2.2.6. For rescissions and deferrals, available budgetary resources may be withheld from obligation or expenditure through impoundment, either permanently (rescission) or temporarily (deferral) under conditions set forth in 31 U.S.C. § 1512 and the Congressional Budget and Impoundment Control Act (2 U.S.C. §§ 683 and 684). Refer to OMB Circular No. A-11 for information and definitions of rescissions and deferrals.

3.0 APPROPRIATION TRANSFER AUTHORITIES

Congress grants authority for the transfer of funds between appropriations, with most DoW transfers occurring in accordance with the annual Appropriations Act and the National Defense Authorization Act (NDAA). The Secretary of War (SecWar) also possesses General Transfer Authority (GTA) for unforeseen, high-priority military needs, provided the item was not previously denied by Congress and Congress is promptly notified. OMB approval may also be required depending on the legal source of authority. To ensure timely action, the Office of the Under Secretary of War (Comptroller) (OUSW(C)) maintains and publishes periodic status reports on transfer actions.

3.1 Responsibilities and Authorizations

3.1.1. DoW Components must formally submit all proposals to transfer funds to the OUSW(C) and state the specific statutory authority that permits the action. Once approved, the originating DoW Component is fundamentally responsible for executing transfers.

3.1.2. The SecWar provides the ultimate authority and amounts for most transfers, contingent upon the existence of certain conditions as provided in DoD Directive (DoDD) 5118.03. This authority may be delegated to the USW(C). Furthermore, all transfer documents processed to the Treasury must cite the legal authority for the transfer, including any required determinations or approvals.

3.1.3. A transfer cannot be executed without the required approval from the OMB.

3.2 Authority for Transfers Affecting Budget Availability

3.2.1. Congressionally Directed Transfers. The DoW Appropriations Act provides direct authority for DoW Components to execute specified fund transfers.

3.2.2. GTA. The SecWar may transfer funds for unforeseen, high-priority military needs, provided the item was not previously denied by Congress.

3.2.3. Transfers Between Working Capital Funds. Transfers between working capital funds are permitted, but no funds may be obligated for war reserve materials without prior Congressional notification.

3.2.4. Transfer of Military Construction (MILCON) Appropriations. The SecWar has the authority to transfer MILCON funds to other MILCON or Family Housing accounts, where they must be used for the same purpose and time period.

3.2.5. Transfer Accounts. The DoW recognizes certain accounts (e.g., Environmental Restoration, Drug Interdiction and Counter-Drug Activities) established by law as dedicated "Transfer Accounts."

3.2.6. Transfer of Funds and Personnel for Functional Transfers Within the DoW. When a function is reassigned within the DoW, the necessary funds and personnel positions may also be

transferred, and the funds must be used for their original purpose as established under the authority of 10 U.S.C. §§ 125 and 126.

3.2.7. Transfer of Funds for Functional Transfers Between Government Agencies. In accordance with the authority granted by 31 U.S.C. § 1531, the DoW adheres to the legal framework governing the transfer of appropriations when a function is moved to or from another federal agency.

3.2.8. Limitation on Transfer of Funds to Other Departments and Agencies. Pursuant to 10 U.S.C. § 2215, DoW policy prohibits the transfer of funds designated for military functions to any other federal department or agency. This policy applies to transfers made under any provision of law enacted after November 29, 1989. An exception to this policy is permitted only when the transfer is certified to be in the national security interest of the United States.

3.3 Transfer Provisions

3.3.1. Reprogramming Actions. A reprogramming action (DD 1415) must be executed for any non-congressionally directed fund transfer that results in an increase or decrease between DoW appropriations.

3.3.2. Processing of Treasury Non-Expenditure Transfers (NETs). The mechanism for moving funds between accounts at the Treasury for an approved transfer is the Treasury Non-Expenditure Transfer (NET). NETs between DoW accounts will not be processed without a directing memorandum from the OUSW(C). However, this policy does not require prior OUSW(C) approval for certain exceptions, including functional transfers initiated by a non-DoW agency or transfers of obligational authority to a designated transfer account in another agency. The directing OUSW(C) memorandum serves as the official policy instrument for the transfer, must contain all information necessary for proper execution and reporting, and will confirm which office is responsible for any required Congressional notification.

3.3.3. Notification to Congress. DoW policy mandates compliance with all statutory requirements for reporting transfers to Congress. For functional transfers, a distinction applies: the transfer of funds under 10 U.S.C. § 126 does not require Congressional notification. However, the transfer of the function itself, pursuant to 10 U.S.C. § 125, must be reported to Congress if it results in the substantial reduction or elimination of a major weapons system.

3.3.4. Apportionment and Reapportionment Schedules. In accordance with OMB Circular No. A-11, DoW policy requires all transfers to be reflected on the Apportionment and Reapportionment Schedule (SF 132). While certain specified transfers (e.g., Foreign Currency Fluctuations, Environmental Restoration) result in automatic apportionment for the gaining and losing accounts, those accounts designated as "only for transfer" are exempt from apportionment, as specified in OMB Circular No. A-11, section 120.5.

3.3.5. Guidance on SF 133 Treatment. With agreement from OUSW(C) and OMB, transfers may be anticipated on the SF 133 report once all statutory requirements are met, even before the NET action is complete. This is an exception to standard guidance in OMB Circular No. A-11.

3.3.6. Funding Authorization Documents (FAD). Program adjustments from transfers must be reflected in a FAD, as determined by the OUSW(C)'s cognizant P/B appropriation director.

4.0 FUNCTIONAL TRANSFERS

4.1 Statutory Authority

Under 10 U.S.C. § 125, the SecWar is authorized to transfer, reassign, consolidate, or abolish any function within the Department. When this occurs, 10 U.S.C. § 126 permits the transfer of associated appropriations and civilian employees, provided the SecWar determines they are needed and the President grants approval (as delegated to the OMB).

4.2 Provisions

4.2.1. Fund Adjustments. DoW policy dictates that current-year functional transfer funding adjustments should primarily be reimbursable. Direct fund transfers are only to be requested when reimbursement presents serious burdens or significant financial amounts.

4.2.2. Transfer of Funds. DoW policy requires the receiving DoW Component to initiate a fund transfer request when necessitated by a functional transfer under 10 U.S.C. § 125. The request must comply with the requirements of 10 U.S.C. § 126 and be based on a mutually agreed-upon amount between the involved DoW Components.

5.0 SPECIAL MILITARY CONSTRUCTION/ FAMILY HOUSING FUND RELEASE PROCEDURES

5.1 Fund Approval

It is the policy of the DoW that fund approval for military construction and family housing construction accounts must be formally requested by the cognizant MILDEP. The cognizant MILDEP must submit a request to the OUSW(C) P/B, Military Personnel and Construction Directorate.

5.2 OUSW(C) Review

It is the policy of the OUSW(C) to issue a formal fund approval to the requesting Component after its review, granting obligational authority corresponding to the amounts approved.

5.3 Document Approval

It is a critical DoW policy that the final fund approval document limits a Component's authority to incur obligations. No obligations may be incurred prior to the receipt of this document or in amounts that exceed the authority granted within it.

5.4 Submission Requirements

It is DoW policy that a formal fund release request is required under several specific circumstances: for the initial fund authorization, to request the release of funds previously placed on withhold by OUSW(C), and to provide support for an approved apportionment/reapportionment schedule (SF 132) or a formal above-threshold reprogramming action.

6.0 REPROGRAMMING AND DOW APPROPRIATED FUNDS

6.1 Transfer Authority

The DoW requires specific transfer authority for any movement of funds between appropriations or their legal subdivisions. This authority is established through several distinct mechanisms.

6.1.1. General Transfer Authority (GTA). This is contained in the annual DoW Appropriations Act (e.g., Section 8005 of Public Law 119-75). GTA is also authorized in the annual National Defense Authorization Act (e.g., Section 1001 of Public Law 119-60). The use of GTA is subject to the SecWar's determination that the action is in the national interest and requires approval from the Office of Management and Budget (OMB). OMB concurrence on the use of GTA is documented on a SecWar Determination letter.

6.1.2. Foreign Currency Fluctuations (FCF). Policy also provides specific FCF authority through public laws (e.g., Public Law 95-457 and 10 U.S.C. § 2779).

6.1.3. Special Transfer Authorities. Policy recognizes additional special transfer authorities for unique situations, as provided in various Sections of Title 10 U.S.C. (e.g., 10 U.S.C. § 127a), other annual defense acts, and specific authorities for Intelligence Programs.

6.2 General Reprogramming Policies

6.2.1. DoW's Three-Form Process Policy. The DD Form 1414 establishes the financial baseline, detailing the budget's complete history and footnoting all items of special congressional interest. To execute changes, the DD Form 1415 is used to either request prior congressional review for fund realignments or to document internal transfers for audit purposes. Finally, for transparency, a cumulative DD Form 1416 report is submitted to show the final program status after all adjustments; this report is provided quarterly for Procurement and RDT&E appropriations and annually for Military Personnel and Operation and Maintenance (O&M) appropriations.

6.2.2. Reprogramming Actions Submitted for Congressional Review. The DoW submits certain reprogramming actions for congressional review. These reprogramming actions enable the DoW to adapt funding to emergent, unforeseen operational requirements, urgent procurement needs, technology advancement opportunities, or other critical mission requirements in the execution of DoW programs. Further, it is expressly prohibited to request reprogramming into an effort that has been denied by Congress. However, this prohibition does not apply to the entire line-item of a congressional denial; only the specific effort. A DD Form 1415-1, Prior Approval Reprogramming, is required by DoW policy for actions that: increases the procurement quantity of a major end item (unless specifically authorized by congressional language, in which case a

DD 1415-3 is used); affects an item designated as a matter of special congressional interest; or uses GTA (unless reclassification of a program is required for proper execution of an appropriation). Pursuant to 10 U.S.C. § 2214 and the annual Appropriations Act, GTA itself has limitations and may only be used under the "higher priority" conditions. In rare instances involving the movement of funds between special interest items within the same line item, policy allows for a letter notification to Congress instead of a formal DD 1415-1

6.2.3. Internal Reprogramming Actions. The DoW must use a DD Form 1415-3, Internal Reprogramming, as an audit-trail document for several types of internal fund movements that do not require prior congressional review. This policy applies to three main areas.

6.2.3.1. First, it applies to the reclassification of funds to a different line item, program element, or appropriation for proper execution, so long as the substance of the program remains unchanged. If such a reclassification uses GTA (as defined in the annual appropriation bill), then the signed Letter Apportionment satisfies the same intent as a Secretary of War Determination Letter and OMB concurrence is satisfied through the approved apportionment.

6.2.3.2. Second, it applies to reprogramming funds to or from designated Transfer Accounts, such as Environmental Restoration, Drug Interdiction and Counter-Drug Activities, and Foreign Currency Fluctuations, which are generally exempt from the use of GTA.

6.2.3.3. Third, policy dictates the use of a DD 1415-3 for approving increases to procurement quantities for major end items when the action falls below the threshold for a prior review reprogramming.

6.3 Congressional Notification

6.3.1. Letter Notifications to Congress. The DoW requires advance letter notification to Congress before initiating certain below-threshold actions that do not otherwise require a formal prior review reprogramming. This policy applies to:

6.3.1.1. The creation of new procurement line items or development programs costing less than \$20 million and \$10 million, respectively;

6.3.1.2. The initiation of safety programs or modifications costing less than \$20 million; and

6.3.1.3. The termination of procurement or RDT&E programs that also fall below these same \$20 million and \$10 million thresholds, as long as the parent program element or line item is not entirely eliminated.

6.3.1.4. This policy also extends to identifying specific line items to satisfy other congressionally established transfer notification requirements.

6.3.2. Failure to Provide Proper Notification. Recurring general provisions in DoW Appropriations Acts prohibit the use of reprogrammed funds to initiate a new program, project, or activity. An exception is made only if the program must be undertaken immediately in the interest

of national security and after prior written notification is provided to the congressional defense committees.

6.4 Approvals and Responsibilities

6.4.1. Congressional Committee Approval of DD 1415 Requests. As a matter of policy, DoW requires congressional defense committees' review before a Prior Approval Reprogramming Action (DD 1415-1) can be implemented. A critical aspect of this policy is the strict prohibition against obligating or committing funds for a requested reprogramming prior to receiving this congressional review. Furthermore, DoW policy prohibits using a series of below-threshold reprogramming actions as a workaround to finance an increase that was specifically denied by Congress. However, policy does permit the use of below-threshold authority to finance increases that were approved by Congress but could not be funded during the initial implementation due to a lack of approved sources, provided the action does not violate other reprogramming limitations.

6.4.2. OMB Approval. For prior approval actions, OMB must approve the transmittal before it is sent to the congressional defense committees.

6.4.3. OUSW(C), Deputy Comptroller, Program/Budget (P/B). The SecWar's determination authority on transfers due to national interest is delegated to the Deputy Comptroller, P/B. The OUSW(C) sends OMB-approved transmittals to the congressional defense committees. After Congress responds and implementation is finalized, the OUSW(C) is responsible for obtaining the formal OMB apportionment for the transfer and issuing a formal implementation memorandum to the DoW Components to document the action and authorize its execution. This policy ensures that a clear, official record exists before any funds are moved and that all necessary documentation, such as transfer authorizations and approval documents, are properly disseminated.

6.4.2. DoW Components. The DoW Assistant Secretary (Financial Management and Comptroller) of a MILDEP or the Comptroller of a Defense Agency must formally submit all proposed DD 1415 reprogramming actions. Policy dictates that these actions must be submitted electronically and are due by the 5th workday of the month for inclusion in the monthly submission. DoW Components must address the following requirements:

6.4.2.1. Required DD Forms, Formats, and Templates. The SecWar has delegated the authority to signal reprogramming actions to the USW(C). The OUSW(C) Program and Financial Control Directorate manages the reprogramming process. Refer to the Supplemental Document for the required DD Forms, formats, and templates.

6.4.2.2. Notification – Investment Programs. When a prior approval reprogramming for investment programs is required to initiate a new start or to terminate a program, a copy should also be provided to the Office of the Under Secretary of War for Acquisition and Sustainment. The following DoW policies apply when considering a prior approval for a new start.

6.4.2.2.1. RDT&E. A new start program for RDT&E involves the creation of a new program element or project, or major component thereof, not previously justified by the Department and funded by Congress through the normal budget process.

6.4.2.2.2. Procurement. A new start program for Procurement involves the creation of a new procurement line item or major component thereof, not previously justified by the Department and funded by Congress through the normal budget process.

6.4.2.2.3. MILPERS and O&M. Due to the characteristics of Military Personnel and Operation and Maintenance programs, new starts seldom occur in those appropriations. New starts in these appropriations would be significant new programs, efforts, or activities that have not been explicitly justified to the Congress in budget justification material.

6.4.2.2.4. Follow-on Funding. The Department will not approve a new start reprogramming request unless follow-on funding for the subsequent fiscal years is already budgeted or programmed.

6.4.2.2.5. Extension Exception. Extending an ongoing, previously justified RDT&E or Procurement effort into a subsequent fiscal year does not constitute a new start; rather it is treated as a continuation of the prior-year program.

6.4.2.3. Notification – National Intelligence Program (NIP) or Military Intelligence Program (MIP). For any reprogramming action that involves NIP or MIP resources, policy requires coordination with the Office of the Director for National Intelligence (ODNI) and the Under Secretary of War for Intelligence and Security. Pursuant to 50 U.S.C. § 3024(d)(1)(B), consultation with the ODNI Chief Financial Officer is required before reprogramming funds are made available for the MIP. To ensure transparency without compromising security, any reprogramming action posted publicly must not identify intelligence resources. A separate statement in the transmittal letter must clarify if such resources are affected.

6.4.2.4. Annual Omnibus. Any reprogramming actions submitted outside of the annual Omnibus must be limited to critical, unforeseen, and time-sensitive requirements.

6.4.2.5. Clearance for Public Posting. Since all reprogramming actions are posted on the public website after implementation is complete, the final documents (i.e., DD 1415-1 Prior Approval, DD 1415-3 Internal Reprogramming, and Letter Notifications to Congress) must receive clearance from the Defense Office of Prepublication and Security Review.

6.5 Other DoW Reprogramming Policies

6.5.1. Alternate Letters or Revised Actions for New Sources. The DoW allows for the submission of new funding sources if a congressional committee concurs with a reprogramming increase but denies the proposed sources. However, policy strictly prohibits submitting alternate sources for increases that were denied by the committees, except in the most unusual circumstances. The USW(C) has the authority to appeal a committee's decision on a reprogramming action. Any subsequent action related to a reprogramming, including appeals or proposals for new sources, is subject to the same formal procedures as the original submission.

6.5.2. Withdrawal of Reprogramming Actions. It is the policy of the DoW that if a reprogramming action submitted to Congress is no longer required, it may be formally withdrawn from consideration. This policy applies when circumstances change, such as when too much time has passed for the action to be executed or when the proposed funding sources are needed for

higher-priority reprogramming. Policy dictates that the withdrawal notification must provide a sufficient rationale to the congressional committees to justify retracting the original request.

6.5.3. DD 1416, Report of Programs. The DD Form 1416, Report of Programs, is the official DoW report reflecting the status of all programs after enacted budgets, supplementals, rescissions, and all reprogramming actions are incorporated. To ensure financial consistency, DD 1416 data must reconcile with the DD 1002 report. For procurement programs aggregated into an "Items Less Than \$5 Million" line item, any cost growth must be accommodated within that line's total below-threshold reprogramming authority (not to exceed the \$20 million or 20 percent limit). The basis for calculating below-threshold percentage decreases in Procurement and RDT&E appropriations is the original appropriation adjusted for any enacted supplementals and rescissions. Reimbursable program or order amounts are not required unless reimbursable funding was used for the direct program.

6.5.4. Reprogramming of Intelligence Resources. DoW policy for reprogramming intelligence resources is divided into two categories:

6.5.4.1. NIP. Pursuant to 50 U.S.C. § 3024, the DNI has final approval authority to approve fund transfers and all such actions require prior approval from the House Permanent Select Committee on Intelligence (HPSCI), Senate Select Committee on Intelligence (SSCI), House Appropriations Committee (HAC), and Senate Appropriations Committee (SAC).

6.5.4.2. MIP. Standard DoW reprogramming policies apply, with additional specific guidance in DoDD 5205.12. Pursuant to 50 U.S.C. § 3024(d)(1)(B), OUSW(C) must consult with the DNI's Chief Financial Officer before reprogramming any MIP funds. Finally, to satisfy 50 U.S.C. § 3094 and as a matter of committee relations, the Department provides the SSCI with information copies of any reprogramming actions occurring into or within the MIP.

6.5.5. Reprogramming of Special Access Programs (SAP). The annual DoW Appropriations Act states: "Funds appropriated by this Act may not be used to initiate a special access program without prior notification 30 calendar days in session in advance to the congressional defense committees." This means that to start a new SAP, the DoW must inform the relevant congressional committees at least 30 legislative days before doing so.

6.5.6. Below-Threshold Reprogramming Actions. DoW policy allows Components to use below-threshold reprogramming for unforeseen, high-priority requirements. These cumulative actions must net to zero and are prohibited from exceeding established monetary thresholds or initiating new start programs. Using this authority to fund an increase specifically denied by Congress is prohibited. However, it may be used to fund an increase that Congress approved but could not be implemented due to a lack of sources, provided this is done with advance written notification and does not violate other limitations. A policy exception to the normal thresholds also exists for funding adjustments related to canceled accounts, as governed by 31 U.S.C. § 1551 et seq.

6.5.7. Replacement Of Items Sold From Inventory. This section is applicable to items sold to foreign governments under the Arms Export Control Act, 22 U.S.C. § 2761. Sales to domestic

buyers (Federal or non-Federal) are governed by Title 41 of the Code of Federal Regulations (CFR) Part 102-39.

6.5.7.1. Current budget policy prohibits using proceeds from asset sales to acquire a non-like replacement item (one not of identical type, model, and series) without obtaining congressional review. The DoW secures this requisite approval by submitting a prior approval reprogramming action to the congressional defense committees.

6.5.7.2. The DoW treats the replacement of certain small-dollar-value items sold from inventory as a “like replacement,” even if the replacement is not of the identical type, model, and series. This policy applies only if all of the following conditions are met: the original item has a unit cost of less than \$5,000; the replacement is an improved model of the same end item that performs the same warfighting capability; and procuring the replacement does not cause the inventory objective presented to Congress to be exceeded. This policy is intended to reduce unnecessary paperwork. Finally, policy dictates that the amount applied toward the replacement item may not be increased beyond the proceeds generated from the sale of the original item.

6.5.7.3. It is the policy of the DoW that a prior approval reprogramming action is required when an item sold from inventory is replaced with an item that is not identical (i.e., not a “like replacement”). Policy permits such a replacement only if the new item is a later series or modified version of the same basic model, or if it is an acceptable substitute used against the same inventory objective. If congressional review is obtained, the offsetting collections from the sale may then be used to procure the replacement. Furthermore, in accordance with OMB Circular No. A-11, the procurement of such a replacement item must be classified as a direct obligation.

6.5.7.4. When seeking congressional concurrence to use proceeds for non-like replacement items, Components must submit the DD 1415-1 as a distinct, stand-alone reprogramming request. This can be done either as a separate submission or as a separate part within the regular monthly reprogramming action, but it must not be combined with other types of reprogramming requirements.

6.5.8. Reprogramming Policy for Closing Appropriation Accounts (31 U.S.C. § 1551 et seq).

6.5.8.1. Out-of-Scope Contract Changes. It is DoW policy that when currently available appropriations are used to fund out-of-scope contract changes, normal reprogramming procedures and thresholds apply. Policy dictates that these changes be funded from the current corresponding program line. If no such line exists, a new one will be created, and the standard reprogramming threshold procedures for new starts will apply. Any existing line item can serve as the funding source, but it will also be subject to normal reprogramming thresholds.

6.5.8.2. Canceled Appropriation Accounts. DoW policy allows currently available appropriations to fund obligations that would have been properly chargeable to a now-canceled account. This is strictly limited by policy to one percent of the current appropriation or the unexpended balance of the canceled account, whichever is lower. Critically, policy dictates that normal reprogramming procedures and thresholds do not apply to these specific actions. All such

charges must be reflected in a line item titled "Canceled Appropriation Account Adjustments" on the DD 1416, Report of Programs.

6.5.8.3. Expired Appropriations. It is DoW policy that an expired appropriation remains available for recording, adjusting, and liquidating obligations properly chargeable to it until the account is officially closed under the authority of 31 U.S.C. § 1552. This includes funding within-scope contract changes. Pursuant to 10 U.S.C. § 8683, specific policy, allows expired O&M, Navy appropriations to be used for certain scope changes in ship overhaul and repair. For the Shipbuilding and Conversion, Navy (SCN) appropriation, policy allows for additional obligations to be incurred after the normal 5-year availability period for final-stage construction work, as typically provided by language in the annual DoW Appropriations Act (e.g., Section 8075 of Public Law 113-235). Further, investment appropriations lose their line-item character in the expired period. Therefore, upward obligation adjustments may be made citing sources from other line-items within the same appropriation.

7.0 REPROGRAMMING OF MILITARY CONSTRUCTION AND FAMILY HOUSING APPROPRIATED FUNDS

7.1 General Policy

The DoW has flexibility from Congress to adjust funding for approved military construction and family housing programs to meet changing conditions. However, the DoW must seek approval from the relevant congressional committees for these reprogramming actions. Such adjustments are typically required to respond to emergencies, replace damaged facilities, accommodate price increases, or implement specific congressional provisions. This process ensures that while DoW missions are supported, the use of appropriations remains consistent with congressional intent.

7.2 Authority and Approval

7.2.1. The OUSW(C) must approve all proposed reprogramming actions for military construction and family housing.

7.2.2. Prior congressional approval is mandatory for significant actions, including cost increases that exceed 25 percent of the project's base or \$6 million (whichever is less), any funding increase to a project previously reduced in scope by Congress, and for specific circumstances like emergency construction under 10 U.S.C. § 2803 or the restoration of damaged facilities under 10 U.S.C. § 2854.

7.2.3. Prior approval is generally not required for actions below the thresholds specified in Section 7.2.2, projects funded by Environmental Restoration accounts, when cost increases are solely due to final contractor claim settlements, or when reprogramming funds between or among family housing operation and maintenance accounts (though a new FAD for family housing remains required under specific conditions).

7.2.4. The policy strictly prohibits reprogramming requests for projects that are unauthorized, have been specifically denied by Congress, or attempt to initiate major unauthorized programs.

7.2.5. The policy also permits split-year funding, allowing a project to be financed with funds from multiple program years, and provides a mechanism for the OUSW(C) to appeal unfavorable congressional committee decisions.

7.3 Procedures

Refer to Volume 3 Supplemental Document for guidance on the appropriate submission and instructions.

8.0 STANDARDS FOR RECORDING AND REVIEWING COMMITMENTS AND OBLIGATIONS

This section prescribes the requirements for determining the amount and accounting period in which commitments and obligations must be recorded under various circumstances. Departmental standards for recording transactions in the execution level budgetary accounts are in Section 12.

8.1 Recording of Commitments

A commitment must cite a Standard Line of Accounting (SLOA) in accordance with Volume 1 and must be recorded in the general ledger in accordance with the United States Standard General Ledger (USSGL) Standard Financial Information Structure (*SFIS*) Transaction Library in Volume 1.

8.2 Validating Commitments

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

8.3 Obligation Responsibilities

31 U.S.C. § 1501, "Documentary Evidence Requirement for Government Obligations," directs that amounts must be recorded as obligations only when supported by documented evidence. The office that incurs an obligation must provide, within five calendar days of the date the obligation is incurred, a copy of the obligating document(s), via electronic mail, fax, or other documented means, to the office responsible for recording the obligation. The office that is responsible for recording the obligation must record the obligation in the official accounting records within five calendar days of receipt of such documentation, information, or data. Timely

and accurate recording of obligations facilitates the disbursing officer's ability to verify fund availability before authorizing a timely payment.

8.4 Recording Obligations

8.4.1. All business and financial events resulting in an obligation must cite a SLOA in accordance with Volume 1 and must be recorded in the general ledger in accordance with the SFIS Transaction Library in accordance with Volume 1.

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

8.4.2.1. Documented Evidence. An amount must be recorded as an obligation only when supported by documentary evidence of the transaction. A verbal order or agreement must be reduced to writing before the obligation may be recorded. When the amount is not known or cannot be feasibly ascertained at the time it is recorded, the best estimate must be used. Document the best estimate to include relevant inputs, assumptions, and calculations. In accordance with Volume 1, retain evidence to support the transaction.

8.4.2.2. Ten-Day Rule. Record obligations in the official accounting records at the time a legal obligation is incurred, i.e., contract is signed. In all instances, obligations must be recorded within 10 calendar days following the day that an obligation is incurred (to include obligations incurred when invoices are overpaid or duplicate payments are made). Notwithstanding the ten-day rule, record all obligations (per line of accounting) in the official accounting records in the same month in which the obligation is incurred. If an obligation is not recorded within the specified timeframe, follow section 8.16.

8.5 Recording Contract Obligations

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

8.5.1. Contracts or Orders for Goods, Supplies, or Services to Meet Bona Fide Need. DoW Components must determine that the goods, supplies, or services required under contracts, or orders placed obligating an annual or multiple year appropriation, are intended to meet a bona fide need of the period for which funds were appropriated. Additionally, a buying activity's project order must serve a bona fide need that exists in the fiscal year in which the project order is issued; otherwise, a valid obligation is not accomplished. Bona fide need generally is a determination of the buying activity and not that of the selling/performing activity. A selling activity must refuse to accept a project order if it is obvious the project order does not serve a need existing in the fiscal

year in which issued. Such determinations must consider estimated current consumption; the requirements that may be foreseen for future years based upon the procurement lead-time; authorized stock levels; and authorized mobilization reserves. It is not intended that the bona fide need of the fiscal year rule be construed to preclude procurement lead-time. If, a provision of law makes such appropriations available for payments under contracts for specified services for periods beyond the period for which the appropriation otherwise is available, the contract for such services extending into the ensuing period (fiscal year) may be charged to the appropriation current at the time that the contract is signed. Obligate funds for each option period after funds become available. Obligations must be consistent with all normal limitations on the obligation of appropriated funds, such as the bona fide needs rule, period of availability, and type of funds. See Volume 11.

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

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

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

8.5.2. Service Contracts. Service contracts may be either severable or non-severable. Services are generally chargeable to the appropriation current at the time the services are rendered. The contract is thereby, established in a manner that defines the contractors level of responsibility to provide a specified level of effort for a stated period. The determination to charge the appropriation current on the date the contract is let, or to charge the funds current at the time services are rendered, depends upon whether the services are “severable” or “entire.” A contract that is considered entire or non-severable is charged to the fiscal year current when it was let even though performance may extend into the next fiscal year. Service contracts that are considered severable must be charged to the fiscal year in which the services are rendered and may not cross fiscal years, absent statutory authority. There is no precise formula or rule that determines whether a contract is severable or entire. Each case must be determined by the terms and circumstances involved. Non-severable services may occur at a contract line item level as defined in **DFARS 204.7101**. Refer to the Volume 3 Supplemental Document for severable and non-severable services guidance.

8.6 Determining Scope of Work Changes

8.6.1. Responsibilities for Making Determinations. In making a determination, the contracting officer must apply appropriate provisions of the FAR, the DFARS, legal principles applicable to scope changes, and the provisions of this Regulation.

8.6.2. Standards for Making Determinations. Statutes and DoW policies for the use of appropriations limit the period of availability to fund new obligations.

8.6.3. Increases in Quantities. Changes in the quantity of the major items called for in a contract generally are a change in contract scope and not authorized under the “Changes” clause.

8.6.4. Increases in Required Levels of Service Performance. Any modification of a service contract requiring additional deliverable services is a change in scope.

8.7 Due Diligence

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

8.8 Recording Judgment Fund Obligations

The Judgment Fund is available for court judgments and Justice Department compromise settlements of actual or imminent litigation against the government. Judgment Fund awards and settlement must be funded on a non-reimbursable basis for various types of litigation identified in **31 U.S.C. § 1304**, “Judgments, Awards, and Compromise Settlements.” Section 1304 and the Contract Disputes Act of 1978, **41 U.S.C. § 7108**, “Payment of Claims,” provide that awards and settlements involving appropriated fund contracts are payable from the Judgment Fund, subject to reimbursement from agency appropriations. The Fund also is available for awards and settlements involving discriminatory conduct by an Agency (such as DoW) under statutes identified in the Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002, ” commonly known as the No FEAR Act. Reimbursement of No FEAR Act Judgments. As provided for in 5 CFR § 724, Subpart A, DoW Components must reimburse the Judgment Fund for all judgments resulting from discrimination and No FEAR Act claims covered under authority of **5 U.S.C. § 2301**. Reimbursements under the No FEAR Act include reimbursements for payments of judgments, awards, or settlements with respect to discrimination and whistleblower protection cases.

8.9 Recording Government-Wide Commercial Purchase Card Obligations

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

8.10 Intra-Governmental Requisitions and Orders Placed with DoW Components or Other U.S. Government Agencies

The Treasury's **G-Invoicing** system is used to negotiate, broker, and electronically store the General Terms and Conditions (GT&C) and activity between buyers and sellers for inter- and intra-governmental reimbursable transactions. The standard Interagency Agreement form is comprised of two forms, the GT&C (FS Form 7600A) and the Order Requirements and Funding Information (Order) (FS Form 7600B). When trading partners enter orders in the G-Invoicing system, the partners leverage data in the common repository to improve accuracy in accounting and reporting. Refer to the Volume 3 Supplemental for guidance on Reimbursable Procurement, Direct Cite Procurements, Reimbursable Orders with other DoW Activities, and Modifying Reimbursable Orders.

8.11 Orders Placed with (Or Through) Defense Working Capital Fund Activities

The DoW has authority under **10 U.S.C. § 2208** and **2210**, to establish Defense Working Capital Fund (DWCF) activities to finance inventories of its supply chain management business areas and provide working capital for industrial and commercial type activities. Activities funded through DWCFs perform work for others under several different authorities. These authorities include the Project Order Act for depots, the Economy Act for reimbursable and direct citation procurements, and supply management operations (stock fund operations) that use DWCF contract authority to acquire assigned items of supply for other DoW Components. Direct citation orders placed with a DWCF must adhere to Volume 11 requirements. DWCF activities performing commercial type services charge stabilized rates rather than charges based on Economy Act actual cost methodologies. Activities performing DWCF operations can identify the transactional authority for work performed for others. Under 10 U.S.C. § 2208 and 2210, the DWCF is used for two different types of activities to include stock funds (supplies) plus goods and services. An order placed with a DWCF activity may only be for a bona fide need of the period for which the buying activity's appropriation is available.

8.12 Personal Services and Benefits Obligations

8.12.1. Obligations Recorded for Payments to Military and Civilian Employees. Record obligations for the amounts payable to military services members and civilian employees in the month in which earned. These obligations must be supported by written administrative determinations of the amounts of the liabilities incurred for personal services based on payroll or personnel records.

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

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

8.12.4. Obligations Recorded for Severance Pay to U.S. Government Civilians and Foreign National Employees. Record obligations for severance pay for U.S. Government civilian employees and foreign national employees (such as those German nationals covered by the German Tariff Agreement) on a pay period by pay period basis; that is, at the time the severance pay becomes payable, regardless of the time it is disbursed.

8.12.5. Obligations Recorded for Severance Pay Under Specified Conditions

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

8.12.5.2. In accordance with other foreign country contracts and agreements, certain foreign national employees earn a separation allowance, also sometimes called “severance pay” in some contracts and agreements, from inception of or during their employment. See the Volume 3 Supplemental for information.

8.13 Permanent Change of Station Obligations Recorded

At the time Permanent Change of Station (PCS) orders are issued for civilian and military personnel, record obligations against current appropriations for all U.S. Government authorized reimbursable expenses incidental to relocation and for estimated bookings of household goods movement and storage. The only exception is the obligation of costs for non-temporary contract commercial storage of household goods, which must be obligated either in the period in which the service is rendered or to the appropriation current at the contract award. Record an adjustment to the obligation based on the costs itemized on the traveler’s settlement voucher.

8.14 Temporary Duty Travel Obligations Recorded

Tentative obligations for temporary duty travel must be recorded from written administrative determinations, based on the travel authorizations issued, for the estimated transportation to be purchased and the estimated reimbursement to be earned by the traveler for per diem allowances, use of privately owned vehicles, and incidental travel expenses. When travel is performed under a blanket authorization (with the itinerary not definite), the amount of the tentative obligation recorded in the current month must not exceed the estimate of the travel expenses to be incurred to the end of the current month. When the period covered by the travel authorization extends beyond the end of the fiscal year, and the travel costs are being paid by means of an annual appropriation or the final year of availability of a multiple year appropriation, the amount of the recorded obligation must be the cost of transportation purchased and reimbursements earned to the end of the fiscal year.

8.15 Other Obligations

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

8.15.2. Grants and Subsidies Obligations Recorded. Record the obligation amount of a grant or subsidy when supported by documentary evidence as directed in the Volume 3 Supplemental.

8.15.3. Bid Protests or Other Challenges. Pursuant to the provisions of **31 U.S.C. § 1558**, funds available at the time of protest or other action filed in connection with a solicitation for, proposed award of, or award of such contract, remain available for obligation for 100 calendar days after the date on which the final ruling is made on the protest or other action. See The Volume 3 Supplemental Document for more information on bid protests and other challenges.

8.15.4. Foreign Currency Fluctuations.

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

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

8.15.5. Security Guard and Firefighting Services

8.15.5.1. **10 U.S.C. § 2465** prohibits the obligation or expenditure of appropriated funds for the purpose of entering into a contract for the performance of firefighting or security guard functions at any military installation or facility in the U.S., including Alaska and Hawaii. See the Volume 3 Supplemental Document for exceptions to this prohibition.

8.15.5.2. **10 U.S.C. § 2687**, the Defense Base Closure and Realignment Act of 1990, as amended, authorizes special procedures for providing security guard (or firefighting) services 180 days before an installation closes under the Base Realignment and Closure initiative.

8.16 Unrecorded Obligations

8.16.1. Dollar Threshold for Obligations Identified as Not Recorded. Apply the following guidance when the accounting office identifies an obligation incurred but not recorded in the official accounting records, and the accounting office is in possession of a valid obligating document (as specified in paragraph 8.16.2).

8.16.2. Document Verification

8.16.2.1. The accounting office must verify the document was not previously recorded under the applicable obligation reference number indicated.

8.16.2.2. The accounting office must verify if the obligation was recorded at an amount less than the face value of the obligating document or Electronic Data Interchange (EDI) representation.

8.16.3. Recording

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

8.16.3.2. If the dollar amount is greater than \$2,500, the accounting office must provide the appropriate DoW Component financial manager with a copy of the obligating document(s) via e-mail, fax, upload, or use other means (retaining proof of transmission and receipt of the notification), to document the official document repository. Allow 10 calendar days for the financial manager to record the obligation or demonstrate the obligation was previously recorded. The accounting office must record the obligation on behalf of the financial manager if, within 10 calendar days, the financial manager has accounted for the obligation, the obligation is accurate, the applicable obligation was not previously recorded, or has not recorded the obligation in the accounting records.

8.16.3.3. Whenever the accounting office records an obligation for any amount, the appropriate funds holder must be notified immediately but not later than 10 calendar days of the obligation being recorded. This notification must be via e-mail, fax, electronic upload, or other documented means used for the document repository. Additionally, whenever the accounting office records an obligation, the recording must be uniquely identified, formally approved by the individual designated to provide approval authority, and cross-referenced to the obligating document. The processed obligating document must be similarly annotated. It is acceptable for an automated system to identify the source of a DFAS recorded obligation.

8.16.3.4. DoW Components must promptly record all obligations consistent with standards set forth in section 3.0. The over-recording and under-recording of obligated amounts is equally improper, as either makes it impossible to determine the actual status of an appropriation and may lead to violations of the Antideficiency Act. Over-recording and under-recording will also call into question the accuracy of agency financial statements and the propriety certifications on reports of obligations provided to Congress pursuant to *31 U.S.C. § 1108(c)* and *1501(b)*.

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

8.17 Internal Controls

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

8.17.2. Funds Holder Responsibilities

8.17.2.1. For the buyer/receiving component, the funds holder must review and validate commitments and obligations as financial transactions occur.

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

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

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

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

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

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

8.17.3. Supporting Documentation. Prior to recording an obligation, the financial manager responsible for the official accounting records of the funds holder must have supporting documentation. Information on supporting documentation can be found in the Volume 3 Supplemental Document.

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

8.17.5. Antideficiency Act Violations. When the financial manager records an obligation in accordance with this policy and it results in an apparent Antideficiency Act violation, that office immediately must initiate research to include consulting with the funds holder. See the Volume 3 Supplemental for more guidance.

8.18 Review of Dormant Accounts

8.18.1. 31 U.S.C. § 1554 mandates an annual certification of unliquidated obligations (ULO). DoW Components will implement and maintain a documented internal process for the regular, risk-based review of dormant commitments and ULOs. The risk-based review aligns our internal controls with federal law, which mandates an annual certification of ULOs, and with the risk-based assessment principles championed by the Office of Management and Budget (OMB) and the Government Accountability Office (GAO). DoW Components must also review their Unfilled Customer Orders (UFCOs). UFCOs reviews are to monitor your reimbursable activities.

8.18.2. While Components have the flexibility to design their own procedures, the process must, at a minimum, prioritize the review of dormant transactions based on risk factors such as:

Age: Transactions with no activity for more than 90 days; Materiality: High-dollar value transactions relative to the Component's overall ULO and UFCO balance; Other Risk Indicators: Transactions with known issues, problematic contract types, or those approaching their expiration or cancellation date.

8.18.3. Documentation: Components are not required to submit a report of this activity to OUSW(C) but must maintain sufficient documentation of their risk-based review process and remediation actions for audit purposes.

9.0 ACCOUNTING REQUIREMENTS FOR EXPIRED AND CLOSED ACCOUNTS

9.1 Expired Accounts

Both the obligated and unobligated balances of an expired DoW appropriation must remain available for the purpose of recording, adjusting, and liquidating obligations that are properly chargeable to that specific account until it is officially closed.

9.2 Closed/Cancelled Accounts

In accordance with 31 U.S.C. § 1552(a), any collections authorized for a DoW appropriation but not received before the account is closed must be deposited in the Treasury as miscellaneous receipts. For indefinite appropriations, policy derived from 31 U.S.C. § 1555 dictates that the account must be closed if no disbursements have been made for two consecutive fiscal years and the President or SecWar determines its purpose has been fulfilled.

9.3 Contract Change Provisions

The DoW must differentiate between contract changes and other obligation adjustments. Adjustments for items such as incentive fees or inflation are not considered contract changes and may be charged to applicable expired (but not yet canceled) accounts. For contract changes resulting from a contracting officer's final decision under the Contract Disputes Act, the policy is to apply the specific obligation adjustment rules. If a litigation judgment is paid from the Judgment Fund, it creates a new agency obligation to reimburse the fund. A specific policy, authorized by 10 U.S.C. § 8683, permits the use of expired appropriations for new obligations to cover unusual cost overruns on ship overhauls, maintenance, and repair. This authority is limited and cannot be used beyond the fifth fiscal year following the appropriation's expiration.

9.4 Shipbuilding and Conversion, Navy

The DoW Shipbuilding and Conversion, Navy (SCN) appropriation, while normally available for obligation for five years, is subject to a period of "extended availability." This policy, established through language in the annual appropriation act, allows for new obligations to be incurred after the initial five-year period for limited purposes, such as engineering services, tests, and other work required in the final stages of ship construction. The official period of availability for the entire appropriation is ultimately determined by the latest Obligation Work Limiting Date (OWLD) for the last vessel funded by that specific SCN appropriation. After this date, the appropriation enters a standard five-year expired status before cancellation.

9.5 Obligation Adjustment for a Contract Change Greater Than \$4 Million

An obligation must be adjusted for a contract change on an expired appropriation, where the contractor must perform additional work, and can only be incurred after approval from the Under Secretary of War (Comptroller) (USW(C)). This approval is required if the obligation would cause the total charges for a single program, project, or activity to exceed \$4 million in a fiscal year. Policy grants a specific exception for the Secretary of the Navy, who may treat this limitation as \$10 million for Navy Operation and Maintenance funds used for ship overhauls.

9.6 Obligation Adjustment for a Contract Change Equal to or Greater than \$25 Million

It is the policy of the DoW that any obligation adjustment of \$25 million or more in a fiscal year, which is for a contract change on an expired appropriation requiring additional contractor work, is subject to special handling. This policy requires that the USW(C), as the designee of the SecWar, must first submit a formal notice of intention to the Armed Services and Appropriations Committees of both the Senate and the House of Representatives. The obligation may not be incurred until 30 days have passed from the submission of this notice, provided no committee has

registered a disapproval. The policy also mandates that this notice must include the legal basis and policy reasons for making the obligation.

9.7 Replacement Contracts

The DoW must permit the use of expired funds to finance a replacement contract only if a specific set of conditions is met. First, there must be a continuing bona fide need for the goods or services, and the original contract must have been made in good faith. Second, the original contract must have been terminated either for default or for the convenience of the Government under specific circumstances (e.g., a court order or a formal determination that the award was improper due to explicit evidence that the award was erroneous and the determination is documented with appropriate findings of fact and of law). Third, the replacement contract must be for the same size and scope as the original and must be executed without undue delay. If any of these conditions are not met, policy dictates that current year funds must be used. Furthermore, if a replacement action will cause the obligation to exceed the unliquidated balance of the original contract by \$4 million, it is policy that the action must first be approved by the USW(C). If the excess amount is \$25 million or more, policy requires that a notice of intention be submitted to the congressional oversight committees at least 30 days prior to obligating the funds.

9.8 Obligation Adjustments or Payments from Current Appropriations for Closed/Cancelled Accounts

The DoW must use a sub-class account when using current appropriations to pay for obligations from a closed/canceled account. This policy mandates that such obligations are only recorded in the current account when payment is imminent in the current fiscal year. To ensure transparency, these adjustments must be clearly identified on the DD 1416, "Report of Programs." However, policy dictates that no formal reprogramming action is required for these specific adjustments, even if they cause a line item to exceed its normal reprogramming threshold.

9.9 Current Appropriations Used for Expired Appropriations with Insufficient Obligation Authority

If an expired appropriation has a negative unliquidated balance (insufficient funds), an obligation or adjustment may be charged by the DoW to a current appropriation for the same purpose. However, policy strictly prohibits charging a current appropriation if a sufficient balance actually exists in the expired account. If a subsequent review finds that sufficient funds were, in fact, available in the expired account, any charge made against the current account must be reversed. Furthermore, policy dictates that this action can only be taken if the obligation is not properly chargeable to any other current DoW appropriation under the transitional provisions of 31 U.S.C. § 1553(b)(1). Finally, the total amount charged to a current appropriation under this policy may not exceed an amount equal to one percent of the total appropriation for that current account.

9.10 Collection Credits After an Account is Closed/Cancelled

Valid accounts receivables with negative unliquidated obligations must not be written off simply because an associated appropriation has closed or canceled. Policy dictates that these proprietary accounts must be maintained until the debt is either settled by the debtor or properly

closed in accordance with the guidance in Volume 4. Furthermore, as required by 31 U.S.C. § 1552, if collections that were authorized to be credited to an account are received after that account has closed, it is policy that those funds must be deposited into the Treasury as miscellaneous receipts.

9.11 Exceptions to an Account's Period of Availability for Adjusting and Liquidating Obligations

9.11.1. All appropriation accounts are subject to standard closure and cancellation requirements unless specifically exempted by statute. In accordance with 31 U.S.C. § 1557, a provision in an appropriations act can exempt an account and fix its period of availability for expenditure only for a specific FY. To be valid, such a statutory provision must identify the specific account, state that it remains available for recording and adjusting obligations and explicitly extend the availability of its obligated balances. Policy dictates that this special authority should only be requested when historical data shows that paying old balances from current funds would regularly exceed the one percent limitation or would severely impact the current program. In the absence of a specific legislative extension, it is DoW policy that Components may request a re-appropriation of closed/canceled balances, and any resulting re-appropriation is to be treated as new budget authority.

9.11.2. Availability for expenditure of a specific account may be changed only through specific legislation. This authority should only be requested when historical data shows that paying old balances from unexpired funds would regularly exceed the one percent limitation or would severely impact a current program. In the absence of specific legislative authority to extend an account, it is DoW policy that Components may request a re-appropriation of closed/canceled balances. Policy dictates that the receipt of a re-appropriation is to be treated as adding new budget authority.

9.12 Antideficiency Act Violations

DoW Components must investigate and report potential Antideficiency Act (ADA) violations when limitations are exceeded. An ADA violation can occur when an obligation from an expired account with insufficient funds is charged to a current appropriation. Detailed ADA investigation and reporting policy is specified in Volume 14.

9.13 Control, Reporting, and Certification Requirements

9.13.1. In accordance with 31 U.S.C. § 1554(a), any audit requirement, limitation on obligations, or reporting requirement applicable to an appropriation continues to apply even after its period of availability for new obligations has expired and after the account has been officially closed. If an appropriation act contains a limitation on the obligation of funds for a program, project or activity, or other purpose; that limitation continues during the five-year period after the period of availability for new obligations expires. DoW policy also mandates that Components must establish and test internal controls to ensure an adequate review of obligated balances, as required by OMB Circular No. A-123, Appendix A. Proper general ledger controls must be maintained for all valid unpaid obligations and accounts receivable in closed/canceled accounts. Policy dictates that closed/canceled obligations can only be posted to unexpired accounts when a

disbursement is imminent in the current year. All related records must be maintained according to the policy in Volume 1.

9.13.2. Under the provisions of 31 U.S.C. § 1554, the SecWar (or his designee) must submit a comprehensive annual report to the President and the Secretary of the Treasury concerning the status of appropriation accounts (unliquidated obligations, unobligated balances, closed/cancelled balances, and adjustments). This report must include an itemization of appropriation accounts, a descriptive list of each appropriation, details of payments made from current accounts for closed account obligations (per 31 U.S.C. § 1553), and identification of all balances that were closed/canceled on September 30th (per 31 U.S.C. § 1552(a)). The report must also identify any indefinite appropriations that were closed because their purpose was fulfilled (per 31 U.S.C. § 1555). A key policy element is the requirement for a certification from the DoW Components that all obligated balances reflect properly existing obligations and that all expenditures were proper.

9.14 Other Requirements

9.14.1. Apportionment Procedures. The SF 132, "Apportionment and Reapportionment Schedule," must include a footnote stating that up to one percent of the original appropriation or the unobligated balance, whichever is less, may be used for obligation adjustments from closed/canceled accounts. If a supplemental appropriation is enacted, a reapportionment of this one percent amount may be requested.

9.14.2. Unliquidated Obligations. All unliquidated balances in expired accounts must be reviewed prior to an account's closure, and any amount not supported by documentary evidence must be de-obligated. Financial and program managers at all levels are responsible for ensuring all transactions are appropriately concluded. This includes ensuring that if services or materials remain undelivered at the time of expiration, they are subsequently delivered or, if not, that action is taken to terminate the contractual obligations to maintain the integrity of the funds. Furthermore, policy requires that uncompleted contracts, uncollected receivables, and uncollected travel or pay advances must be actively reviewed to ensure their validity.

9.14.3. Payments After Closure/Cancellation of Appropriations. Payment against a closed/canceled appropriation is prohibited until the disbursing office obtains a currently available appropriation from the funding activity. Finally, the write-off of an uncollectible reimbursement receivable is treated as a reclassification to a direct program obligation, and the specific accounting entries can be found in the DoW USSGL Transaction Library.

9.14.4. Closing/Cancelling an Account with a Negative Balance. DoW Components must clear the negative balance and establish a receivable for the amount of the negative balance before the account can be closed.

9.14.5. Accounting for Uncollectible Accounts Receivable in Closed/Cancelled Accounts. When an appropriation account is closed or canceled, the corresponding budgetary accounts for its accounts receivable must also be closed, and this action does not change the total obligations within those budgetary accounts. A key policy is the treatment of uncollectible receivables: the

write-off of an uncollectible reimbursement receivable must be treated as a reclassification of that obligation from the reimbursable program to a direct program obligation.

9.14.6. Correction of Reporting Errors in Closed/Cancelled Accounts. The DoW must permit the correction of two specific categories of errors in closed/canceled accounts: clerical errors (such as misplaced decimals or transposed digits) and errors made in classifying a payment prior to account closure that were not discovered until after. In accordance with OMB Circular No. A-11, section 130.16, policy requires that certain complex correction requests must be supported by a written, standalone legal opinion from the Component's Office of General Counsel. This applies when the request involves the redistribution of offsetting collections or gross outlays between a closed Treasury Appropriation Fund Symbol (TAFS) and an expired TAFS.

10.0 UNMATCHED DISBURSEMENTS, NEGATIVE UNLIQUIDATED OBLIGATIONS, AND IN-TRANSIT DISBURSEMENTS

10.1 Matching Disbursements to Obligation

A disbursement must be matched to its corresponding, detail-level obligation and recorded as promptly as current systems and business practices permit. Many obligations and disbursements are matched automatically via the Department's various system interfaces. However, some obligations and disbursements are required to be manually matched, mainly due to non-automated processes or the rejection of transactions by automated systems. When a disbursement is recorded in the accounting system but not matched to an obligation, the disbursement results in a UMD. When a disbursement is recorded in the accounting system and is matched to an obligation, but the amount of the disbursement exceeds the amount on the recorded obligation, the amount of the disbursement in excess of the applicable obligation results in a NULO. After performing due diligence research IAW section 1105, obligations must be established and recorded for all UMDs and NULOs no later than September 30 of the year that the cited appropriation is scheduled to be closed regardless of the date that the disbursement was made. Fund holders must participate in the resolution of both UMDs and NULOs as both affect funds availability and have Antideficiency Act (ADA) implications. UMDs and NULOs must also be included in the Dormant Accounts Review.

10.1.1. UMD and NULO Research Requirement. Research and correction actions must begin as soon as it is apparent that a disbursement transaction has resulted in a UMD or a NULO. The accounting office involved must immediately determine whether the disbursement is a valid charge to the fund holder, and whether a matching obligation transaction is recorded under a different or incorrect document number. If the disbursement is not a valid charge to the fund holder, the accounting office and the fund holder must reject the disbursement. If a matching obligation is recorded under an incorrect document number, the fund holder must immediately correct the document number, thus allowing for the proper matching of the disbursement to its corresponding, detail-level obligation. If an accounting adjustment affects a contract payment, contract reconciliation must be performed IAW Volume 10.

10.1.2. Record an Obligation for Unresolved UMDs and NULOs. Immediately notify the fund holder of applicable UMDs or NULOs. If research efforts fail and the condition is not corrected, advise the fund holder of the requirement to establish a matching obligation within the

timeframes delineated in paragraph 110501. If the fund holder fails to record an obligation, the accounting office must elevate the issue IAW subparagraphs 110501.A.3 or 110501.B.4 as applicable.

10.1.3. Establish Obligations for UMDs and NULOs at the Transaction Level. Disbursements must be matched to their corresponding obligation at the detail transaction level. After performing due research, obligations recorded for UMDs and NULOs must be recorded at the detail transaction level as follows:

10.1.3.1. An obligation in the amount of the disbursement must be recorded at the transaction level for UMDs.

10.1.3.2. An obligation adjustment in the amount of the disbursement in excess of the applicable obligation must be recorded at the transaction level for NULOs.

10.2 Overaged UMDs/NULOs

10.2.1. Current and Expired Accounts

10.2.1.1. Unobligated overaged NULOs and UMDs have the first claim to the unobligated balances in any of the current and expired accounts. New obligations, or new upward obligation adjustments, may be executed only when and to the extent that there is an unobligated balance remaining in an account after all overaged NULOs and UMDs have been obligated. Thus, no new obligations or obligation adjustments may be incurred in the account to the extent that unobligated balances in such accounts are zero, or overaged NULOs and UMDs (if they are obligated) when added to obligated balances, would exceed the availability in such accounts.

10.2.1.2. DoW Components may continue to research overaged NULOs and UMDs without the need to initiate an investigation of a potential ADA violation.

10.2.1.3. If an account is obligated fully (but not overobligated) and has unresolved overaged NULOs and UMDs that, if obligated, would exceed the availability in an account, payments may continue, provided the account is not in danger of exceeding the unexpended balance (resulting in an overdisbursement). If an overdisbursement occurs, payments from the account must stop immediately, and the DoW Component involved must accomplish actions required for a potential ADA violation IAW Volume 14.

10.2.1.4. Should a new obligation or obligation adjustment be incurred in an account that has been obligated fully as a result of unresolved, overaged UMDs or NULOs, such an obligation must be recorded even though it will result in recorded obligations in excess of available resources.

10.2.1.5. Must not be construed as authorizing a delay in (1) the recording of an executed obligation that would result in an overobligation or (2) the requirement to conduct an investigation of a potential ADA violation that results from any action other than the sole requirement to obligate amounts for UMDs and NULOs.

10.2.3. Accounts Closed/Scheduled to Close at Fiscal Year-End

10.2.3.1. Obligations must be established no later than September 30 by all DoW Components for all UMDs, NULOs and in-transit transactions in appropriations scheduled to close at the end of the current fiscal year.

10.2.3.2. If such obligations result in obligations in an excess of available funds, the DoW Components must resolve the negative balance and report to Treasury within two months but no later than the end of the current fiscal year.

10.2.3.3. If the account is not returned to a positive balance within 60 days, the DoW Component involved must accomplish actions required for initial identification and investigation of a potential ADA violation IAW Volume 14.

10.2.3.4. Each administrative subdivision of an appropriation carries with it the responsibility for any potential or actual ADA violation. A DoW Component has the right to modify the number or level of administrative subdivisions within an appropriation before the closure of an appropriation. However, once an appropriation closes, no further modification or change may be made in the number or level of administrative subdivisions. Further, the modification of number or level of subdivision does not override the requirements in Volume 6 regarding the level of reporting on the *Appropriation Status by Fiscal Year Program and Subaccounts (Accounting Report Monthly 1002)*.

10.2.3.5. A new cash disbursement, which would be chargeable (both as to purpose and amount) to an appropriation except that the appropriation is closed, must be paid from an appropriation that currently is available for the same purpose. However, a proposed payment may not exceed the:

10.2.3.5.1. Unexpended balance of the closed appropriation.

10.2.3.5.2. Unobligated balance of the currently available appropriation charged.

10.2.3.5.3. One percent limitation, discussed in subparagraph 110402.F.

10.2.3.6. The cumulative amount of payments charged to a currently available appropriation, because the original appropriation(s) that otherwise would have been charged has been closed, may not exceed one percent of the total amount appropriated to the currently available appropriation being charged. If it exceeds the one percent limit, the office funding the proposed payment (contract) must contact the Military Department Assistant Secretary for Financial Management and Comptroller (FM&C) or Defense Agency Comptroller for referral to the OUSW(C), Deputy Chief Financial Officer (DCFO) for appropriate disposition.

10.2.3.7. Corrections of payments involving closed appropriations must be processed as inter- and intra-appropriation adjustments. Such corrections generally do not require the obligation of currently available funds or deposits to the Treasury miscellaneous receipts account if the payment occurred before the closure of the applicable appropriation, or appropriations available for new obligation already have been charged properly.

10.2.3.8. Inter- and intra-appropriation adjustments to correct accounting records must not be accomplished by using a cash disbursement or cash collection.

10.2.3.9. A potential ADA violation must be reported and a preliminary investigation initiated if posting an adjustment to a current, expired or closed appropriation would result in either (1) a negative unobligated balance or (2) disbursements that are in excess of the amount appropriated, at either the appropriation level or a portion thereof that has been subdivided. See Volume 14 for ADA investigations and reporting requirements.

10.2.3.10. Perpetual balances of unobligated amounts and unliquidated amounts must be maintained for each closed appropriation. If the unobligated balance or unexpended balance in a closed appropriation is negative, a potential ADA violation has occurred and must be reported and investigated.

10.2.3.11. All disbursements and collections, or adjustments to disbursements and collections, involving current, expired, or closed appropriations, must be reported to Treasury. However, a correction in which both the debit and credit entry cite a closed appropriation is not reported to Treasury.

10.2.4. Expenditure Controls. The DoW Components must work with accounting and disbursing offices to implement effective controls to prevent over-expenditures in accounts that may be in an over-obligated position or that have UMD or NULO balances that exceed the unobligated balance in the account. This action is necessary because normal controls for determining expenditure availability are based on the unexpended balance of the obligations.

10.3 Request to Discontinue UMD/NULO Research

10.3.1. Research Decision

UMDs and NULOs may continue to be researched notwithstanding the obligation of funds. For transactions of \$2,500 or less, the decision to continue (or discontinue) research is at the discretion of the fund holder. For transactions over \$2,500, the Military Department Assistant Secretaries (FM&C) or Defense Agency Comptroller, may require the fund holder to continue research action. If continued research is required of the fund holder, written approval to discontinue research must be obtained from the Military Department Assistant Secretaries (FM&C) or Defense Agency Comptroller for transactions over \$2,500. However, once the required obligation or obligation adjustment has been recorded for a UMD or NULO, DFAS must discontinue reporting the UMD or NULO regardless of whether research efforts continue.

10.3.2. Reporting Continued Research Efforts

After the research is accomplished by the accounting office and the fund holder, and the researched UMDs and NULOs are properly resolved, and/or required obligations or obligation adjustments are recorded, further research or reporting of such UMDs or NULOs is not required. If a fund manager and/or the accounting office later identify the need for an additional adjustment or correction and provide the appropriate adjusting/correcting document, the appropriate adjustment/correction must be recorded.

10.4 Correction/Posting Disbursements – Foreign Military Sales Trust Fund**Special Notification Requirements**

10.4.1. If the accounting office has not been able to resolve the transactions after discovery of the UMD or NULO condition, the transactions must be forwarded to the fund holder for resolution. For FMS, both the Defense Security Cooperation Agency (DSCA) and the fund holder must be involved in the resolution. Notify the fund holder that he or she must fund the transaction if the transaction is not properly matched within the specified timeframes. If required, prepare a draft case modification for DSCA countersignature.

10.4.2. Due to FMS case management requirements, disbursements and disbursement adjustments involving FMS funds must be coordinated with DFAS. DFAS will establish notification and approval procedures.

10.5 Processing In-Transit Disbursements**Required Documentation**

10.5.1. The applicable disbursing office or entitlement activity must use either electronic or hard copy-based processes to provide detailed supporting documentation (supplemental information) to the applicable disbursing center, accounting center, or accounting office. If adequate detailed accounting data is transmitted electronically, it is not necessary to forward paper copies unless specifically requested for a particular transaction.

10.5.2. The applicable disbursing office or entitlement activity must ensure that each in-transit disbursement transaction is supported by documentation that identifies the disbursing office and/or entitlement activity, cycle number, voucher number, appropriation/fiscal year, sub-allocation holder identifier, amount, accounting office code, obligation document number, and other information that identifies the obligation, as applicable.

10.6 Reporting Requirements

10.6.1. Data Collection Requirements. DFAS is responsible for collecting and consolidating data and reporting on the amounts and the status of UMDs, NULOs, and in-transit disbursements.

10.6.2. Monthly Reporting Requirements. The DoW Component accounting offices must transmit a status report identifying all disbursement transactions that have not been matched to an obligation to DFAS Headquarters monthly. DFAS will specify the format and detail reporting requirements.

10.7 Record Retention

DoW Components, and supporting accounting offices, must maintain an audit trail with adequate records to substantiate all transactions, amounts and actions taken with respect to the research and clearing of UMDs, NULOs, and in-transit disbursements. This includes but is not limited to determinations that selected transactions meet the criteria for discontinuing further

research, and detail and summary records of adjustments. Components must maintain these records to ensure an adequate audit trail and to respond to inquiries from organizations internal and external to the Department. See Volume 1 for DoW policy on record retention.

11.0 POLICIES GOVERNING THE USE OF THE “FEED AND FORAGE” AUTHORITY OF SECTION 3732, REVISED STATUTES (41 U.S.C. § 6301)

11.1 General Policies

11.1.1. 41 U.S.C. § 6301 authorizes MILDEPs to incur obligations for certain necessities (e.g., clothing, subsistence, medical supplies) beyond available appropriations, not exceeding current fiscal year needs.

11.1.2. 10 U.S.C. § 2204 requires the SecWar to approve scheduled obligation rates to prevent overdrafts and deficiencies, though it does not prohibit legally authorized deficiencies.

11.1.3. Volume 14 (implementing 31 U.S.C. § 1517(a)) establishes the basic administrative control system for appropriations. This system aims to restrict obligations and expenditures to available amounts or apportionments, and to fix responsibility for violations.

11.2 Provisions

11.2.1. The DoW must strictly limit its use of the authority granted by 41 U.S.C. § 6301 to emergency circumstances only. The demands of these circumstances must be such that immediate action is imperative and cannot be delayed long enough to obtain sufficient funds through normal means. Furthermore, this emergency authority will not be used to circumvent the system of administrative controls for appropriations established under 31 U.S.C. § 1517(a).

11.2.2. It is not considered practicable to define specifically the conditions and circumstances which conceivably could constitute an emergency. Each instance in which the authority of 41 U.S.C. § 6301 will be used must be determined on a case-by-case basis.

11.3 Funds Administration

Funds will be administered according to the system of administrative controls in Volume 14. This ensures that responsible officials can take timely action to prevent over-obligation of any fund subdivision, regardless of the authority granted by 41 U.S.C. § 6301.

11.4 Over-obligation

11.4.1. The over-obligation of any apportioned appropriation or fund, or any subdivision thereof, for procurement of those items in paragraph 11.1 is considered a violation of the Antideficiency Act. Two exceptions include over-obligations made during an emergency in accordance with established provisions, provided that: (1) procurements do not exceed the necessities required to relieve the emergency, and (2) these necessities do not exceed the needs of the current fiscal year.

11.4.2. When the authority of 41 U.S.C. § 6301 is used to create an over-obligation, the responsible individual must certify in writing that three specific conditions existed. These conditions are: an emergency existed within the spirit and intent of 41 U.S.C. § 6301; the over-obligation was created to meet the necessities of the period; and it was not feasible to obtain sufficient funds in advance.

11.4.3. The over-obligation must be certified and fully disclosed in the fiscal reports to the next higher level of command, indicating that the over-obligation was incurred under authority of 41 U.S.C. § 6301.

11.5 Reporting Procedures

Refer to the Supplemental Document for details on reporting all obligations incurred under 41 U.S.C. § 6301.

12.0 RECEIPT AND DISTRIBUTION OF BUDGETARY RESOURCES – DEPARTMENT LEVEL

12.1 Appropriations

Congress grants appropriations as the legal authority to incur obligations and make Treasury payments for specified purposes. An appropriations act is the most common form of budget authority and must be explicitly stated, not inferred. The availability of an appropriation is determined by its period of availability, phase of availability, and the specified amount.

12.1.1. Period of Availability. The time in which budget authority is available to incur new obligations. This period of availability is categorized into several types. One-Year (Annual) Authority is the budget authority that is available for obligation only during a single, specified fiscal year, such as that for most Operations and Maintenance appropriations. Multiple Year (Multi-Year) Authority is budget authority that is available for a period longer than one fiscal year, such as for RDT&E (most are 2 years) or Procurement (3 years), Shipbuilding and Conversion, Navy appropriation (5 years), and Military construction appropriations (5 years). No-year Authority is budget authority which remains available for obligation indefinitely and Congressionally Directed Spending, which occurs when Congress designates a portion of an appropriation for a particular purpose through legislative language within an appropriation.

12.1.2. Phases of Availability. All annual and multi-year appropriations pass through three distinct phases of availability. First is the current or unexpired phase, during which the budget authority is available for incurring new obligations, making new grants, signing new contracts, and making disbursements to liquidate the obligations. The current or unexpired phase continues for the set period of availability. No-year authority remains current until fully obligated and disbursed or returned to the general fund of the Treasury. This is followed by the expired phase, a five-year period where funds are no longer available for new obligations but can be used to adjust and liquidate existing ones, although legislation can extend this period. Finally, the appropriation enters the canceled phase. At this point, no payments can be made from the canceled appropriation, and any remaining balance is canceled. On September 30 of the fifth fiscal year after the period of availability for obligation ends for a fixed appropriation account, the account must be closed and any remaining balance is canceled (whether obligated or unobligated). Policy

does allow for an exception, per 31 U.S.C. § 1553, where valid obligations from a canceled account may be paid from a current appropriation, if these payments are strictly limited to one percent of the total current appropriation or are not chargeable to another expired account.

12.1.3. **Determination of Amount.** DoW policy recognizes that the amount of budget authority is determined by legislative language and falls into two categories. Definite Authority is the most common and is granted as a specific sum or a "not to exceed" amount. Indefinite Authority does not state a specific sum; instead, the amount is determined by a variable factor, such as the receipts collected from a certain source, the specific amount of which is determinable only at some future date, or it may appropriate such sums as may be necessary for a given purpose.

12.1.4. **Reappropriations.** Statutory authority that extends the availability of unobligated budget authority that has expired or is about to expire.

12.1.5. **Exceptions.** Contract authority is an exception to the general rule that appropriations provide budget authority for new obligations. It allows obligations for a specific purpose, time, and amount, as defined by statute, but remains unfunded and lacks a Treasury cash balance. Agencies must always replace or liquidate contract authority using subsequent budgetary resources, typically through offsetting collections credited to the Defense Working Capital Fund (DWCF). The liquidating appropriation itself does not grant new obligational authority.

12.1.6. **Continuing Resolution (CR).** A continuing resolution (CR) is a joint resolution that provides continuing appropriations for a fiscal year when regular appropriation bills have not been passed and a program's appropriations are about to or have expired, or when the President has vetoed congressionally passed appropriations bills. A CR does not appropriate a specific sum but instead makes funds available under the same terms and conditions as the prior year's appropriation act, though it may establish new conditions. Funding is available for obligation only until the CR's specified end date or until the regular appropriation is enacted, whichever comes first. For detailed guidance, refer to OMB Circular No. A-11, Section 123.

12.1.7. **Funding Lapse or Gap.** A lapse in an agency's appropriations occurs when Congress fails to enact regular appropriations, a CR, or needed supplemental appropriations.

12.1.8. **Appropriation Warrants.** The DoW must recognize that an Appropriation Warrant, issued by the Secretary of the Treasury, is the official document that establishes the amount and period of availability of funds an agency is authorized to withdraw from the Treasury following the enactment of an appropriation. Policy dictates that under a Continuing Resolution (CR), warrants are generally not issued until the regular appropriation bill is passed. An exception to this policy is made for long-term or full-year CRs, or for those covering specific mandatory federal payments, as detailed in the Treasury Financial Manual (TFM) Volume 1, Part 2, Chapter 2000.

12.1.9. **Classification of Appropriations.** All departmental-level appropriations and other budgetary resources must be classified by appropriation account, fiscal year, and any obligation or expenditure limitations. This classification must be at the level of detail required by OSW for appropriation and fund status reporting, as specified in Volume 6. The policy is to classify appropriations in various ways based on their purpose, such as by time period, spending limits, or

authorized programs and availability to incur obligations. The official representation of this classification is the appropriation account symbol.

12.1.10. Recording an Appropriation. DoW policy states that an appropriation is not available as a financing source or budgetary resource until it has been apportioned by OMB. As soon as funds are made available for apportionment (even if a Treasury Warrant has not been issued or the full amount has not been apportioned), it is policy to recognize them in the capital as "unexpended appropriations" and among assets as "funds with Treasury." Policy further dictates that this "unexpended appropriations" account should be reduced as appropriations are used and adjusted for any other changes, such as rescissions or transfers. These accounting principles are governed by the Federal Accounting Standards Advisory Board (FASAB) Handbook, specifically the Statement of Federal Financial Accounting Standards (SFFAS) 7.

12.2 Apportionments and Reapportionments

12.2.1. The DoW must adhere to the apportionment process, which is the OMB-approved plan to allocate budgetary resources as defined by 31 U.S.C. § 1513(b). An apportionment is legally binding, and policy dictates that any obligation or expenditure that exceeds an apportionment is an Antideficiency Act violation (per 31 U.S.C. § 1517) and must be reported. Policy also requires that apportionments cannot be obligated until the amounts have been formally allotted according to OMB-approved funds control regulations. Programs must be apportioned and executed in accordance with all applicable laws, and obligations must be reconciled against the fiscal year in which the expenses were incurred. Not all appropriations are apportioned. Policy recognizes that some budgetary resources may be withheld pending rescission, deferred, or are otherwise exempt.

12.2.2. Special Circumstances. During a Continuing Resolution (CR), policy requires agencies to adhere to OMB apportionments in the same way they do for regular appropriations. Typically, OMB will automatically apportion funds under a CR. For indefinite budget authority, if actual available amounts are less than anticipated, it is policy to deduct the difference from the apportioned amounts unless a different treatment is specified or a reapportionment is initiated. Per OMB Circular No. A-11 (Section 120), a downward reapportionment for reduced budgetary resources is not required unless OMB specifically directs it.

12.3 Contract Authority – Other Budgetary Authorizations

12.3.1. Congress finances federal programs by granting budgetary authority, which enables agencies to incur financial obligations that lead to government outlays. As defined by the Congressional Budget Act, budgetary authority encompasses not only appropriations but also contract authority, borrowing authority, and spending authority from offsetting collections.

12.3.2. Contract authority, granted by Congress through an authorizing statute, allows an agency to incur obligations in advance of an appropriation. These obligations are typically liquidated by anticipated receipts or offsetting collections. Per 41 U.S.C. § 6301, no expenditures can be made against these obligations until funds are either specifically appropriated or otherwise become available. Contract authority can be current or permanent, definite or indefinite, and its period of availability will align with the fiscal year covered by the appropriation act. Definite

authority is a legally prescribed amount of new authority for the fiscal year. Authority is considered definite when the law provides a specific ceiling or a "not to exceed" amount. Indefinite authority is not predetermined; instead, the amount of authority is equal to the new obligations incurred during the fiscal year. Though typically accounted for through a no-year appropriation, it must be apportioned each fiscal year. Current authority requires congressional appropriations action on the request for new budget authority for the year involved. Permanent authority becomes available through standing law without further congressional appropriation once the budget is transmitted. Permanent indefinite authority is open-ended in both period and amount, with examples including 31 U.S.C. § 1304 (Payment of Judgments) and 31 U.S.C. § 1322(b)(2) (Refunding Erroneous Collections). Guidance for emergency military procurement (per 41 U.S.C. § 6301 and FAR), Working Capital Fund authority, and foreign military sales also fall under this category.

12.4 Transfer of Funds

When legally authorized, budgetary authority can be withdrawn from one appropriation and credited to another account or a working fund. Such a transfer is recorded as either an expenditure transfer (involving an outlay) or a nonexpenditure transfer (not involving an outlay). These transfers between appropriations, which must always be authorized by law, are used to redistribute unobligated balances for reasons such as reorganizations, congressionally authorized funding changes, or shifts in the purpose of the funds.

12.4.1. Anticipated Transfers. Appropriation transfers can be anticipated and recorded in advance. An anticipated transfer itself grants no obligation authority; it is treated as authority available for apportionment and prior-year authority and current-year authority are kept separate. Obligation authority only becomes available after the transfer is accomplished and the funds are apportioned by OMB. An agreement must be maintained between the transferring and receiving accounts, and both must record the transfer in the same accounting period. Once a transfer is accomplished, budgetary and proprietary control shifts to the receiving appropriation.

12.4.2. Expenditure Transfer. This is a transfer typically made when it benefits the transferring account. Policy dictates how these transfers are recorded: as an obligation and an outlay in the transferring account, and as an offsetting collection or receipt in the receiving account. Since expenditure transfers are treated as payments and collections, they are not applicable to departmental-level accounting entities. An expenditure transfer includes withdrawals and credits not defined as nonexpenditure, transfers between budgetary and nonbudgetary Treasury accounts such as general fund accounts and deposit accounts, and adjustments to correct errors in previous expenditure transactions.

12.4.3. Nonexpenditure Transfers. This is a transaction that does not involve an outlay but is instead recorded as a decrease in budget authority or unobligated balances in the transferring account and a corresponding increase in the budgetary authority or unobligated balances gaining account. This type of transfer category includes two specific types of actions: a transfer of estimates, which is a proposal to shift the funding of an activity between budget accounts without transferring the actual budgetary resources, and an allocation, which is a legally authorized delegation of authority from one agency to another to obligate funds.

12.4.4. Reprogramming. Shifting of funds for purposes other than those originally specified by Congress or to reclassify funds for proper execution.

12.4.4.1. Below Threshold Reprogramming Action. Action that provides DoW Components with the flexibility to realign funds within congressionally prescribed limits, and approved funding to satisfy unfunded requirements.

12.4.4.2. Above Threshold Reprogramming Actions. Action of reallocating funds when established congressional approval thresholds are exceeded, which requires prior approval from congressional committees. In addition, the Department uses internal reprogramming actions to transfer funds from various accounts that Congress has established with its own specific transfer authority (e.g., Environmental Restoration) or to realign/transfer funds for proper execution of a congressionally approved program.

12.5 Reappropriations

Congressional action that continues the availability of all or part of the unobligated portion of budget authority that has expired or would otherwise expire. Policy dictates that reappropriations of expired balances are to be recorded as new budget authority in the year they become available. If the balance in the losing appropriation is insufficient to cover the transfer, the reappropriation may be delayed or canceled. Decisions to delay or not make a reappropriation transfer require written notification to the USW(C), within five working days of the determination. It is also policy that reappropriations providing funds to a fiscal year for which they were not previously available constitute new budget authority and therefore require a Treasury Warrant. Reappropriations of unexpired balances or those that take effect in a future fiscal year are reported as balance transfers in the year they become newly available for obligation. Unobligated balances must be withdrawn in the losing accounts from operating activities. However, an exception is made when the operating activity includes both the gaining and losing accounts and the intent is simply to extend the availability of funds for the same purpose. In this case, a formal withdrawal is not required.

12.6 Internal Fund Distributions

Apportionments are subdivided and formally distributed through a hierarchy of allotments, sub allotments, allocations, and suballocations. Detailed requirements for these subdivision levels are established in Volume 14, in accordance with OMB Circular No. A-11, Appendix H. A critical policy is that any formal subdivision of funds must carry with it all the same statutory and other limitations that were applicable to the original apportionment. Policy also requires that all formal distributions of funds must be made in writing, with the specific format determined by the issuing entity.

12.7 Interagency Distributions

For distributions of budgetary resources between agencies (interagency distributions), it is policy to use separate accounts to track the distribution and ensure the recipient agency is responsive to the issuing agency. From a consolidated accounting standpoint, policy mandates that both the issuing and receiving agencies must record the distribution in the same accounting

period. Reference Volume 11 for overarching policies regarding policies work performed or materials provided between the DoW and other Federal Agencies.

12.8 Withdrawals and Expired Balances

Withdrawal as an administrative action to remove unobligated funds from availability, as distinct from a legal rescission by Congress. A Restoration is the administrative action to make those withdrawn funds available again. A key policy, based on 31 U.S.C. § 1555, is that funds can only be withdrawn when an account closes; budget authority cannot be withdrawn from open accounts.

12.8.1. Expired Balances. Expired balances retain their fiscal year identity for five years. During this time, it is policy that the unobligated balance can only be used to adjust obligations that were incurred when the appropriation was available; it cannot be used for new obligations. After the five-year period, any remaining balances must be transferred to account 4350, Canceled Authority. A strict policy is that canceled amounts cannot be restored.

12.8.2. Nature of Expired Authority Account. Account 465000, Allotments – Expired Authority, is not a fund balance. Its purpose is to serve as a budgetary resource to ensure valid obligations from expired accounts can be met without requiring new congressional action. While transfers in and out of this account do not affect the Treasury's cash position, related proprietary transactions do impact the Fund Balance with Treasury (account 101000).

12.9 Indefinite Appropriations

It is the policy of the DoW to recognize indefinite appropriations as a type of appropriation where a definite amount is not stated but is instead determined by subsequent events, such as the collection of receipts. An example of this is the receipts under the Federal Account Symbol and Title 5095.001, Sale of Hunting and Fishing Permits, Military Reservations, are permanently appropriated for the Army to spend under appropriation account 21X5095, Wildlife Conservation, Military Reservations, Army. Policy dictates that these funds, even if based on the collection of receipts, cannot be accessed until the Treasury issues a warrant or the authorized amount may be specified as the amount obligated for a specific purpose. It is also policy that anticipated amounts from indefinite appropriations must be reported as "anticipated budgetary resources" until the funds are realized. A critical element of this policy is that these anticipated balances, while reported on the SF 133, should not be recorded as currently available for obligation.

12.10 Other Account Adjustments and Closing

12.10.1. Account Adjustments. At the end of the availability period, all undistributed or unobligated budget authority at the execution level must be returned to the departmental level for financial reporting.

12.10.2. Notification from Lower Levels. It is the policy of the DoW that the departmental-level accounting entity must be informed of specific adjustments and account balances from intermediate and execution levels for financial reporting purposes, as specified in Volume 6. This policy ensures transparency and accuracy in financial reporting across all levels.

12.10.3. Account Closing. At year-end, the Treasury requires specific post-closing entries to be made to certain accounts. These closing transactions are critical for financial management, serving to establish beginning balances for accounts with no fiscal year activity and to zero out balances that recorded current-year activity. For direct funds, record unobligated budget authority for unexpired appropriations, close unobligated balances to expired authority, reduce realized appropriations by rescinded appropriations, and close both accomplished and realized appropriation transfers. No closing entries must be made for the reimbursable program at the departmental level.

13.0 RECEIPT AND DISTRIBUTION OF BUDGETARY RESOURCES INTERMEDIATE-LEVEL

13.1 Standards for Recording and Distribution

Many DoW Components, like the Military Departments, are structured in three or more echelons. Budget authority for General Fund direct appropriations is recorded at the Department level (Headquarters), issued to intermediate-level organizations (Major Commands), and then distributed to execution-level organizations (field level) for program implementation. This section sets the standards for recording the receipt and distribution of direct budgetary resources using intermediate-level accounts. These accounts track fund distributions (like allotments) from the Department level to intermediate organizations and then down to execution activities. The guidance in this section does not apply to two-tiered structures (e.g., Defense-wide appropriations) or to reimbursable budget authority, which is covered in Volume 11.

13.2 Required Notification and Reporting

The intermediate-level accounting activity must notify the department-level accounting entity of direct program authority that is not distributed to the execution-level (account 456000, Funds Available for Allotment). After preparation of the prescribed budget execution reports, accounting entries must be made, at the expiration of the period of availability (PoA) for obligation, to close expended amounts to the authorizing account for the expenditures and to withdraw any remaining program authority.

14.0 RECEIPT AND DISTRIBUTION OF BUDGETARY RESOURCES – EXECUTION LEVEL

Execution-level budgetary and proprietary accounts track the receipt of funds from higher authorities, such as the OSW, and their subsequent distribution, including the subdivision of the allotment (sub allotment, allocation, or suballocation) between a major command and an execution-level activity or among execution-level activities. This section establishes the standards for recording these financial activities, including allotments, commitments, and obligations, which often require entries in both budgetary and proprietary accounts. This section outlines the accounting standards for receiving and executing allotments, commitments, obligations, reimbursements, and borrowing authority.

14.1 Budget Execution Requirements

According to DoW policy, formal subdivisions of budgetary authority, such as allotments, sub allotments, allocations, and suballocations authorize the receiving entity to incur obligations up to a specified amount. These subdivisions must include the same statutory limitations and availability constraints as the original apportionment from the OMB. To ensure congressional intent is met, accounting entities are required to track the obligations and expenditures of any funds designated for a specific purpose.

14.2 Budgetary Commitments

An agreement with the OMB requires commitment accounting for Procurement, Military Construction, and Research, Development, Test, and Evaluation (RDT&E) appropriations. However, this is not required for small purchases if they are not significant to the overall management of funds. While commitment accounting is optional for Operation and Maintenance, military personnel, and revolving fund accounts, agencies may use it if it proves cost-effective. All commitments represent an administrative reservation of funds, and any outstanding commitments must be closed or canceled by the end of the period when the appropriation is available for new obligations, as they cannot exist in an expired appropriation account.

14.3 Obligations

Obligations are legally binding commitments that will require payments. They represent the amounts of orders placed, contracts awarded, and services received which will require payment in the same or future period. These amounts also include obligations that organizations did not previously record and adjustments for any differences between previously recorded obligations and the actual payments made to liquidate them. Furthermore, any reductions or cancellations of prior-year obligations in no-year and unexpired multi-year accounts must be reported in budget execution reports, see Volume 6.

14.4 Reimbursements and Refunds

14.4.1. Reimbursable obligations are those financed by offsetting collections for goods and services provided, which must be authorized by law to be credited to a specific appropriation or fund account. The USW(C) authorizes this reimbursable authority through budget formulation and statutory authorization of the budget. Generally, unless an exception applies, collections are deposited into the Treasury as miscellaneous receipts. To record an obligation and an outlay in the current fiscal year for returned cash advances, other offsetting collections, or special or trust fund receipts received in a prior fiscal year, follow the guidelines in OMB Circular No. A-11.

14.4.2. Refunds, such as those for overpayments or payments made in error, are treated as reductions to previously recorded expenditures. Any amounts collected that exceed the refund amount, such as interest or penalties, must be deposited in the Treasury as miscellaneous receipts. It is important to note that items returned to Defense Working Capital Fund (DWCF) supply activities are classified as recoveries, not refunds. Except for refunds, agencies must deposit such collections in the Treasury as miscellaneous receipts unless a law authorizes the deposit to an appropriation or fund. Agencies may credit refunds related to the use of Government purchase and travel cards, as well as Government travel arranged by Government Contracted Travel

Management Centers, to the Operation and Maintenance and Research, Development, Test, and Evaluation accounts that are current when they receive the refunds. Volume 11 contains the general policy statements regarding work performed or materials provided between the DoW and other Federal agencies.

14.4.3. Anticipated Reimbursements. Anticipated reimbursements are estimates of funds expected to be earned during the fiscal year and are subject to OMB apportionment based on customer orders or services received or provided. This authority does not grant the power to incur obligations; a customer order must be formally accepted to create obligational authority, unless specifically authorized by statute. The allotment of anticipated reimbursable authority only provides the authority to accept reimbursable orders, not to obligate funds. It is the accepted customer order that provides the actual obligation authority. With written approval from the OMB a DoW Component can treat its reimbursable authority as “automatic,” which removes the need for it to be specifically allotted. OMB approval is granted when the criteria for automatic apportionment are met, as outlined in Volume 3.

14.4.4. Customer Orders. Obligation authority is established only when a customer order is formally accepted in writing. Volume 11 outlines the written requirements used to document these requests and acceptances. Unfilled customer orders represent the value of accepted agreements within the U.S. Government to provide goods and services on a reimbursable basis. While an allotment of reimbursable authority is necessary to accept orders, it does not grant obligational authority on its own. For transactions with the public, payment must be collected in advance unless a specific statute permits otherwise. When handling reimbursable orders between federal agencies, if both entities use multi-year appropriations, the performing agency must record the obligation against its own multi-year account with a corresponding period of availability. However, if the agencies' appropriation accounts have different lifecycles (e.g., a one-year appropriation filling a multi-year order), the transaction must be handled in accordance with OMB Circular No. A-11. For specific guidance on Economy Act orders, refer to Volume 11.

14.4.5. Unearned Revenue. Unearned revenue is payment received before goods or services are delivered.

14.5 Earned Reimbursements

An earned reimbursement is recognized when a performing organization renders actual or constructive performance on a reimbursable order. At this point, compound entries are made to record performance and earnings in both budgetary and proprietary accounts. Generally, all cost elements outlined in Volume 11 must be recovered through these reimbursements, although other DoW issuances may authorize different billing prices.

14.6 Borrowing Authority

Borrowing authority is a form of budget authority that allows an entity to incur obligations and make payments for specified purposes using borrowed money. When the U.S. Government acquires property subject to a mortgage, the mortgage balance is included in the accrued expenditures. Conversely, when it sells a property and a buyer assumes the mortgage, that balance is included in accrued revenues. The government may also hold a second mortgage, which is

treated as revenue from the sale. Officials must ensure that the total acquisition cost of the property and the mortgage assumed align with Volume 6.

14.7 Account Adjustments

14.7.1. At the end of the fiscal year, DoW Components must ensure their obligational authority and recorded obligations are accurately stated based on the most current information available. This involves a thorough review and adjustment of all open financial transactions.

14.7.2. Adjustments to Expiring Accounts. At fiscal year-end, all outstanding commitments in expiring appropriation accounts must be canceled, as commitments are not permitted in expired accounts. For completed customer orders, any obligational authority from reimbursable authority that exceeded the actual cost of performance must be restored. Any earned amounts that remain uncollected from an expiring account must be moved to a miscellaneous receipt account for future deposit. Additionally, any unused cash advances from non-Federal customers must be returned.

14.7.3. Adjustments to Canceled Appropriation Accounts. Officials must cancel all obligations (undelivered orders and unpaid obligations) and uncollected reimbursements before making normal closing entries.

14.7.4. Report Preparation and Closing. After completing all adjustments, prepare budget execution reports as specified in Volume 6. Once the reports are finished, close the obligational and reimbursable authority.

14.8 Expired and Canceled Accounts

For five years after an appropriation expires for new obligations, its remaining balances can be used to adjust and liquidate obligations properly chargeable to that account. On September 30th of the fifth fiscal year, any remaining obligated and unobligated balances must be canceled, rendering them unavailable for any purpose. If an obligation needs to be paid from a canceled appropriation, it can be charged to a current appropriation available for the same purpose. However, the total of all such payments from the current appropriation is limited to the lesser of the unexpended balance of the canceled, the unexpired, unobligated balance of the currently available appropriation, or one percent of the original amount of the current appropriation.

14.9 Expired Authority

Expired authority includes both unobligated balances and obligated but unliquidated balances in appropriations where the period for incurring new obligations has ended. Separate accounts must be maintained for each expired appropriation for five years after its period of availability for obligation ends.

14.10 Canceled Authority

On September 30th of the fifth fiscal year after an appropriation's period of availability ends, the agency must close the fixed appropriation account and cancel any remaining balance (whether obligated or unobligated) in the account must be closed, and any remaining balance is

canceled. After this point, the funds are no longer available for any obligation or expenditure. However, the obligational status of the canceled account must be continuously maintained. Any collections that were authorized but not received before the account was closed must be deposited into the Treasury as miscellaneous receipts. If it becomes necessary to pay an obligation from a canceled account, a current appropriation available for the same purpose may be used. When using a current appropriation to pay for an obligation from a canceled appropriation, the payment is limited to the lesser of: The unexpended balance of the canceled appropriation; the unexpired, unobligated balance of the current appropriation; or one percent of the current appropriation being charged. If payments exceed this 1 percent limit, the agency must seek additional authority from Congress. Furthermore, if cash collections do not cover reimbursable obligations from a canceled account, those obligations must be paid using the direct unobligated authority that existed in the account when it was closed.

15.0 ACCOUNTING REQUIREMENTS FOR MILITARY CONSTRUCTION PROJECTS

A military construction project encompasses all necessary work to create a complete and usable facility or a complete and usable improvement to an existing facility, including any portion specifically authorized by law. The authority to carry out such a project includes a broad scope of activities, such as surveys and site preparation; the acquisition, conversion, rehabilitation, and installation of facilities; the acquisition and installation of equipment and appurtenances integral to the project; the acquisition and installation of supporting facilities like utilities; and all planning, supervision, administration, and overhead incident to the project.

15.1 Authorization Requests

Guidance for submitting military construction projects for authorization is provided by the Assistant Secretary of War for Energy, Installations, and Environment (ASW(Sustainment)), in conjunction with the OUSW(C). Authorization requests are limited to work expected to be executed within the requested fiscal year. These requests must be supported by detailed data on the project's physical capacity, estimated costs, and location. This information must be accompanied by comparative data on existing property and future projects, along with details on approved missions and forces. Finally, the request must distinguish the portion of the project for immediate authorization from any portion being deferred.

15.2 Authorization Guidance and Restrictions

Congressional authorization acts for major construction programs typically set cost limits for each installation or type of work. Overruns may be authorized within stated percentages, provided the total appropriation is not exceeded. Major construction projects require specific authorization in a military construction authorization act unless the work is carried out under other legal authorities, such as those provided in 10 U.S.C. § 2803-2805. Conversely, minor military construction projects cannot exceed the statutory cost limits defined in 10 U.S.C. § 2805 without specific Congressional approval. The general authority to carry out a military construction project is provided by 10 U.S.C. § 2802.

15.3 Appropriation Requests

The authorization and appropriation process for individual Military Family Housing projects is governed by 10 U.S.C. Chapter 169, Subchapter II. Military construction appropriations are generally available for obligation for five fiscal years. All appropriation requests must be consistent with existing or pending authorizations and must include specific budget estimates for projects requiring legislative authorization. For reprogramming, all requests must align with the amounts appropriated for specific projects, and the total reprogrammed amount cannot exceed the total annual appropriation. Funds may be sourced from projects completed under budget; however, the amount available for reprogramming from any single project is limited to the new total cost that was included in the estimate provided to Congress.

15.4 Obligation and Expenditure Restrictions

In accordance with DoW policy, all appropriated funds are subject to regulations regarding the administrative control of funds and the provisions of the Antideficiency Act. An adequate system of funds control must be established to ensure projects are executed consistently with their authorized purpose and within available funding. While the cost estimate for a project approved by Congress is not a separate statutory cost limitation, any major physical or financial changes to previously approved projects must be reported in advance to the House and Senate Appropriations Committees and the House National Security and Senate Armed Services Committees for their approval after proper clearance within the Department and OMB. Limitations are applied at the project level for major construction and at the budget activity level for minor construction, planning, and design. DoW Components have limited authority to realign resources between projects, and all separate cost limitations imposed by congressional or administrative action must be observed at every level of program execution.

15.4.1. Intergovernmental Construction Work or Services

15.4.1.1. When performing construction or services for another DoW Component or federal agency, Military Departments must use reimbursable agreements under the Economy Act whenever practical. This requires using the latest versions of the standard Interagency Agreement forms (FS Form 7600A and FS Form 7600B), which must mandate periodic billings supported by cost documentation. All DoW Components must also comply with Federal Intragovernmental Data Standards, whether using Treasury's G-Invoicing system, other enterprise systems, or completing the forms manually.

15.4.1.2. In accordance with DoW policy, any Construction Agent wishing to use suballotments instead of the standard FS Forms 7600A/B must first submit a detailed action plan to the Deputy Chief Financial Officer (DCFO) and receive approval. If approved, the agent is then required to adhere to strict financial management and reporting standards to ensure financial integrity, auditability, and proper accounting for all project costs from funding receipt through asset transfer and contract close-out. This includes using independently validated financial systems, providing complete and reconciled monthly trial balances to customers and the Defense Finance and Accounting Service (DFAS), and maintaining full transparency of their end-to-end business processes for all military construction projects.

15.4.1.2.1. To ensure financial integrity, use independently validated financial management systems that are compliant with both the Federal Information System Controls Audit Manual (FISCAM) and the Federal Financial Management Improvement Act (FFMIA). The system must meet all relevant control objectives, including both Information Technology General Controls and application controls to be FISCAM Compliant. The system must meet federal financial management system requirements (e.g., the OMB Circulars A-127 and A-130), applicable federal accounting standards (e.g., SFFAS, OMB Bulletin 19-03), and the U.S. Standard General Ledger (USSGL) at the transaction level to be FFMIA Compliant.

15.4.1.2.2. Monthly, U.S. Standard General Ledger (USSGL) and Standard Financial Information Structure (SFIS) compliant trial balances must be provided to each customer and to the Defense Finance and Accounting Service (DFAS), which include both budgetary and proprietary accounts. These trial balances must be reconciled to the suballotment universe of transactions; end-to-end feeder systems such as contract writing, entitlement, and Accountable Property Systems of Record; the Defense Departmental Reporting System (DDRS) unadjusted and adjusted trial balances; and Program Budget Accounting System funding authorizations.

15.4.1.2.3. For both major and minor Military Construction projects, you must provide comprehensive end-to-end business process and system walkthroughs, including process flows and narratives. This documentation must cover the entire project lifecycle, from the receipt of funding through the final asset transfer and contract close-out. Crucially, the process must demonstrate how all direct and indirect costs are accumulated in a construction-in-progress account, in accordance with SFFAS 6, "Accounting for Property, Plant, and Equipment." Furthermore, you must provide supporting transaction documents, such as contracts, invoices, or receiving documents, rate settlement calculations, DoD **(DD) Form 1354**, Transfer and Acceptance of DoW Real Property, and support for DDRS or accounting system Journal Vouchers, within five days of a customer request. Finally, you are required to work with customer auditors to identify and correct any audit findings, including those related to the system.

15.4.1.3. Provide a reconciliation of progress billings to actual construction in progress and provide sufficient supporting documentation for the reconciliation at least monthly.

15.4.1.4. DoW Construction Agents may perform work or services for another DoW Component or other Federal agency (i.e. Federal Emergency Management Agency) when construction or services work is a response to an emergency, under suballotments.

15.4.1.5. Funding for construction work by the transfer of appropriation accounts or by advances of funds is prohibited. Direct citation of funds (i.e. direct charge by the performing unit and/or activity to the funds of the ordering unit and/or activity) is also prohibited.

15.4.2. When work is performed on a reimbursable basis under a construction appropriation, all activities must conform to established policies. Reimbursements earned are considered an additional source of obligational authority for the appropriate budget program. Cost limitations for the performance of work must be strictly observed as defined by the terms of the customer orders received. The management and control of reimbursable programs, including budgeting and use of funds, is retained at the Military Department level.

15.4.3. The authority for the Army, Navy, and Air Force to procure architectural and engineering (A&E) services for public works and utilities projects is provided by 10 U.S.C. § 7540, 8612, and 9540. These statutes limit the cost of A&E services from outside sources to no more than 10 percent of the project's estimated cost. This 10 percent limitation excludes costs for activities such as design reviews, advertisements, preparation of invitations for bids, requests for proposals, land survey, soils and/or other investigations and model studies, determination of program or project requirements, design development criteria, environmental impact statements and supporting data, or travel and per diem.

15.5 Planning and Design

Under 10 U.S.C. § 2807, the Secretary is authorized to obtain architectural and engineering (A&E) services and perform construction design for military construction, family housing projects, and projects undertaken in connection with the authority provided under 10 U.S.C. § 2854 not otherwise authorized by law. These design activities can proceed without specific congressional authorization for the project, as long as the estimated design costs do not exceed \$1 million. If the estimated costs for these services exceed \$1 million, the Secretary must notify the appropriate congressional committees before obligating funds. The funds can only be obligated after a 14-day waiting period following this notification pursuant to 10 U.S.C. § 480. This requirement applies to both active and reserve components.

15.6 Scope of a Military Construction Project

In accordance with DoW policy, all land acquisitions, regardless of their cost, are categorized as military construction projects. A military construction project encompasses all construction or authorized contributions required to create a complete, usable facility or an improvement to an existing one, as specifically authorized by law. Military construction project funding includes only equipment that is installed in and becomes a permanent part of the real property. All production equipment and movable equipment are specifically excluded from military construction project funding.

15.6.1. Construction work must be consolidated into single projects under specific conditions. All construction on a real property facility that serves the same or a related functional purpose must be treated as a single project. For multi-use facilities, all concurrent construction in contiguous areas must also be treated as a single project, even if the functions are unrelated. Similarly, any construction common to the facility as a whole or to areas with related purposes is considered one project. An exception exists for multi-use facilities, where construction may be divided into separate projects, but only if each resulting project can be clearly defined and produces a complete and usable facility.

15.6.2. When construction is performed concurrently with repair or maintenance work as part of an integrated undertaking, the construction portion may be treated as a separate project. When this occurs, the construction portion becomes subject to all cost limitations, notification requirements, and other regulations that apply to standard construction projects.

15.6.3. In accordance with DoW policy, the decision to define related construction efforts as either a single project or multiple projects requires formal approval at the highest level within

the respective Military Department. This ensures strategic oversight and proper scoping of construction work.

15.7 Certifications of Costs

A formal certification of costs is required for all military construction projects. This document must detail the project's total cost, with breakdowns for each structure and by category: planning and design, supervision, construction, and real property installed equipment (RPIE). It must also identify the funding sources, including the fund type and lines of accounting, and the responsible funding organization. To formally transfer accountability, the certification must be signed by authorized representatives from both the construction agent and the acquiring entity, typically the Real Property Accountable Officer. A copy of the completed certification must be retained for record-keeping.

15.8 Project Files

A project file must be maintained for every construction project, serving as a complete historical record from its inception to completion. The construction agent is responsible for holding these historical project files and is required to provide copies to the acquiring entity.

15.9 Military Construction Projects

Specified military construction projects, or "major military construction," include any acquisition, construction, addition, expansion, extension, conversion, alteration, or replacement of facilities that exceed the legal maximum for a minor construction project, or any project, regardless of cost, approved as a specific line item in the Military Construction budget request. A major construction project includes surveys, demolition, and site preparation; the acquisition, conversion, rehabilitation and installation of facilities and integral equipment; the installation of supporting facilities and utilities; and all associated supervision, administration, overhead, and design support. Specifically excluded from major construction are those activities identified as minor construction, planning and design, or supporting activities.

15.10 Unspecified Minor Military Construction

15.10.1. Projects involving acquisition of new construction, addition, expansion, extension, alteration, conversion, replacement, or installation to permanent or temporary facilities (excluding family quarters) are considered minor construction when their cost does not exceed the statutory limits specified in 10 U.S.C. § 2805 (Active Components) or 10 U.S.C. § 18233a (Reserve Components), and they are not included as a specific line item in the budget request.

15.10.2. For other than family housing facilities, when the cost of a project is less than the amount specified in 10 U.S.C. § 2805, the project must be financed from unspecified minor construction appropriations; operations and maintenance (O&M) appropriations; research, development, test and evaluation (RDT&E) appropriations; working capital fund resources; or other resources, as appropriate. The funding source does not influence the financial statement capitalization requirements.

15.10.3. Minor construction projects previously disapproved or deleted by Congress from being proposed under minor construction authority. Each project must result in a complete real property facility or improvement. The policy also mandates that, to the maximum extent possible, each project must align with the installation master plan. Full disclosure of the project's relationship to the master plan and any further planned construction is required. Lastly, the policy strictly prohibits incremental construction through a series of minor projects.

15.10.4. Congressional notification is required before starting certain minor construction projects. For projects exceeding the cost limits in 10 U.S.C. § 18233a, funds cannot be obligated until the appropriate congressional committee approves the project. For unspecified minor construction projects costing more than \$2 million, as defined in 10 U.S.C. § 2805, the Secretary concerned must notify the appropriate committees of Congress of the decision to undertake the project, including its justification and estimated cost. A mandatory waiting period must be observed after notification before work can begin.

15.10.5. When determining if a project qualifies as minor construction under 10 U.S.C. § 2805, planning and design costs are excluded. DoW Components cannot use materials, supplies, items of installed capital equipment on a non-reimbursable basis for their own minor construction projects. Prerequisites for establishing a project include identifying the result and its correlation with the installation master plan. While absolute criteria for defining a separate minor construction project are not prescribed, any project undertaken must be consistent with the statute's intent.

15.11 Emergency and Contingency Construction

In accordance with DoW policy, 10 U.S.C. § 2808 grants the SecWar the authority to undertake military construction projects during a declared war or a national emergency that requires the use of the Armed Forces. These projects must be necessary to support the use of the Armed Forces and may only be funded using the total amount of unobligated military construction funds, including those for family housing. The Chairman of the Joint Chiefs of Staff must certify that any such project is consistent with theater basing plans and operational requirements. Any subsequent increases to the estimated project costs require coordination with the OUSW(C). This emergency authority automatically terminates at the end of the war or national emergency. Additional guidance is contained in DoDD 3025.18 and DoDD 4270.5.

15.11.1. Emergency Construction. Under the authority of 10 U.S.C. § 2803 and as further guided by DoDD 4270.5, the Secretaries of the Military Departments and Directors of Defense Agencies may carry out emergency major construction projects after notifying Congress. This authority is strictly reserved for projects that are vital to national security, health, safety, or the environment, and where the urgency is so great that deferral to the next Military Construction Authorization Act would be inconsistent with those interests. Emergency construction projects must be financed with unobligated military construction funds, and the maximum amount that can be obligated by each Military Department in a fiscal year is established in 10 U.S.C. § 2803. These projects are subject to the same restrictions and cost treatment as major construction projects. It is important to note that there is no provision for emergency construction for the Reserve Components.

15.11.2. Contingency Construction. 10 U.S.C. § 2804 and annual Military Construction Appropriation Acts authorize projects of an urgent nature to be funded from the Contingency Construction Account without specific prior congressional authorization. A project financed under this authority requires a determination that deferring it to the next Military Construction Authorization Act would be inconsistent with national security or the national interest. The use of this authority requires approval by the SecWar and written notification to the appropriate committees of Congress. Additional policy guidance is contained in DoDD 4270.5, and further requirements for the use of these funds in the U.S. Central Command and U.S. Africa Command Areas of Responsibility are prescribed in an OUSW(C) policy memorandum.

15.12 Environmental Response Actions

In accordance with DoW policy, the authority for environmental response actions is provided under 10 U.S.C. Chapter 160. The SecWar or the Secretary of a Military Department may carry out an environmental restoration project if it is determined to be necessary under Chapter 160 or the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA). Any construction, development, conversion, or extension of a structure, and any installation of equipment, included in an environmental restoration project may not be considered military construction. The sole source of funds for these activities is the Environmental Restoration Account (Treasury Fund Symbol ***X0810), except for certain Base Realignment and Closure (BRAC) sites, which must use the applicable DoW base closure account. It is policy that funds from an Environmental Restoration Account cannot be used for the payment of fines or penalties except as provided in 10 U.S.C. § 2703.

15.13 Restoration or Replacement of Damaged or Destroyed Facilities

Under the authority of 10 U.S.C. § 2854, the Secretaries of the Military Departments and the SecWar may repair, restore, or replace a facility that has been damaged or destroyed, even if specific legislative authorization and appropriation have not been provided for that purpose. These restoration or replacement projects must be financed using unobligated funds from existing appropriations.

15.14 Defense Access Roads

Under the authority of 23 U.S.C. § 210, the defense access roads program allows the federal government to fund its fair share of highway improvements essential for national defense. This includes providing access to military reservations and defense industry sites, replacing public highways closed by military activities, and repairing highway damage caused by military maneuvers or the construction of missile sites. The program also covers ensuring missile routes can support transporter-erector vehicles and repairing damage from recurrent flooding and sea-level fluctuation that impacts access to a military installation. Defense access roads, including bridges and tunnels, provide access to military reservations, to defense industries and defense industry sites, and to the sources of raw materials when such roads are certified as important to the national defense by the SecWar or such other official as the President may designate. However, roads located entirely within the boundaries of a military reservation are not eligible for these funds and must be financed through other military construction programs, emergency construction, or

minor construction programs, as applicable. Similarly, projects on the regular Federal-Aid Primary System are generally not eligible.

15.15 Relocatable Buildings

Under DoD Instruction 4165.56, relocatable buildings may be acquired and used within DoW when they are the most feasible and economical solution for short-term facility needs (typically 5 years or less) arising from peak missions, deployments, or other urgent requirements. They may also be used when the duration of a requirement is uncertain or when a recurring mobile need exists, such as the need to move a field office to different sites on a training range. Relocatable buildings can be classified as either personal property (equipment) or real property. As Personal Property, they are acquired with O&M, RDT&E, or Procurement funds. Costs for setup, disassembly, maintenance, and transport are treated as expenses and charged to appropriate appropriations. As Real Property, they are funded with either O&M or Military Construction funds, depending on the total acquisition cost, which includes the completely assembled building and all site work. Buildings that do not meet the definition of "relocatable" must be acquired as military construction. Site preparation for relocatable buildings that results in real property improvements is classified as construction.

15.16 Efforts Financed by Military Construction Appropriations

15.16.1. Funded Costs. In accordance with DoW policy, major design and construction costs are funded from applicable military construction appropriations. These costs include all materials, services, transportation, and labor (excluding U.S. military labor) relevant to the project. This funding also covers Real Property Installed Equipment (RPIE), unless it was obtained on a non-reimbursable basis from another federal entity. Additionally, identifiable installation overhead, supervision and inspection charges from USACE or NAVFAC, travel and per diem for personnel, planning and design costs for specified major construction projects, and the cost of remediating unknown environmental contamination within the project's footprint are all included. The policy also allows for the inclusion of costs for the operation and maintenance of government equipment used on the project.

15.16.2. Overhead Expenses. All military construction program overhead expenses, including work for others, are initially financed from the performing military construction appropriation and then distributed to the respective projects. This overhead includes costs for personal services and support, contract administration, program and project management (including post-construction evaluation), technical direction, land planning studies or reports, appraisal, and title search after congressional authorization of a land acquisition or exchange, and any other project management and administration costs not otherwise specified.

15.16.3. Reimbursable Project Costs. In accordance with DoW policy, the appropriation that is financing a construction project is required to reimburse any other appropriation that initially covered its costs. This ensures that all project costs are ultimately charged to the correct funding source.

15.17 Related Costs Financed by Other than Military Construction Appropriations

15.17.1. Unfunded Costs. Unfunded costs" that contribute to a military construction project must be capitalized as part of the property's value, even though they are financed by appropriations other than military construction and are not reimbursed. These unfunded costs include expenses financed from military personnel appropriations, the depreciation of government-owned equipment calculated at an hourly rate per Volume 11, and unfunded civilian fringe benefits as prescribed in Volume 11. They also encompass gifts, in-kind considerations, and materials or Real Property Installed Equipment (RPIE) obtained as non-reimbursable from other federal entities. However, DoW Components are prohibited from using their own materials or equipment on their own minor construction projects on a non-reimbursable basis. Additionally, when determining compliance with cost limits for minor construction projects under 10 U.S.C. § 2805, planning and design costs are specifically excluded.

15.17.2. Advance Planning. Activities are performed before a construction project receives its funding and design authorization of a construction project by the military component. These activities are not to be performed under the authority for military construction project planning and design (such as 10 U.S.C. § 2807). Advance planning costs are explicitly excluded when determining compliance with cost limits for minor construction projects. For accounting purposes, advance planning costs are to be expensed in the period they are incurred. Advance planning activities include, but are not limited to: Developing project requirements and master plans; Exploring project alternatives and creating rough drawings; Conducting management studies, conceptual analyses, and site studies; Developing and validating project documentation; and Preparing engineering analyses and environmental impact assessments.

15.17.3. Minor Construction. For minor construction projects (excluding family housing) that cost less than the limit in 10 U.S.C. § 2805, funding must come from appropriate sources such as unspecified minor construction, O&M, RDT&E, or working capital fund appropriations.

15.17.4. Family Housing. All family housing construction projects must be funded from applicable family housing appropriations. Refer to Volume 2.

15.17.5. Equipment and Relocatable Items. Items classified as movable equipment, not integral to a facility, must be financed from O&M, RDT&E, Procurement, or working capital fund appropriations. This includes production, technical, and training equipment, as well as relocatable items like prefabricated screens, partitions, and false floors. The cost of any building alterations required to install this movable equipment, including temporary wall or roof removal and secondary utility connections, must also be funded from these same appropriation sources.

15.17.6. Recycling Programs. Projects for pollution abatement, energy conservation, and occupational safety and health may be funded from sources other than the military construction appropriation. This is permissible when the project cost is derived from recyclable material sales, as per Volume 11 and 10 U.S.C. § 2577, and does not exceed 50 percent of the statutory maximum for minor construction projects.

15.18 Recognition and Reporting Requirements

15.18.1. Acceptance of Real Property. The acceptance and transfer of real property, both within DoW and between other federal agencies, must be formally documented. The DD Form 1354 is designated as the basic source document for this process. To execute this policy, the process for documenting real property acceptance and transfer is detailed in Unified Facilities Criteria (UFC) 1-300-08.

15.18.2. Accounting Recognition. Under DoW policy, capitalization is the process of recognizing the total costs of property, plant, and equipment in the financial records. An asset is capitalized if it has an estimated useful life of two years or more, is not intended for sale in the ordinary course of operations, is acquired or constructed for use by the entity, and its recorded cost meets or exceeds the DoW capitalization threshold (Refer to Volume 4). All significant costs related to the construction or acquisition of an asset, including unfunded costs and all costs incurred after project approval and funding authorization, must be capitalized. The source of funding has no bearing on this requirement. Costs incurred during the advance planning phase are not capitalized; they must be expensed in the period they are incurred. Similarly, if a project is abandoned, all costs incurred up to that point must be expensed.

15.19 Financial Reporting

15.19.1. Accounting Entries. The U.S. Standard General Ledger (USSGL) must be used in all DoW accounting systems to summarize and report costs and obligations for all appropriations and funds. The management of any activity performing a construction project is responsible for ensuring that all significant costs, both funded and unfunded, are recorded for the project and that all costs subject to capitalization are included in the real property asset accounts property records, and reports submitted to the OSW and the Congress. The policy also mandates that cost accounting systems for construction projects must be integrated as a subsidiary ledger of the general accounting system. Furthermore, policy for managerial cost accounting is prescribed in Volume 4.

15.19.2. Financial Reports. DoW policy requires that accounting records be designed to allow for the accurate and timely summarization of financial transactions from a single, unified system of accounts. The data produced must be in the formats prescribed for official budget and financial reports. Additionally, these records must be designed and maintained in a way that facilitates audits of project amounts.

16.0 TRUST FUNDS

16.1 Applicability and General Information

This section highlights the policies applicable to trust funds. Current accounts include the (1) National Security Education Trust Fund and the (2) Surcharge Collections, Sales of Commissary Stores, Defense. The complete list of fund accounts and titles is available via the Federal Account Symbols and Titles (The FAST Book) at: <https://fiscal.treasury.gov/accounting/fast-book>. Section 20 of OMB Circular No. A-11 provides additional information on related terms and concepts. Refer to the Supplemental Documents for DoW execution responsibilities and other requirements.

16.2 Authority

Trust Funds are authorized to incur obligations and expend receipts that OMB has exempted from apportionment. However, the National Security Education Trust Fund and the Surcharge Collections, Sales of Commissary Stores, Defense trust revolving fund, are subject to apportionment by OMB. Each trust fund must be viewed as a unique fund in light of any special provisions in the trust agreement or the enabling legislation. Trust funds have been assigned account symbols between 8000 and 8999. Within this range, trust revolving funds have been assigned symbols between 8400 and 8499.

16.3 Provisions

16.3.1. The Corpus. The term “corpus” commonly refers to the resources available as capital in a fund. Capital resources are provided to commence or increase the size of a fund. The initial corpus is usually provided by a direct appropriation to form a nucleus of resources used to acquire items needed to perform the mission of a fund. Existing resources, transferred as capitalized assets, may also serve the same purpose as an appropriation to start, increase the size, or replace significant losses of a public enterprise or trust fund.

16.3.2. Revenues. DoW trust funds generate revenues from the sale of goods or services to customers. Customer reimbursements replenish the corpus for resources obligated and expended to fulfill the customers’ orders.

16.3.3. Apportionment. For trust funds that OMB apportioned, the ability to incur obligations is limited to the amount officially apportioned. Budgetary resources and authority available for apportionment include new budget authority, unobligated balances available from the prior fiscal year, spending authority from offsetting collections, recoveries of prior year obligations, restorations, and contract authority.

16.3.3.1. The apportionment of spending authority, commonly referred to as “reimbursable authority,” reflects anticipated reimbursements. It does not authorize a trust fund to obligate its apportioned reimbursable program in excess of the funded orders received from within the Federal Government and advances received for orders outside the Federal Government.

16.3.3.2. Assets. Physical assets such as inventories or buildings and equipment are not budgetary resources because they do not provide a direct monetary source for outlays that liquidate budgetary transactions (i.e., obligations). Therefore, such assets do not increase the amount of obligation authority available when calculating unobligated balances.

16.3.3.3. Contract Authority. Contract authority provides legal authority to enter into contracts and incur obligations before budgetary resources are available. Obligations incurred using contract authority may not be liquidated until funded by offsetting collections or other budgetary resources. The apportionment limits the amount of contract authority available for obligation.

16.3.3.4. Antideficiency Act. Incurring or authorizing obligations in excess of apportioned budgetary resources is a potential violation of the Antideficiency Act that must be

reported with DoDD 7200.1. This reporting requirement applies even if the fund holds other unapportioned resources or other assets greater than the amount of the deficiency.

16.3.3.4. To avoid these violations, each DoW Component using a fund to finance activities is responsible for maintaining a positive cash balance and restricting obligations to the amount authorized in its AOB or FAD. The OUSW(C) will evaluate Component requests to adjust obligation limits based on the merit of the justification, as long as Congress has not imposed a specific limitation. When a fund's financial execution deviates significantly from its plan, management actions must be taken to either bring execution back into alignment with the plan or revise the plan to reflect more realistic expectations.

17.0 DEFENSE WORKING CAPITAL FUNDS

17.1 General Purpose and Sources of Funds

Under the authority of 10 U.S.C. § 2208, the Defense Working Capital Fund (DWCF) is established to provide goods and services to other DoW activities and authorized non-DoW entities. The customers of the DWCF may include any DoW element, non-DoW federal agencies, and, when authorized by law, private parties, foreign governments, state and local governments, and certain U.S. manufacturers assemblers, or developers authorized by 10 U.S.C. §§ 2208(h), 2563, and 7543. Direct appropriations (such as Procurement or O&M) may be used to start a DWCF activity, fund readiness costs not related to its operating mission, or to increase its size or replace significant losses. Direct appropriations can also be provided for specific purposes like war reserve materiel or overseas contingency operations and expanded inventory requirements, or other purposes as approved by the OUSW(C) Director, Revolving Funds and Integration (RFI). While a direct appropriation increases the Fund Balance with Treasury (FBwT) and budgetary resources, it does not impact the cumulative results of operations. These direct appropriations may be available for obligation in subsequent fiscal years. Alternatively, existing resources from other accounts may be transferred to a working capital fund as capitalized assets for the same purposes. The receipt of the appropriation provides an immediate infusion of cash to the FBwT and the appropriation amount used must be accounted for and reflected on accounting records (AR 1307) and budgetary reports (SF 133).

17.2 Revenues

The DWCF generates revenues predominantly from appropriations used by federal agencies to purchase goods or services. The DWCF uses the revenue collected from these “customers” to pay for the resources required to produce the specific goods or service documented on the customer order. That is, the DWCF uses resources from funded customer orders to replenish its corpus for resources expended to fulfill those customer orders.

17.3 Customer Orders

Customer orders (funded requests for goods or services) provide budgetary resources necessary to finance operations for non-supply management activities, and to liquidate contract authority. Budgetary resources are recognized from customer orders that obligate budgetary resources of another federal government activity, and from cash advances from non-federal customers, to include orders from non-appropriated fund instrumentalities. Customers ordering

from the DWCF must adhere to all statutory limitations on their appropriated funds. Placing an order with the DWCF does not expand or change the original appropriation's availability, and customers cannot use the DWCF to indirectly perform actions they are not permitted to do directly. The ordering activity holds the primary responsibility for determining the applicability of the funds they cite on an order. However, if instances arise when it is apparent that the ordering appropriation is not appropriate for the purpose provided, then the DWCF activity should return the order with a request for an applicable appropriation citation. 10 U.S.C. § 2208 restricts cash advances to the DWCF from federal government activities to \$1 billion and only when operating resources significantly fall below outlay requirements.

17.4 Obligation authority

Obligation authority is the authority to incur costs, on behalf of the federal government, that will result in a disbursement from the FBwT. The OMB apportions obligation authority to the OUSW(C) via an SF 132, Apportionment and Reapportionment Schedule. This authority, which is limited to the amount approved during the budget review plus any in-year amendments, is requested by the OUSW(C) RFI Directorate. The approved apportionment restricts the authority to incur obligations and serves as the source document for the Annual Operating Budget (AOB). Budgetary resources available for apportionment include budget authority (direct appropriations), unobligated balances brought forward (i.e., unfilled customer orders), spending authority from offsetting collections (i.e., Reimbursements for goods and services provided and/or other income), recoveries of prior year obligations, restorations, and contract authority.

17.4.1. When an activity receives budgetary resources from more than one source (spending authority from offsetting collections, direct appropriation, contract authority), the receiving activity must maintain records that will enable it to control and report separately the transactions relating to each type of source (per OMB Circular No. A-11). Budgetary resources may be received at any level of an organization from the individual activity up to the Departmental level.

17.4.2. Federal customer orders and cash advances generate spending authority from offsetting collections (Reimbursable Authority). These budgetary resources are apportioned from the OMB to DWCF non-supply management activities for operating costs. The acceptance of a customer order requires that the performing entity agree in writing to perform the work for the customer entity. The apportionment of reimbursable authority applies to DWCF (97X4930) non-supply activities and all other DoW Revolving Funds.

17.4.2.1. The apportionment of reimbursable authority is considered “anticipated” and a DWCF non-supply management activity may not obligate more than the total amount of orders received from Federal entities plus advances received for orders from authorized entities external to the Federal government (i.e. state, local, and foreign governments). Specific authorization to obligate above orders received and cash advances may be approved by a signed AOB if other resources are available at the DWCF sub-account level. A DWCF activity should not obligate above all resources available to that specific entity without prior approval of the OUSW(C) Director, RFI, to ensure that budgetary resources are available at the sub-account level.

17.4.2.2. The anticipated reimbursable program authority does not provide obligation authority. Therefore, a non-supply activity should not obligate more than what has been accepted in customer orders and other financing resources available. Recording anticipated reimbursable program authority only documents that reimbursable orders will be accepted. The accepted reimbursable order provides obligation authority. The total amount of anticipated reimbursable authority is recorded on the AOB for reconciling purposes.

17.4.2.3. The AOB does not restrict the amount of reimbursable orders that can be accepted. Reimbursable orders may exceed the anticipated amount without recording a negative anticipated order on the SF 133. Activities should request a new AOB when customer orders in the year of execution are expected to exceed the anticipated amount or obligations are expected to exceed the current authorization.

17.4.2.4. With respect to DWCF budget execution, contract authority is only used in supply management operations and capital investment programs. Contract authority must be apportioned. For supply management operations, if reimbursements from offsetting collections exceed apportioned contract authority, the difference cannot be obligated unless additional contract authority is issued by OMB because such operations are not provided automatically apportioned reimbursable authority. This may be characterized as either an unapportioned balance of a revolving fund or a restrictive withholding. The unapportioned balance preserves a portion of the fund's capital so it may continue to revolve or represent those resources not scheduled for obligation within a fiscal year. Prior year de-obligations of contract authority are automatically re-apportioned to the DWCF in the current year. Prior year de-obligation of contract authority used for a capital investment program (CIP) may only be used to cover additional costs in programs for that specific fiscal year and may not be used to cover additional current year costs unless approved in writing by the OUSW(C) Director, RFI.

17.5 Antideficiency Act

The incurring of obligations (or authorizing the incurrence of obligations) in excess of apportioned budgetary resources and other financing resources must be reported as a potential violation of the Antideficiency Act, as required in Volume 14.

17.5.1. Commitments for goods or services to be obligated in the following year may be incurred in excess of apportioned budgetary resources only if obligations are not incurred in excess of apportioned budgetary resources. There is no restriction on commitment amounts for DoW revolving fund activities.

17.5.2. The AOB also includes administrative restrictions on the use of obligation authority specific to that activity's operation.

17.6 Assets

Physical assets such as inventories or buildings and equipment are not considered budgetary resources because they do not provide a direct monetary source for outlays that liquidate budgetary transactions (obligations). Such assets, therefore, do not increase the amount of obligation authority available when calculating unobligated balances. Changes in inventory valuation and unexpected gains in inventory (such as items being found on an installation) do not

generate budgetary resources but are currently accounted for in the Net Operating Result (NOR) on the (AR) 1307 report. The NOR for budget purposes must reconcile budgetary resources and claims against those resources (obligations).

17.7 Execution Requirements

17.7.1. SF 132 Apportionment. The SF 132 provides the legal authority to incur obligations against the receipt of customer orders or contract authority in anticipation of receipt of customer orders. Details and explanations on preparing the SF 132 can be found in OMB Circular No. A-11, Preparation, Submission and Execution of the Budget.

17.7.1.1. The DWCF is apportioned new budget authority in the form of direct appropriations, unobligated balances brought forward, spending authority from offsetting collections and contract authority. The FBwT is not apportioned because the financing resources have already been encumbered by obligations and the unencumbered balance is factored into unobligated balances brought forward.

17.7.1.2. All other revolving funds outside of the DWCF are apportioned spending authority from offsetting collections and unobligated balances brought forward.

17.7.2. Contract Authority. Contract authority is the legal authority to enter into contracts and incur obligations *before* budgetary resources are available. The initial apportionment of contract authority for a fiscal year is typically the operating budget for supply management activities, and for both supply and non-supply management activities is the CIP reflected in the budget year column of last year's President's budget.

17.7.2.1. Supply management activities receive contract authority for a variability target, which represents an amount of contract authority to be held in reserve by the OUSW(C) to ensure continuity of operations for fluctuations in materiel costs and/or increased customer orders. The OUSW(C) provides requested adjustments from the initial apportionment to OMB, reflecting revised estimates displayed in the current year column of the President's budget submission most recently provided to Congress. The OUSW(C) may also request other adjustments that reflect significant changes experienced in budget execution.

17.7.2.2. Contract authority is available for obligation within the fiscal year for which it is provided. Contract authority is unfunded and, therefore, obligations incurred through use of contract authority may not be liquidated (i.e., paid) until funded by offsetting collections or other resources credited to the DWCF. Contract authority does not authorize outlays; the activity reports it on the SF 133 to ensure obligations do not exceed apportioned amounts from OMB. Budgetary resources should be sufficient at the DWCF activity level to ensure disbursements are funded.

17.7.3. Annual Operating Budget. The OUSW(C) RFI Directorate issues initial AOBs for each Component's DWCF activities prior to the beginning of the fiscal year. The AOB identifies an operating budget, operating results, unit cost targets, and capital investment limitations (subject to 31 U.S.C. § 1517) for each DWCF activity.

17.7.3.1. Each Component/Agency is responsible for taking actions to remain solvent and allow operations (disbursements) to continue. It is a potential violation of the Antideficiency Act (31 U.S.C. § 1517) if the FBwT is below zero at the sub-account level.

17.7.3.2. Non-supply management activities will maintain a positive budgetary resource balance (i.e., obligations will not exceed budgetary resources). Obligations exceeding total budgetary resources available to non-supply management activities, and obligations exceeding issued contract authority on the AOB, are potential violations of the Antideficiency Act (31 U.S.C. § 1517).

17.7.3.3. Cash balances may be used when negative operating results are authorized on the AOB or by action of the OUSW(C) RFI Directorate. However, the AOB of a DWCF activity does not authorize it to use cash balances associated with another DWCF activity financed within the same DWCF sub-account. It is the responsibility of the DoW Component to ensure that adequate financing or budgetary resources have been allocated to a specific DWCF activity, and to obtain timely authorization for negative operating results for non-supply management activities.

17.7.3.4. In addition to statutory restrictions, the Department may further restrict budget authority through apportionment or administrative action. These administrative limitations cannot alter statutory restrictions but can only further constrain the purpose, amount, or time for which budgetary resources may be used. DoW Components must adhere to these administrative divisions of resources and/or a subdivision of budgetary resources provided to a DWCF activity. When an administrative limitation is imposed, obligations must remain below that limit even if they are lower than the total available budgetary resources. Any such limitation must be clearly stated in a signed, written document.

17.7.3.5. If a DWCF activity has insufficient budgetary resources, the manager cannot assume that funds exist elsewhere within the sub-account. Instead, the manager must request an increase in authority from the OUSW(C) Director, RFI, and defer any additional obligations until sufficient resources are available.

17.7.3.6. Segregation of Budgetary Resources. When an activity receives budgetary resources from more than one source, the receiving activity must maintain records which will enable it to control separately the transactions relating to each source.

17.7.3.7. Claims Against Budgetary Resources. To accurately determine budgetary resources available for obligation, a DWCF entity must use its budgetary accounts, as proprietary accounts alone are insufficient. Non-budgetary assets like inventory and even a positive FBwT do not guarantee availability, as these resources may be encumbered by existing claims such as accounts payable or undelivered orders and unpaid accrued expenditures. Similarly, some budgetary accounts, like anticipated customer orders, do not represent a budgetary resource available for obligation. The true balance of budgetary resources available for obligation, which accounts for administrative restrictions and other withheld amounts, can be determined from the data reported on the SF 133.

17.7.4. Budgetary Resources. Key principles govern the management of budgetary resources within the DWCF. Earned reimbursements are the amount of customer orders that have been filled. In the case of orders from the public, including state and local governments, the amount is limited to the amount of the cash advance received. Earned reimbursements should not exceed the amount of individual customer orders and letters of intent, commanders' orders, congressionally mandated actions, and other emergency situations. It is also a policy that obligations cannot be incurred unless available resources—such as apportioned contract authority, direct appropriations, or accepted customer orders—exceed the proposed obligation. Incurring obligations beyond available resources may constitute a violation of the Antideficiency Act. Finally, when authorized, non-expenditure transfers of funds will either increase or decrease the available budgetary resources, depending on the direction of the transfer. Detailed guidance on the Report of Budgetary Execution and Budgetary Resources (SF 133) can be found in Appendix F of OMB Circular No. A-11.

17.7.5. DFAS Reporting. The DFAS Accounting Report (AR) 1307 is the official internal document for financial accounting and the source for annual financial statements. The amounts on its Statement of Financial Position and Statement of Cash Flows must reconcile to the SF 133. For supply activities, Part VII of the report provides budgetary, accounting, and inventory data used to develop internal benchmarks and metrics for operational effectiveness and efficiency.

17.7.6. Execution Review. The financial performance of each DWCF activity is subject to formal review by OUSW(C) leadership. This review compares the activity's operational results to its plans for disbursements, collections, revenue, expenses, net operating results, and unit costs. The purpose of this policy is to ensure that financial operations are proceeding according to plan. If significant deviations are identified, management action may be required to either bring execution back into line with the plan or revise the plan to be more consistent with current and realistic financial expectations.

17.7.7. Adjusting Component Resources. Components may request adjustments to their targets or capital budget limitations from the OUSW(C) RFI Directorate based on budget execution. These requests will be evaluated on their merits, and unless precluded by congressional limitations, will be approved or disapproved.