

## **Rules**

# **Introduction**

**Introduction**

## Introduction to Rules Governing Commitments, Obligations and Expenditures

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Approximate Length: 40 minutes

Welcome to the Rules Governing Commitments, Obligations and Expenditures Lesson. This lesson will provide you with information concerning the stages of an appropriation's life and how funds can be used in each stage. In addition, you will be introduced to the DoD rules governing when and how to make commitments and obligations. The following topics are part of this lesson:

- Appropriation Life Cycle
- Commitments
- Obligations
- Lesson Summary

Located throughout and at the end of these lessons are Knowledge Reviews, which are not graded but enable you to measure your comprehension of the lesson material.

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### Learning Objectives

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By completing this lesson, you should be able to:

- Identify when an appropriation is current, expired, or cancelled.

- Describe the DoD rules governing commitments.
- Describe the DoD rules governing obligations.

This page completes the Lesson Overview. Select a lesson from the Table of Contents to continue.

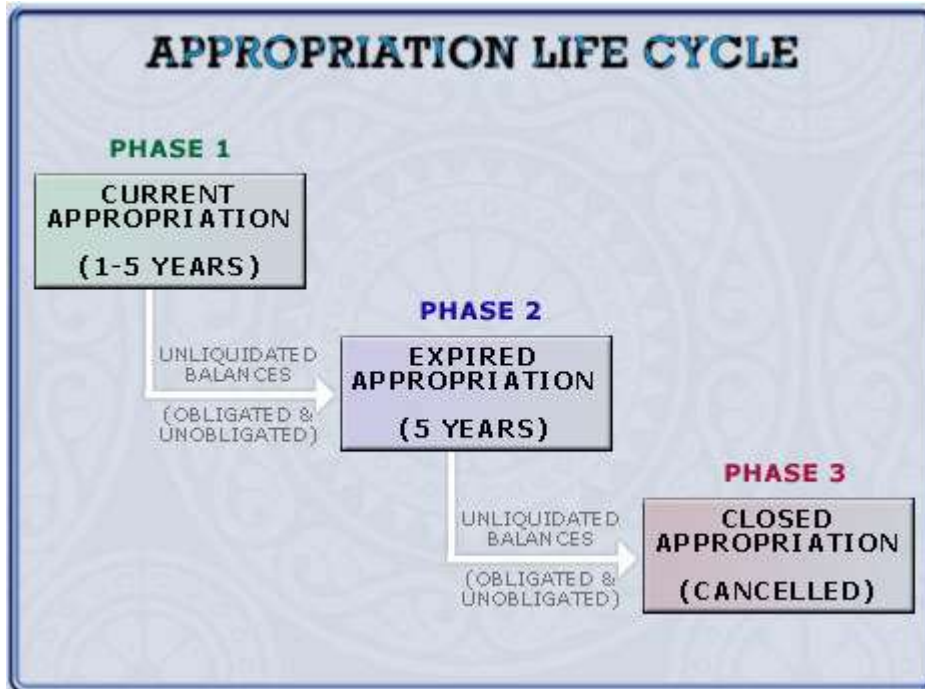
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# **Appropriation Life-Cycle**

**Appropriation Life-Cycle**

## Appropriation Life-Cycle Phases Overview

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Except for rare "no-year" appropriations that may be obligated over an indefinite period of time, most appropriations experience a three-phase life-cycle, starting off as "current," then becoming "expired," and finally being "cancelled."

A three phase Appropriation Life-Cycle is shown in the graphic on the right.

### Long Description

Appropriation Life Cycle. Three boxes represent the three phases of the life of an appropriation. The first box at top left is labeled Phase 1, Current Appropriation (1-5 Years). An arrow from this box shows unliquidated balances (obligated and unobligated) being passed into the box labeled Phase 2, Expired Appropriation (5 Years). An arrow from this box shows unliquidated balances (obligated and unobligated) being passed into the box labeled Phase 3, Closed Appropriation (Cancelled).

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## Phase 1 - Current Appropriation

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An appropriation is said to be "current" or "currently available" if new obligations can still be made against it. Congress establishes the time frame during which appropriations are current in the appropriation legislation as shown in the table below.

### **Appropriation Category**

### **Availability**

RDT&E	2 years
Procurement (excluding SCN)	3 years
SCN (Shipbuilding & Conversion, Navy)	5 years
Operation & Maintenance	1 year
Military Personnel	1 year
Military Construction	5 years

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### **Current Appropriations – Example**

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Assume that time now is sometime in FY 12. Appropriations that are current at this time are:

**Appropriation Category**

**Current Appropriation Years**

RDT&E	FY 12 & FY 11
Procurement (excluding SCN)	FY 12, FY 11 & FY 10
SCN (Shipbuilding & Conversion, Navy)	FY 12, FY 11, FY 10, FY 09 & FY 08
Operation & Maintenance	FY 12 only
Military Personnel	FY 12 only
Military Construction	FY 12, FY 11, FY 10, FY 09 & FY 08

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**Use of Current Appropriations**

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While an appropriation is current, it is available for new obligations. It may also be expended to liquidate obligations made against it.

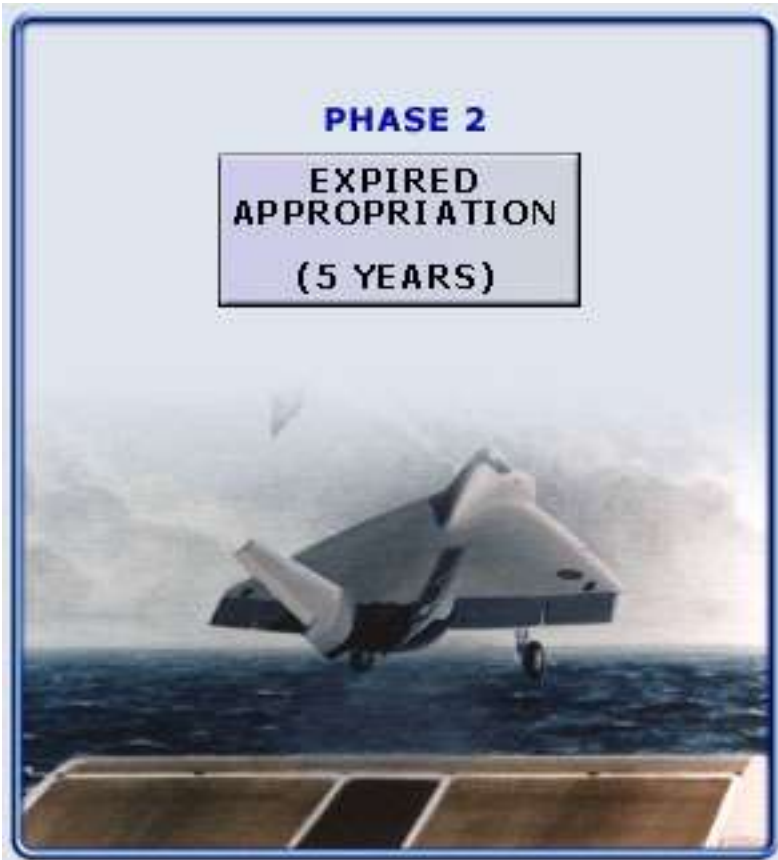
Obligations against a current appropriation may be adjusted upward (as long as unobligated amounts are still available in the appropriation account) or downward.

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## Phase 2 - Expired Appropriation

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When an appropriation reaches the end of its legal time limit for new obligations, all unliquidated (that is, unexpended) balances in the appropriation are transferred to "expired" accounts (maintained by the Services/Components), where they remain for five years or until liquidated by expenditure.

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### Expired Appropriations – Example

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Assume that time now is sometime in FY 12. Appropriations that are expired at this time are:

#### **Appropriation Category**

#### **Expired Appropriation Years**

RDT&E

FY 10, FY 09, FY 08, FY 07 & FY 06

Procurement (excluding SCN)

FY 09, FY 08, FY 07, FY 06 & FY 05

SCN (Shipbuilding & Conversion, Navy)

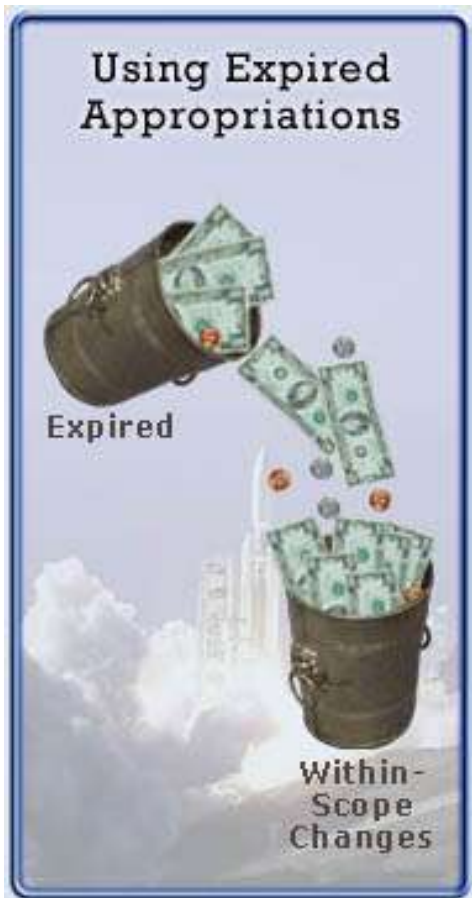
FY 07, FY 06, FY 05, FY 04 & FY 03

Operation & Maintenance

FY 11, FY 10, FY 09, FY 08 & FY 07

## Use of Expired Appropriations

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An expired appropriation remains available for payments to liquidate obligations made while the appropriation was current.

An expired appropriation cannot be used for new obligations, but remains available for within-scope changes to work that was originally funded with the expired appropriation. Within-scope adjustments include charges for such items as contingent liabilities (for example, award fees and price inflation), reprocurement actions, claims, and settlements. Out-of-scope adjustments, that is, additions of work resulting in further billable costs (for example, quantity increases and increased levels of service) should be funded with an appropriation that is current at the time of the modification that incorporates the out-of-scope change.

Budget authority in an expired appropriation retains all of its original accounting identity (appropriation, fiscal year, line item, program element, etc).

## Phase 3 - Cancelled Appropriation Phase

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Once an appropriation's five-year expired period ends, it loses its accounting identity and all remaining unexpended balances in the appropriation are cancelled (or closed) and cannot be restored.

Once an appropriation is cancelled, any upward obligation adjustments and payments related to the cancelled appropriation must be funded using current appropriations with the same purpose as the cancelled appropriation. Such use of current appropriations is limited by law to the lesser of:

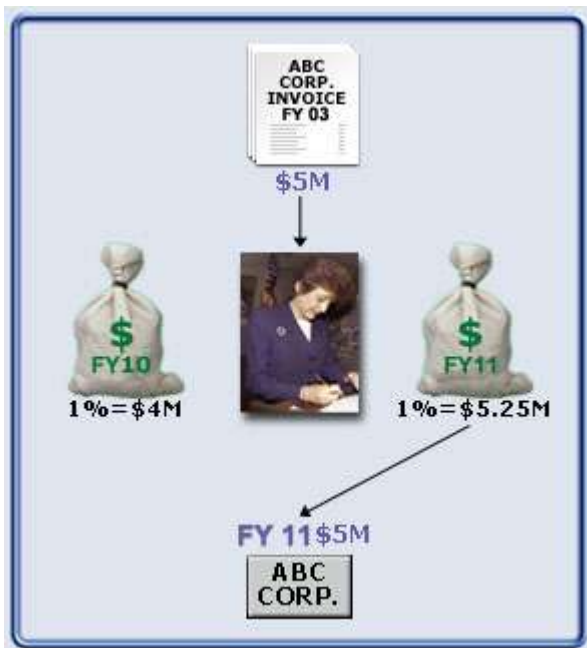
1. One percent of the total original value of the current appropriation to be used.
2. The unexpended balance of the cancelled appropriation. Thus, regardless of the availability of one percent of the current appropriation, the original appropriation amount can never be exceeded.

If the amount required exceeds the restriction, then relief from the restriction or additional funds must be sought from Congress.

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## Example of Paying a Bill Related to a Cancelled Appropriation

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In FY 11, an invoice was received from ABC Corp. for \$5 million of work financed by the FY 03 Artificial Procurement, Air Force appropriation. However, this appropriation was cancelled at the end of FY 10. A current appropriation of the same type was now required to pay the bill. Select this link to view a [timeline supporting this example](#).

The FY 10 and FY 11 Artificial Procurement, Air Force appropriations both had sufficient unobligated balances to pay the bill. The original FY 10 appropriation was \$400 million and the original FY 11 appropriation was \$525 million. Since \$5 million is more than 1% of \$400 million, the FY 10 appropriation could not be used to pay the bill. Fortunately, the FY 11 appropriation could be (and was) used to pay the bill. However, this caused a 30% cut to the MAMMOTH program, resulting in program delays and cost increases.

### Long Description

ABC Corp. invoice marked FY 03, \$5M is shown being transmitted to the Air Force, represented by an Airman sitting at a desk in center of graphic. On either side of the Airman are two bags of money, one labeled FY 10, 1% = \$4M and the other labeled FY 11, 1% = \$5.25M. An arrow labeled FY 11, \$5M runs from the FY 11 bag to a rectangle labeled ABC Corp. to depict payment of the invoice.

## FY 03 Artificial Procurement, Air Force



### Long Description

Timeline showing years from 2003 through 2011 and out. A notation in 2003 states 'Obligation occurs;' a notation in 2011 states 'Invoice received.' The years 2003 through 2005 are labeled 'Current Period - Funds currently available for obligation.' The years 2006 through 2010 are labeled 'Expired Account - Funds may be used to make payments on obligations previously made against it and to adjust obligations.' The years 2011 and out are labeled 'Funds are cancelled, must use current funds to pay bill.'

### Impact of Cancelled Appropriations

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Clearly, using current appropriations to pay bills related to a cancelled appropriation will impact the work for which the funds were originally budgeted. This may result in program delays, cost overruns, and/or performance degradation.

Therefore, program offices should carefully track unliquidated obligations (ULOs) in expired appropriations to ensure that as many ULOs as possible are liquidated by expenditures before the appropriations are cancelled.

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## **Knowledge Review**

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The following Knowledge Review allows for multiple correct answers. Select all of the answers that are correct, then select the Submit button and feedback will appear.

Time now is February 2014 (FY 14). Which of the following appropriations is (are) current at this time?

- a. FY 13 RDT&E, Defense-Wide**
- b. FY 12 Ammunition Procurement, Air Force**
- c. FY 11 Military Construction, Army**
- d. FY 12 Military Personnel, Navy**

*Correct!*

*The correct responses are a, b, and c. The FY 12 Military Personnel, Navy appropriation expired at the end of FY 12, so it is not current during FY 14.*

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## **Knowledge Review**

### **Page 12 of 12**

The following Knowledge Review is a multiple choice question. Only one answer is correct; select the best answer and feedback will immediately appear.

Time now is November 2013 (FY 14). Which of the following appropriations is cancelled at this time?

- a. FY 07 Missile Procurement, Air Force.**
- b. FY 06 Military Construction, Navy.**
- c. FY 08 Operations & Maintenance, Defense-Wide.**
- d. FY 12 RDT&E, Army.**

*Correct!*

*Of the appropriations listed, only the FY 08 Operations & Maintenance, Defense-Wide appropriation has been cancelled as of FY 14. The remaining appropriations are all still in their expired phases.*

# **Commitments**

**Commitments**

## DoD Rules Governing Commitments Overview

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DoD 7000.14-R, [Financial Management Regulation \(FMR\)](#), Volume 3, Chapter 8, Section 0802 addresses policy regarding commitments.

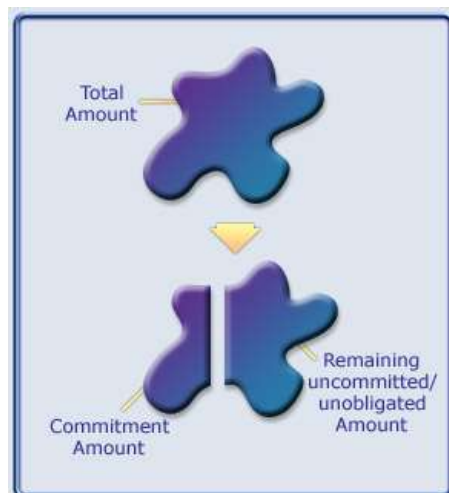
A commitment is defined as an administrative reservation of funds based upon firm procurement requests, orders, directives, and equivalent instruments. A commitment document must be signed by the official responsible for administrative control of the affected funds (the "fund holder"). After a commitment action, an obligation equal to or less than the commitment amount may be incurred without further approval by the authorizing official.

Commitments may only be made for current appropriations. When an appropriation expires, all of the commitments existing at that time also expire. No new commitments may be made against expired funds.

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### Timing and Amounts of Commitments

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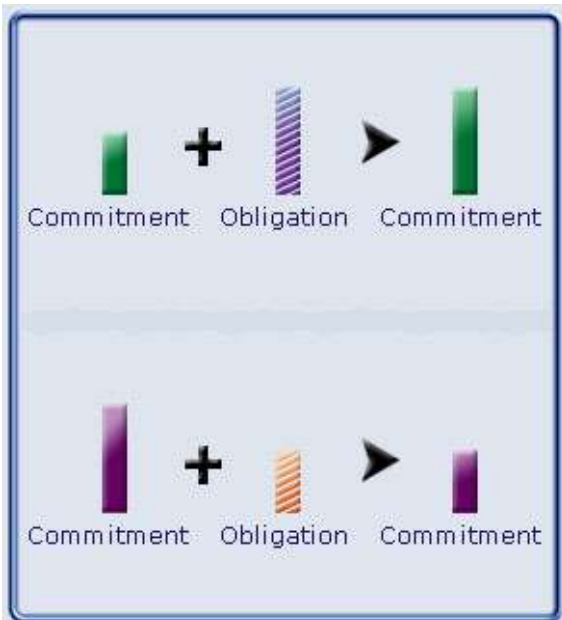
When recorded in the accounting records, commitments reduce the uncommitted/unobligated balance of a formal subdivision of an appropriation.

The amount to be recorded as a commitment is the estimated procurement cost set forth in the commitment document.

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### When to Adjust Commitments

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If the procurement action will require the obligation of more funds than originally committed, the commitment amount must be increased before the obligation can be incurred. However, if the actual obligated amount is less than the amount committed, the transaction that records the obligation will also decommit the excess amount and return this amount to the uncommitted/unobligated balance of the appropriation.

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### Liquidating Commitments

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Commitments are liquidated by obligations made against them. Funds in the Procurement, Military Construction, and RDT&E appropriation accounts must generally be committed before they can be obligated. However, commitments need not be recorded for small purchases in these accounts if, in the aggregate, such purchases do not significantly affect the management of funds.

Commitment accounting is not required for O&M, Military Personnel, or revolving fund accounts, but may be used if considered cost-effective.

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## **Periodic Fund Holder Reviews of Commitments**

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Fund holders are required to review commitment transactions for timeliness, accuracy, and completeness during each of the four-month periods ending on January 31, May 31, and September 30 of each fiscal year. Commitments exceeding a certain size must be reviewed to determine if the:

- Requirement is still valid.
- Amount of the commitment is accurate.
- Commitment has been converted to an obligation and should be recorded as an obligation in the official accounting system.

The office that initiated the requirement that led to the commitment is required to participate in the review. In the Procurement, RDT&E, and Military Construction accounts,

each outstanding commitment of \$200,000 or more is subject to this review. In the O&M accounts, the review applies to each outstanding commitment of \$50,000 or more.

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## **Knowledge Review**

### **Page 6 of 6**

After you have completed the following question, select another topic from the Table of Contents to continue, as this page completes the topic.

The following Knowledge Review allows for multiple correct answers. Select all of the answers that are correct, then select the Submit button and feedback will appear.

In which of the following types of appropriation accounts must funds generally be committed before they are obligated (except for small purchases that do not significantly affect the management of the accounts):

- a. Procurement
- b. RDT&E
- c. Operations and Maintenance
- d. Military Construction

*Correct!*

*Commitment accounting is not required for Operations and Maintenance.*

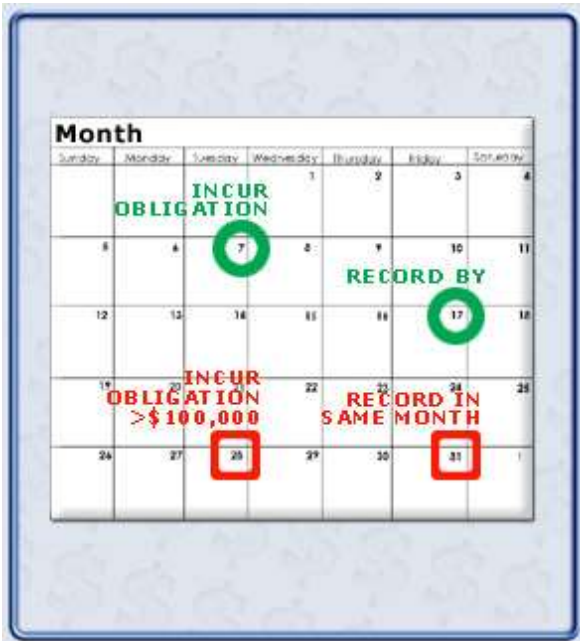
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# **Obligations**

**Obligations**

## DoD Rules Governing Obligations Overview (1 of 2)

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DoD 7000.14-R, [Financial Management Regulation \(FMR\)](#), Volume 3, Chapter 8, Section 0803 addresses policy regarding obligations.

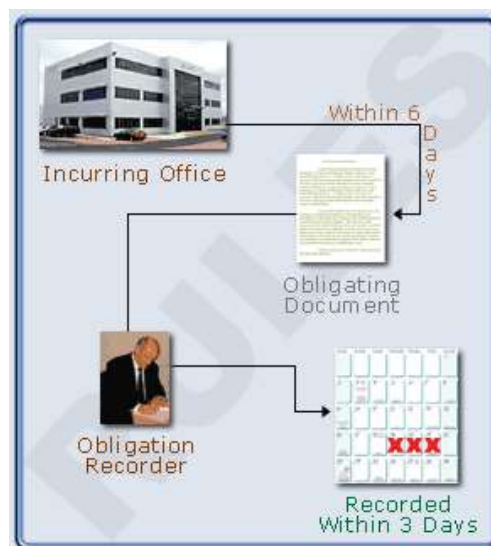
Obligations incurred are the amounts of orders placed, contracts awarded, services received, and similar transactions during an accounting period that will require payment during the same or a future period.

Obligations must be recorded in the official accounting records at the time a legal obligation is incurred, or as close to that time as is feasible, but in no case more than ten calendar days after an obligation is incurred. Obligations of \$100,000 or more chargeable to a single fund citation or accounting line on the obligation document are to be recorded in the official accounting records in the same month in which they are incurred, regardless of the ten-day rule.

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## DoD Rules Governing Obligations Overview (2 of 2)

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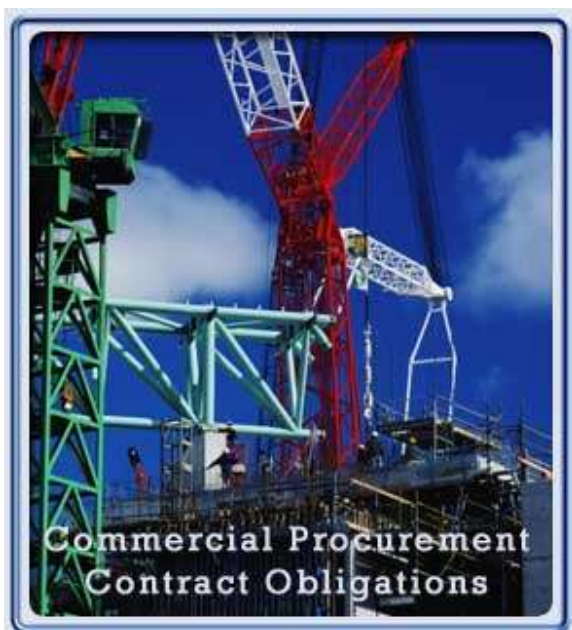
To facilitate timely recording of obligations, the office that incurs an obligation must provide a copy of the obligating document(s) to the office responsible for recording the obligation within 6 calendar days of incurring the obligation.

The obligation must then be recorded in the official accounting records within 3 calendar days of receipt of this documentation. Timely and accurate recording of obligations enhances the ability of the disbursing officer to verify fund availability before authorizing a payment (a process called prevalidation) and promptly pay the associated invoice.

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## **Recording Obligations for Commercial Procurement Contracts**

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FMR Volume 3, Chapter 8, Section 0805 provides specific guidance for recording obligations for various commercial procurements. A few of the more commonly encountered procurement situations are discussed in the pop-up screens listed below.

Select the following hyperlinks to access commonly encountered procurement situations:

[Firm Fixed-Price Contract](#)

[Fixed-Price Contract With an Escalation, Price Redetermination, or an Incentive Provision](#)

[Cost-Reimbursement and Time-and-Material Contracts](#)

[Multiyear Procurement Contract](#)

[Within-Scope Contract Amendments or Modifications](#)

## Out-of-Scope Contract Amendments or Modifications

### Termination of Contracts and Agreements

#### **Firm Fixed-Price Contract**

When the contract is executed, an obligation shall be recorded for the total amount for that year, as stated in the contract.

#### **Fixed-Price Contract with Escalation, Price Redetermination, or Incentive Provision**

When the contract is awarded, an obligation shall be recorded for the amount of the **target or billing price** stated in the contract, even though the contract may contain a ceiling price in a larger amount.

When an increase occurs in the price of one or more items under these types of contracts, an obligation shall be recorded in the amount of the increase at the time the changed price is determined in accordance with the terms of the contract.

The obligation shall be recorded against the same appropriation or fund that originally was obligated for the contract. A recorded obligation for these types of contracts may also be reduced when the funds holder agrees with the contracting officer's determination that the anticipated amount of liability under the contract may be reduced.

#### **Cost-Reimbursement and Time-and-Material Contracts**

Cost reimbursement and time-and-material contracts include: cost, cost-sharing, cost-plus-fixed-fee, cost-plus-incentive-fee, cost-plus-award-fee, time-and-material, and labor-hour contracts.

When the contract is executed, an obligation shall be recorded. The amount of the obligation is the **total estimated payment** provided by the contract. The amount recorded may not be in excess of the maximum current liability, which must include the fixed fee in the case of a cost-plus-fixed fee contract, the target fee in the case of a cost-plus-incentive-fee contract, or the base fee in the case of a cost-plus-award-fee contract.

When a fee increase occurs in a cost-plus-award-fee or a cost-plus-incentive-fee contract, an obligation shall be recorded in the amount of the increase at the time the changed fee is determined in accordance with the terms of the contract. The obligation shall be recorded against the same appropriation or fund that originally was obligated for the contract.

#### **Multiyear Procurement Contract**

An obligation for a multiyear procurement contract shall be recorded in the amount of the **price of the quantities specified for delivery** under the requirement for the first program year, and the amount shall be identified with that program year.

Unless the contract is funded fully at inception, then each time the contractor is notified that funds are available to cover another program year requirement. An obligation shall be

identified with that program year and recorded in the amount of the price of the quantities specified for delivery.

If the contract is cancelled, an obligation must be charged to the program year current at the time of cancellation to cover the government's liability under the terms of the contract.

### **Within-Scope Contract Amendments or Modifications**

The amount of the recorded obligation for a contract containing a provision for amendment or modification, within the general scope of the contract, shall be increased or decreased by the **amount specified** by any and all amendments or modifications when executed. The same source of funds that originally was obligated on the contract shall be charged or credited.

### **Out-of-Scope Contract Amendments or Modifications**

When the amendment or modification is made, record an obligation in the appropriate amount. The source of funds to be charged will be an **appropriation current at the time the amendment was made** rather than the appropriation originally obligated on the contract.

### **Termination of Contracts and Agreements**

When a contract or agreement is terminated in whole or in part for the convenience of the government by the giving of a "Notice of Termination" to the other party to the contract or agreement, the obligation recorded for the contract or agreement shall be decreased to an amount that is sufficient to meet the **settlement costs** under the termination.

The obligation shall not be decreased below the amount estimated by the contracting officer, based on the best evidence then available, as the amount due as a result of the termination.

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## **Recording Obligations for Reimbursable Orders**

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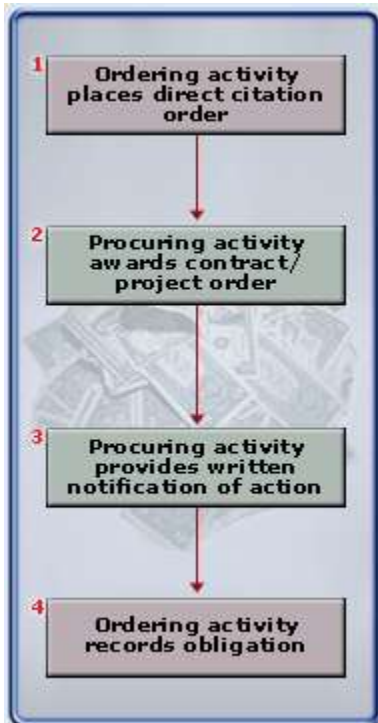
**Reimbursable orders** may be placed with DoD activities or non-DoD federal agencies for goods, materials, equipment, work, or services. Under a reimbursable order, the providing activity uses its own funds to finance the procurement or production of the items or services ordered. The ordering activity's funds are then used to reimburse the providing activity's account for these items or services.

An Ordering Activity records a reimbursable order as an obligation when the Providing Activity accepts the reimbursable order in writing.

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## Recording Obligations for Direct Citation Orders

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**Direct citation orders** may also be placed with DoD activities or non-DoD federal agencies for goods, materials, equipment, work, or services. The difference between this type of order and a reimbursable order lies in the financing of the items or services ordered.

The activity that receives a direct citation order acts as a procuring activity on behalf of the activity placing the order. The procuring activity awards a contract or issues a project order using the ordering activity's funds directly by citing them on the procurement document.

The direct citation order is recorded as an obligation by the ordering activity when it is notified in writing that the procuring activity's contract or project order has been executed, or when a copy of the contract or project order is received.

Note: DD Forms 448, "Military Interdepartmental Purchase Requests" (MIPRs), are used for these orders.

## Periodic Fund Holder Reviews of Obligations

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Fund holders are required to review obligation transactions for timeliness, accuracy, and completeness during each of the four month periods ending on January 31, May 31, and September 30 of each fiscal year. Obligations exceeding a certain size shall be reviewed to determine if the:

- Recorded obligation amount is accurate
- Unliquidated amount is valid
- Accrued expenditures are reconciled with related accounts payable when goods or services have been received

If, based on the receipt of good or services, it appears that an expenditure transaction should have been received but is not recorded, the paying/collecting office shall be contacted to determine the status of the transaction. The office that initiated the requirement that led to the obligation shall be required to participate in the review.

In the Procurement, RDT&E, and Military Construction accounts, each outstanding obligation of \$200,000 or more is subject to this review. In the O&M accounts, the review applies to each outstanding obligation of \$50,000 or more.

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## **Knowledge Review**

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The following Knowledge Review is a multiple choice question. Only one answer is correct; select the best answer and feedback will immediately appear.

The amount to be obligated for a fixed-price contract with an incentive provision is:

- a. The target cost stated in the contract.**
- b. The target price stated in the contract.**
- c. The estimated cost to be reimbursed.**
- d. The ceiling price stated in the contract.**

*Correct!*

*When the contract is awarded, an obligation shall be recorded for the amount of the target or billing price stated in the contract, even though the contract may contain a ceiling price in a larger amount.*

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# **Summary**

**Summary**

## Lesson Summary (1 of 3)

### Page 1 of 3

Congratulations! You have completed the Rules Governing Commitments, Obligations and Expenditures Lesson. The following topics were presented in this lesson:

- Appropriation Life-Cycle.
  - Current Phase. An appropriation is current if new obligations and obligation adjustments can be made against it.
  - Expired Phase. An appropriation expires when it reaches the end of the legal time limit for new obligations and remains in this status for five years.
  - Cancelled Phase. At the end of an appropriation's expired phase, all remaining unexpended balances are "cancelled" and cannot be restored. Up to 1% of a current appropriation of the same type may be used to pay bills related to a cancelled appropriation.

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## Lesson Summary (2 of 3)

### Page 2 of 3

Other topics presented in this lesson:

- Commitment Policies.
  - DoD 7000.14-R, Financial Management Regulation (FMR), Volume 3, Chapter 8, Section 0802 addresses policy regarding commitments.
  - Funds must be committed before they can be obligated in Procurement, Military Construction, and RDT&E appropriation accounts. Commitment accounting is not required for O&M, Military Personnel, or revolving fund accounts.
  - Commitments must be adjusted upward if the procurement action will require the obligation of more funds than originally committed. If the actual obligated amount is less than the original commitment, the excess amount is returned to the uncommitted/unobligated balance.
  - Only current appropriations may be committed. When an appropriation expires, all of the commitments existing at that time also expire.
  - Fund holders must review commitments for timeliness, accuracy, and completeness for the periods ending on January 31, May 31, and September 30 of each fiscal year.

## Lesson Summary (3 of 3)

### Page 3 of 3

Finally, the following topics were presented in this lesson:

- Obligation Policies.
  - DoD 7000.14-R, Financial Management Regulation (FMR), Volume 3, Chapter 8, Section 0803 addresses policy regarding obligations.
  - Obligations must be recorded in the official accounting records at the time a legal obligation is incurred, or as close to that time as feasible, but in no case more than ten (10) calendars after an obligation is incurred.
  - Obligations of \$100,000 or more chargeable to a single fund citation or accounting line on the obligation document must be recorded in the same month in which they are incurred, regardless of the ten-day rule.
  - FMR Volume 3, Chapter 8, Section 0805 provides specific guidance for recording obligations for various commercial procurements.
  - Reimbursable orders placed with DoD activities or non-DoD federal agencies are recorded as obligations by the ordering activity upon acceptance by the providing activity.
  - Direct citation orders placed with DoD activities or non-DoD federal agencies are recorded as obligations by the ordering activity when the procuring activity provides written notification to the ordering activity that its funds have been used for a contract award, project order, etc.
  - Fund holders must review obligation transactions for timeliness, accuracy, and completeness for the periods ending on January 31, May 31, and September 30 of each fiscal year.

This page completes the lesson. Select a lesson from the Table of Contents to continue.